111162017003450

SECURITIES AND EXCHANGE COMMISSION

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Company Information

SEC Registration No.	CS200604494
Company Name	METRO PACIFIC INVESTMENTS CORPORATION
Industry Classification	Financial Holding Company Activities
Company Type	Stock Corporation

Document Information

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COVER SHEET
for
SEC FORM 17-Q

SEC Registration Number

C	S	2	0	0	6	0	4	4	9	4

COMPANY NAME

METRO PACIFIC INVESTMENTS CORPORATION AND SUBSIDIARIES

PRINCIPAL OFFICE *(No. / Street / Barangay / City / Town / Province)*

10th Floor, MGO Building, Legaspi corner Dela Rosa Streets, Legaspi Village, Makati City

Form Type	Department requiring the report	Secondary License Type, If Applicable
17-Q		

COMPANY INFORMATION

Company's Email Address	Company's Telephone Number	Mobile Number
info@mpic.com.ph	**+632-888-0888**	**–**

No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
1,301 as of September 30, 2017	**Last Friday of May**	**December 31**

CONTACT PERSON INFORMATION

The designated contact person ***MUST*** be an Officer of the Corporation

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
Mr. David J. Nicol	**djnicol@mpic.com.ph**	**+632-888-0888**	**–**

CONTACT PERSON's ADDRESS

10/F MGO Building, Legaspi corner Dela Rosa Streets
Legaspi Village, Makati 0721 Philippines

NOTE 1 : *In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.*

2 : *All Boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt of Notice of Deficiencies shall not excuse the corporation from liability for its deficiencies.*

SEC Number CS200604494
File Number_______

Metro Pacific Investments Corporation
(Company's Full Name)

10/F MGO Bldg., Legaspi cor. Dela Rosa Sts.
Legaspi Village, 0721 Makati City
(Company's Address)

(632) 888-0888
Telephone Number

______N/A_______
(Fiscal Year Ending)
(month & day)

Form 17-Q
Form Type

_________N/A__________
Designation (If applicable)

30 September 2017
Period Date Ended

____________N/A____________
(Secondary License Type and File Number)

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES REGULATION CODE AND SRC RULE 17(2)(b) THEREUNDER

1. For the quarterly period ended **September 30, 2017**

2. SEC identification number **CS200604494**

3. BIR Tax Identification No. **244-520-457-000**

4. Exact name of issuer as specified in its charter
METRO PACIFIC INVESTMENTS CORPORATION

5. Province, country or other jurisdiction of incorporation or organization
Makati City, Philippines

6. Industry Classification Code: (SEC Use Only)

7. Address of issuer's principal office Postal Code
10/F MGO Bldg., Legaspi cor. Dela Rosa Sts., Legaspi Village, 0721 Makati City

8. Issuer's telephone number, including area code
(632) 888 0888

9. Former name, former address and former fiscal year, if changed since last report
N/A

10. Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 4 and 8 of the RSA

Title of each Class	Number of shares of common stock outstanding
Common Shares	31,510,328,752

*Reported by the stock transfer agent as at October 31, 2017 and excluded the shares held by the Company

11. Are any or all of the securities listed on a Stock Exchange?

Yes [X] No [ ]

If yes, state the name of such Stock Exchange and the class/es of securities listed therein:
The common shares are listed on the Philippines Stock Exchange.

12. Indicate by check mark whether the registrant:

(a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Sections 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding twelve (12) months (or for such shorter period the registrant was required to file such reports)

Yes [x] No [ ]

(b) has been subject to such filing requirements for the past ninety (90) days.

Yes [x] No [ ]

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SIGNATURES

Pursuant to the requirements of the Securities Regulation Code, the issuer has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Registrant	:	Metro Pacific Investments Corporation By
Signature	:	Jose Ma. K. Lim
Title	:	President and Chief Executive Officer
Signature	:	David J. Nicol
Title	:	Chief Financial Officer
Date	:	10 November 2017

Item 1

FINANCIAL STATEMENTS

Exhibit I

METRO PACIFIC INVESTMENTS CORPORATION AND SUBSIDIARIES

INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

(Amounts in Millions except Per Share Amounts)

	Nine Months ended September 30		Three Months ended September 30	
	2017	2016	**2017**	2016
OPERATING REVENUES				
Water and sewerage services revenue	**₱15,690**	₱15,336	**₱5,376**	₱5,216
Toll fees	**9,605**	8,794	**3,145**	2,848
Hospital revenue	**7,872**	6,556	**2,838**	2,444
Power and coal sales	**6,475**	–	**6,475**	–
Rail revenue	**2,327**	2,224	**799**	746
Logistics and other revenue	**1,124**	229	**364**	144
	43,093	33,139	**18,997**	11,398
COST OF SALES AND SERVICES (Note 20)	**(19,025)**	(13,412)	**(9,083)**	(4,658)
GROSS PROFIT	**24,068**	19,727	**9,914**	6,740
General and administrative expenses (Note 21)	**(8,443)**	(6,575)	**(3,442)**	(2,342)
Interest expense (Note 22)	**(5,249)**	(4,182)	**(2,517)**	(1,456)
Share in net earnings of equity method investees (Note 9)	**5,993**	5,423	**2,569**	1,901
Interest income (Note 22)	**352**	306	**178**	93
Construction revenue and other income (Note 23)	**19,487**	12,680	**6,236**	4,477
Construction costs and other expenses (Note 23)	**(16,558)**	(10,928)	**(6,062)**	(4,499)
INCOME BEFORE INCOME TAX	**19,650**	16,451	**6,876**	4,914
PROVISION FOR (BENEFIT FROM) INCOME TAX				
Current	**3,720**	3,121	**1,548**	1,046
Deferred	**532**	(384)	**113**	77
	4,252	2,737	**1,661**	1,123
NET INCOME	**15,398**	13,714	**5,215**	3,791
OTHER COMPREHENSIVE INCOME (Note 19)				
Net OCI to be reclassified to profit or loss in subsequent periods	**296**	746	**84**	140
Net OCI not being reclassified to profit or loss in subsequent periods	**(77)**	–	**11**	–
	219	746	**95**	140
TOTAL COMPREHENSIVE INCOME	**₱15,617**	₱14,460	**₱5,310**	₱3,931
Net Income Attributable to:				
Owners of the Parent Company	**₱11,128**	₱9,480	**₱3,307**	₱2,500
Non-controlling interest	**4,270**	4,234	**1,908**	1,291
	₱15,398	₱13,714	**₱5,215**	₱3,791
Total Comprehensive Income Attributable to:				
Owners of the Parent Company	**₱11,345**	₱10,213	**₱3,400**	₱2,642
Non-controlling interest	**4,272**	4,247	**1,910**	1,289
	₱15,617	₱14,460	**₱5,310**	₱3,931
EARNINGS PER SHARE (Note 24)				
Basic Earnings Per Common Share, Attributable to Owners of the Parent Company *(In Centavos)*	**₱35.30**	₱32.05	**₱10.49**	₱7.92
Diluted Earnings Per Common Share, Attributable to Owners of the Parent Company *(In Centavos)*	**₱35.26**	₱32.02	**₱10.48**	₱7.92

See accompanying notes to the Unaudited Interim Condensed Consolidated Financial Statements and Management Discussion and Analysis

METRO PACIFIC INVESTMENTS CORPORATION AND SUBSIDIARIES

INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Amounts in Millions)

	Unaudited September 30, 2017	Audited December 31, 2016
ASSETS		
Current Assets		
Cash and cash equivalents and short-term deposits (Note 5)	**₱49,414**	₱19,469
Restricted cash (Note 5)	**3,730**	2,432
Receivables (Note 6)	**10,802**	5,171
Other current assets (Note 7)	**10,241**	4,728
Total Current Assets	**74,187**	31,800
Noncurrent Assets		
Restricted cash (Note 5)	**–**	889
Available-for-sale financial assets (Note 8)	**1,722**	1,859
Investments and advances (Note 9)	**126,427**	126,556
Service concession assets (Note 10)	**164,077**	152,693
Property, plant and equipment	**64,319**	10,480
Goodwill (Note 4)	**35,536**	21,004
Deferred tax assets	**940**	467
Other noncurrent assets (Note 11)	**20,958**	5,854
Total Noncurrent Assets	**413,979**	319,802
	₱488,166	₱351,602

See accompanying notes to the Unaudited Interim Condensed Consolidated Financial Statements and Management Discussion and Analysis

(Forward)

METRO PACIFIC INVESTMENTS CORPORATION AND SUBSIDIARIES

INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Amounts in Millions)

	Unaudited September 30, 2017	Audited December 31, 2016
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and other current liabilities (Note 12)	**₱24,393**	₱14,965
Income tax payable	**1,415**	466
Due to related parties (Note 16)	**3,825**	1,713
Current portion of:		
Provisions (Note 13)	**5,749**	5,229
Long-term debt (Note 14)	**14,551**	3,797
Service concession fees payable (Note 15)	**889**	874
Total Current Liabilities	**50,822**	27,044
Noncurrent Liabilities		
Noncurrent portion of:		
Provisions (Note 13)	**1,932**	239
Service concession fees payable (Note 15)	**28,612**	28,000
Long-term debt (Note 14)	**159,304**	93,219
Due to related parties (Note 16)	**11,622**	6,726
Deferred tax liabilities	**7,902**	3,925
Other long-term liabilities (Notes 4 and 12)	**9,096**	4,368
Total Noncurrent Liabilities	**218,468**	136,477
Total Liabilities	**269,290**	163,521
Equity		
Owners of the Parent Company:		
Capital stock (Note 17)	**31,625**	31,619
Additional paid-in capital	**68,463**	68,438
Treasury shares (Note 17)	**(167)**	(167)
Equity reserves (Note 18)	**6,002**	6,282
Retained earnings	**51,871**	43,889
Other comprehensive income reserve (Note 18)	**2,188**	1,971
Total equity attributable to owners of the Parent Company	**159,982**	152,032
Non-controlling interest	**58,894**	36,049
Total Equity	**218,876**	188,081
	₱488,166	₱351,602

See accompanying notes to the Unaudited Interim Condensed Consolidated Financial Statements and Management Discussion and Analysis

METRO PACIFIC INVESTMENTS CORPORATION AND SUBSIDIARIES

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(Amounts in Millions)

	Nine Months Ended September 30	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱19,650**	₱16,451
Adjustments for:		
Interest expense (Note 22)	**5,249**	4,182
Amortization of service concession assets (Notes 10 and 20)	**2,818**	2,698
Depreciation and amortization (Notes 20 and 21)	**1,953**	959
Unrealized foreign exchange loss (gain) – net	**(19)**	(54)
Share in net earnings of equity method investees (Note 9)	**(5,993)**	(5,423)
Dividend income (Note 23)	**(2,630)**	(1,298)
Interest income (Note 22)	**(352)**	(306)
Others	**(32)**	196
Operating income before working capital changes	**20,644**	17,405
Decrease (increase) in:		
Restricted cash	**(458)**	88
Receivables	**(1,051)**	(355)
Due from related parties and other current assets	**(1,179)**	(37)
Increase (decrease) in:		
Accounts payable and other current liabilities	**3,241**	679
Accrued retirement cost and provisions	**735**	(188)
Net cash generated from operations	**21,932**	17,592
Income tax paid	**(3,475)**	(3,042)
Interest received	**356**	326
Net cash provided by operating activities	**18,813**	14,876
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease (increase) in:		
Short-term deposits (Note 5)	**781**	3,822
Other noncurrent assets	**(1,944)**	(644)
Dividends received from equity method investees and AFS financial assets	**9,588**	5,491
Acquisition of business/subsidiary, net of cash acquired (Note 4)	**(6,093)**	(4,112)
Proceeds from:		
Redemption of preferred shares	**3,500**	
Sale of investment in associated entity	**12,403**	
Acquisition of/Additions to:		
Service concession assets (Note 10)	**(13,246)**	(11,347)
Available-for-sale financial assets (Note 8)	**(5,120)**	138
Property and equipment	**(2,056)**	(1,606)
Investments in equity method investees (Note 9)	**(537)**	(24,971)
Net cash used in investing activities	**(2,724)**	(33,229)

(Forward)

METRO PACIFIC INVESTMENTS CORPORATION AND SUBSIDIARIES

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(Amounts in Millions)

	Nine Months Ended September 30	
	2017	2016
CASH FLOWS FROM FINANCING ACTIVITIES		
Receipt or proceeds from:		
Short-term and long-term debt (Note 14)	**19,410**	10,067
Issuance of shares (Note 17)	**26**	22,104
Contributions from non-controlling stockholders	**30**	777
Payments of/for:		
Interest and other financing charges	**(4,212)**	(3,187)
Long-term debt (Note 14)	**(7,814)**	(3,710)
Service concession fees payable	**(997)**	(969)
Acquisition of treasury shares	**(168)**	(190)
Due to related party	**(2,001)**	–
Transaction costs on long-term debt	**(131)**	(498)
Dividends paid to owners of the Parent Company	**(3,239)**	(2,716)
Dividends paid to non-controlling stockholders	**(1,970)**	(1,708)
Net cash provided by (used in) financing activities	**(1,066)**	19,970
NET INCREASE IN CASH AND CASH EQUIVALENTS	**15,023**	1,617
CASH AND CASH EQUIVALENTS AT JANUARY 1	**15,455**	16,469
CASH AND CASH EQUIVALENTS AT SEPTEMBER 30 (Note 5)	**₱30,478**	₱18,086

See accompanying notes to the Unaudited Interim Condensed Consolidated Financial Statements and Management Discussion and Analysis

METRO PACIFIC INVESTMENTS CORPORATION AND SUBSIDIARIES

INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (UNAUDITED)

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2017 AND 2016

(Amounts in Millions)

Nine Months Ended September 30, 2017

	Attributable to Owners of the Parent Company								
	Capital Stock	**Additional Paid-in Capital**	**Treasury Shares**	**Equity Reserves** (Note 18)	**Retained Earnings**	**Other Comprehensive Income Reserve** (Note 18)	**Total**	**Non-controlling Interest (NCI)**	**Total Equity**
At January 1, 2017	**₱31,619**	**₱68,438**	**(₱167)**	**₱6,282**	**₱43,889**	**₱1,971**	**₱152,032**	**₱36,049**	**₱188,081**
Total comprehensive income for the year:									
Net income	**–**	**–**	**–**	**–**	**11,128**	**–**	**11,128**	**4,270**	**15,398**
Other comprehensive income	**–**	**–**	**–**	**–**	**–**	**217**	**217**	**2**	**219**
Executive Stock Option Plan (ESOP) (Note 25)	**6**	**25**	**–**	**(5)**	**–**	**–**	**26**	**–**	**26**
Restricted Stock Unit Plan (RSUP) (Note 25)	**–**	**–**	**–**	**50**	**–**	**–**	**50**	**–**	**50**
Cash dividends declared (Note 17)	**–**	**–**	**–**	**–**	**(3,239)**	**–**	**(3,239)**	**–**	**(3,239)**
Other comprehensive income charged to retained earnings	**–**	**–**	**–**	**–**	**93**	**–**	**93**	**–**	**93**
Business combinations and others (Note 4)	**–**	**–**	**–**	**(325)**	**–**	**–**	**(325)**	**20,546**	**20,314**
Dividends declared to non-controlling stockholders	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(1,973)**	**(1,973)**
At September 30, 2017	**₱31,625**	**₱68,463**	**(₱167)**	**₱6,002**	**₱51,871**	**₱2,188**	**₱159,982**	**₱58,894**	**₱218,876**

Nine Months Ended September 30, 2016

	Attributable to Owners of the Parent Company								
	Capital Stock (Note 17)	Additional Paid-in Capital	Treasury Shares (Note 17)	Equity Reserves (Note 18)	Retained Earnings	Other Comprehensive Income Reserve (Note 18)	Total	Non-controlling Interest	Total Equity
At January 1, 2016	₱27,935	₱49,980	₱–	₱6,248	₱35,149	₱510	₱119,822	₱30,955	₱150,777
Total comprehensive income for the period:									
Net income	–	–	–	–	9,480	–	9,480	4,234	13,714
Other comprehensive income	–	–	–	–	–	733	733	13	746
Total comprehensive income for the period	–	–	–	–	9,480	733	10,213	4,247	14,460
Issuance of shares (Note 17):									
Common shares	3,600	18,360	–	–	–	–	21,960	–	21,960
Preferred shares	41	–	–	–	–	–	41	–	41
Treasury shares	–	–	(167)	–	–	–	(167)	–	(167)
Restricted Stock Unit Plan (Note 25)	–	–	–	50	–	–	50	–	50
Executive Stock Option Plan (Note 25)	41	91	–	(29)	–	–	103	–	103
Cash dividends declared (Note 17)	–	–	–	–	(2,716)	–	(2,716)	–	(2,716)
Dividends declared to non-controlling stockholders	–	–	–	–	–	–	–	(1,292)	(1,292)
NCI on Business Combination and others (Note 4)	–	–	–	–	–	–	–	1,412	1,412
At September 30, 2016	₱31,617	₱68,431	(₱167)	₱6,269	₱41,913	₱1,243	₱149,306	₱35,322	₱184,628

See accompanying notes to the Unaudited Interim Condensed Consolidated Financial Statements and Management Discussion and Analysis

Metro Pacific Investments Corporation

Aging of Receivables

(Amounts in Millions)

	September 30, 2017 (Unaudited)					
Type	**Current**	**0 - 30 days**	**31 - 60 days**	**61 - 90 days**	**Over 90 days**	**Balance**
Trade Receivable	**₱6,782**	**₱1,459**	**₱590**	**₱334**	**₱1,351**	**₱10,516**
Notes Receivable	**–**	**–**	**–**	**–**	**150**	**150**
Other receivables	**683**	**20**	**10**	**50**	**598**	**1,361**
Due from related parties	**23**	**–**	**–**	**–**	**–**	**23**
TOTAL	**7,488**	**1,479**	**600**	**384**	**2,099**	**12,050**
Allowance for impairment/loss						
Trade Receivables						**(776)**
Notes Receivable						**(150)**
Other Receivables						**(32)**
Due from related parties						**–**
TOTAL						**(958)**
NET RECEIVABLES						**₱11,092**

	December 31, 2016 (Audited)					
Type	Current	0 - 30 days	31 - 60 days	61 - 90 days	Over 90 days	Balance
Trade Receivable	₱2,987	₱371	₱220	₱283	₱810	₱4,671
Notes Receivable	–	–	–	–	150	150
Other receivables	334	265	2	4	655	1,260
Due from related parties	92	–	–	–	–	92
TOTAL	3,413	636	222	287	1,615	6,173
Allowance for impairment/loss						
Trade Receivables						(633)
Notes Receivable						(150)
Other Receivables						(71)
Due from related parties						–
TOTAL						(854)
NET RECEIVABLES						₱5,319

METRO PACIFIC INVESTMENTS CORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

Metro Pacific Investments Corporation (the Parent Company or MPIC) was incorporated in the Philippines and registered with the Philippines Securities and Exchange Commission (SEC) on March 20, 2006 as an investment holding company. MPIC's common shares of stock are listed in and traded through the Philippine Stock Exchange (PSE). On August 6, 2012, MPIC launched Sponsored Level 1 American Depositary Receipt (ADR) Program with Deutsche Bank as the appointed depositary bank in line with the Parent Company's thrust to widen the availability of its shares to investors in the United States.

The principal activities of the Parent Company's subsidiaries and equity method investees are described in Notes 31 and 9, respectively.

Metro Pacific Holdings, Inc. (MPHI) owns 41.9% of the total issued common shares (or 42.0% of the total outstanding common shares) as at September 30, 2017 and December 31, 2016. As sole holder of the voting Class A Preferred Shares, MPHI's combined voting interest as a result of all of its shareholdings is estimated at 55.0% as at September 30, 2017 and December 31, 2016.

MPHI is a Philippine corporation whose stockholders are Enterprise Investment Holdings, Inc. (EIH; 60.0% interest), Intalink B.V. (26.7% interest) and First Pacific International Limited (FPIL; 13.3% interest). First Pacific Company Limited (FPC), a company incorporated in Bermuda and listed in Hong Kong, through its subsidiaries, Intalink B.V. and FPIL, holds 40.0% equity interest in EIH and investment financing which under Hong Kong Generally Accepted Accounting Principles, require FPC to account for the results and assets and liabilities of EIH and its subsidiaries as part of FPC group of companies in Hong Kong.

The registered office address of the Parent Company is 10th Floor, MGO Building, Legaspi corner Dela Rosa Streets, Legaspi Village, Makati City.

The accompanying unaudited interim condensed consolidated financial statements as at September 30, 2017 and for the nine months ended September 30, 2017 and 2016 were approved and authorized for issuance by the Board of Directors (BOD) on November 8, 2017.

2. Summary of Significant Accounting Policies

Basis of Preparation

The interim condensed consolidated financial statements are prepared on a historical cost basis, except for certain available-for-sale (AFS) financial assets that are measured at fair value, and are prepared in accordance with Philippine Accounting Standard (PAS) 34, *Interim Financial Reporting*. The interim condensed consolidated financial statements are presented in Philippine Peso, which is MPIC's functional and presentation currency, and all values are rounded to the nearest millions (000,000), except when otherwise indicated.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Company's annual consolidated financial statements as at and for the year ended December 31, 2016.

Changes in Accounting Policies and Disclosures

Our accounting policies are consistent with those followed in the preparation of the Company's annual consolidated financial statements for the year ended December 31, 2016, except for the following adoption of new and amended Philippine Financial Reporting Standards (PFRS) effective January 1, 2017.

The Company applied the following PFRS and amendments to existing standards effective January 1, 2017. Except for additional disclosure requirements, adoption of the following standards did not have any material impact on the Company's financial position or performance:

- Amendments to PFRS 12, *Clarification of the Scope of the Standard (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)* – The amendments clarify that the disclosure requirements in PFRS 12, other than those relating to summarized financial information, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale.

- Amendments to PAS 7, *Statement of Cash Flows, Disclosure Initiative* – The amendments to PAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). See Note 29 for the required disclosures.

- Amendments to PAS 12, *Income Taxes, Recognition of Deferred Tax Assets for Unrealized Losses* – The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective. One of the standards that the Company did not early adopt is PFRS 9, *Financial Instruments*.

In July 2014, the final version of PFRS 9 was issued. PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of PFRS 9 is permitted if the date of initial application is before February 1, 2015.

The adoption of PFRS 9 will have an effect on the classification and measurement of the Company's financial assets and impairment methodology for financial assets, but will have no impact on the classification and measurement of the Company's financial liabilities.

The Company is currently assessing the impact of adopting this standard.

Basis of Consolidation

The interim condensed consolidated financial statements include the accounts of the Parent Company and its subsidiaries (see Note 31) as at September 30, 2017.

3. **Operating Segment Information**

The Company is organized into the following major business segments based on services and products namely: power, toll operations, water, healthcare, rail, logistics and others.

The Company's chief operating decision maker continues to be comprised of the BOD.

Operating Segment

For management purposes, the Company is organized into the following segments based on services and products:

Power, which primarily relates to the operations of Manila Electric Company **(**MERALCO) in relation to the distribution, supply and generation of electricity and Global Business Power Corporation (GBPC) in relation to power generation. The investment in MERALCO is held both directly and indirectly through Beacon Electric Asset Holdings, Inc. (Beacon Electric) while the investment in GBPC held through Beacon Electric's wholly-owned entity, Beacon PowerGen Holdings Inc. (BPHI) (see Notes 4 and 9).

Toll operations, which primarily relate to operations and maintenance of toll facilities by Metro Pacific Tollways Corporation (MPTC) and its subsidiaries NLEX Corporation (NLEX Corp; formerly Manila North Tollways Corporation), Cavitex Infrastructure Corporation (CIC), Tollways Management Corporation [TMC; a subsidiary beginning April 2017 (see Notes 4 and 9)], and foreign investees, CII Bridges and Roads Investment Joint Stock Company (CII B&R) and Don Muang Tollway Public Ltd (DMT). Certain toll projects are either under pre-construction or on-going construction as at September 30, 2017 (see Note 10).

Water, which relates to the provision of water and sewerage services by Maynilad Water Holding Company, Inc. (MWHC) and its subsidiaries Maynilad Water Services, Inc. (Maynilad) and Philippine Hydro, Inc. (PHI), and other water-related services by MetroPac Water Investments Corporation (MPW).

Healthcare, which primarily relates to operations and management of hospitals and nursing colleges and such other enterprises that have similar undertakings by Metro Pacific Hospital Holdings, Inc. (MPHHI).

Rail, which primarily relates to Metro Pacific Light Rail Corporation (MPLRC) and its subsidiary, Light Rail Manila Corporation (LRMC), the concessionaire for the operations and maintenance of the Light Rail Transit Line 1 (LRT-1) and construction of the LRT-1 south extension.

Logistics, which primarily relates to the Company's logistics business through MetroPac Logistics Company, Inc. (MPLC) and its subsidiary, MetroPac Movers, Inc. (MMI). However, given that the logistics business does not yet meet the quantitative thresholds to qualify as an operating segment, the results of the logistics operations are included in the 'other businesses' column.

Others, which represent holding companies and operations of subsidiaries and other investees involved in real estate and provision of services.

Seasonality

Power. For MERALCO, electricity sales exhibit a degree of quarterly seasonality with the first quarter having lower than the average electricity sales as this period is characterized by cooler temperature and softer consumer demand following heightened consumer spending in the last quarter of the year. The second quarter is marked by higher than average electricity sales. The fourth quarter performance is about the average of the year.

For GBPC, electricity sales exhibit a degree of quarterly seasonality with the first quarter having lower than the average electricity sales. This period is characterized by cooler temperature, resulting to softer consumer demand. Higher than average electricity consumption is marked during the second quarter as temperature rises during the summer months. This increase in demand, however, is coupled with higher generation from solar plants in Negros thereby tempering market prices. The fourth quarter sees an increase in electric power consumption due to heightened consumer spending during the holiday season.

Toll Operations. The Company's toll road operations are a seasonal business. Based on historical traffic in the North Luzon Expressway (NLEX), Subic-Clark-Tarlac Expressway (SCTEX) and Manila-Cavite Toll Expressway (CAVITEX), the month of January is slightly below the normal average due to the end of the Christmas holidays. From February to May, traffic is above the normal average due to the summer holiday, which is traditionally a peak season for travel. The months of June to August remain to have the lowest seasonal factors due to the rainy season. Traffic is expected to improve from September until November, while the month of December has the highest seasonal factor due to the Christmas holidays.

Water. The Company's water utilities business is also seasonal, with comparatively lower revenues during the rainy season in the Philippines.

Rail. The Company's rail business is seasonal, with lower ridership during the second quarter of the year due to summer holiday in schools. In addition to this, LRT-1 is also closed from Holy Thursday to Easter Sunday, and this typically occurs in April or March.

Segment Performance

Segment performance is evaluated based on: consolidated net income for the period; earnings before interest, taxes and depreciation and amortization, or core EBITDA; and core income. Net income for the period is measured consistent with consolidated net income in the consolidated financial statements.

There are no revenue transactions with a single customer that accounted for 10% or more of the Company's consolidated revenues and no material inter-segment revenue transactions for the nine-month periods ended September 30, 2017 and 2016. Except for the equity in net earnings recognized from the Company's investments in DMT and CII B&R (see Note 9), all revenues of the Company for the nine-month periods ended September 30, 2017 and 2016 were primarily derived from within the Philippines.

The following table shows the reconciliations of the Company's consolidated core income to consolidated net income for the nine-month period ended September 30, 2017 and 2016.

	Nine Months Ended September 30	
	2017	2016
	(Unaudited) *(In Millions)*	
Consolidated core income attributable to owners of Parent Company	**₱11,330**	₱9,284
Non-recurring income (expenses) - net	**(202)**	196
Consolidated net income attributable to owners of Parent Company	**11,128**	9,480
Consolidated net income attributable to Non-controlling interest	**4,270**	4,234
Consolidated net income	**₱15,398**	₱13,714

The following table presents revenue and profit information on operating segments for the nine-month periods ended September 30, 2017 and 2016:

September 30, 2017 (Unaudited; in Millions)							
	Power	**Toll Operations**	**Water Utilities**	**Healthcare**	**Rail**	**Others**	**Consolidated**
Total revenue from external sales	**₱6,475**	**₱9,605**	**₱15,978**	**₱7,872**	**₱2,327**	**₱836**	**₱43,093**
Core EBITDA	**5,273**	**6,229**	**10,865**	**1,986**	**590**	**(851)**	**24,092**
Core EBITDA Margin	**81%**	**65%**	**68%**	**25%**	**25%**	**–**	**56%**
Core income (loss) attributable to MPIC	**7,573**	**2,996**	**2,801**	**518**	**210**	**(2,768)**	**11,330**
Non-recurring income (expense)	**330**	**1,113**	**(302)**	**3**	**(4)**	**(1,342)**	**(202)**
Reported net income (loss) attributable to MPIC	**₱7,903**	**₱4,109**	**₱2,499**	**₱521**	**₱206**	**(₱4,110)**	**₱11,128**

September 30, 2016 (Unaudited; in Millions)							
	Power	Toll Operations	Water	Healthcare	Rail	Others	Consolidated
Total revenue from external sales	₱–	₱8,794	₱15,336	₱6,556	₱2,224	₱229	₱33,139
Core EBITDA	1,215	5,154	11,046	1,698	553	(716)	18,950
Core EBITDA Margin	–	59%	72%	26%	25%	–	57%
Core income (loss) attributable to MPIC	5,685	2,618	2,705	443	135	(2,302)	9,284
Non-recurring income (expense)	269	(184)	434	(11)	2	(314)	196
Reported net income (loss) attributable to MPIC	₱5,954	₱2,434	₱3,139	₱432	₱137	(₱2,616)	₱9,480

The following table presents segment assets and segment liabilities of the Company's operating segments (amounts in millions):

	Power	**Toll Operations**	**Water Utilities**	**Healthcare**	**Rail**	**Others**	**Adjustments/ Eliminations**	**Consolidated**
Segment assets	**₱95,672**	**₱76,084**	**₱104,841**	**₱14,281**	**₱13,008**	**₱21,377**	**₱36,476**	**₱361,739**
Investments and Advances	**109,950**	**10,728**	**394**	**3,323**	**–**	**2,032**	**–**	**126,427**
Consolidated Total Assets as at September 30, 2017 (Unaudited)	**₱205,622**	**₱86,812**	**₱105,235**	**₱17,604**	**₱13,008**	**₱23,409**	**₱36,476**	**₱488,166**
Segment assets	₱–	₱71,399	₱102,096	₱13,678	₱8,956	₱7,446	₱21,471	₱225,046
Investments and Advances	109,639	11,756	361	3,000	–	1,800	–	126,556
Consolidated Total Assets as at December 31, 2016 (Audited)	₱109,639	₱83,155	102,457	₱16,678	₱8,956	₱9,246	₱21,471	₱351,602
Segment liabilities:								
As at September 30, 2017 (Unaudited)	**₱91,115**	**₱58,572**	**₱48,566**	**₱4,976**	**₱7,854**	**₱50,305**	**₱7,902**	**₱269,290**
As at December 31, 2016 (Audited)	₱8,353	₱56,372	₱47,583	₱4,897	₱4,215	₱38,176	₱3,925	₱163,521

4. **Business Combinations**

As at September 30, 2017 and December 31, 2016, goodwill from business combinations comprised of:

	September 30, 2017 (Unaudited)	December 31, 2016 (Audited)
	(In Millions)	
Power:		
Beacon Electric	**₱10,548**	₱–
Toll operations:		
MPTC	**5,749**	5,749
CIC	**4,966**	4,966
TMC	**3,110**	–
Water:		
MWHC/Maynilad	**6,803**	6,803
Eco-System Technologies International, Inc. (ESTII)	**1,278**	894
PHI	**288**	288
Healthcare:		
Marikina Valley Medical Center, Inc.	**662**	662
Colinas Verdes Hospital Managers Corp. (CVHMC)	**234**	234
Asian Hospital Inc. (AHI)	**192**	192
Riverside Medical Center, Inc.	**69**	69
De Los Santos Medical Center Inc.	**7**	7
Logistics:		
MMI	**1,630**	1,140
	₱35,536	₱21,004

Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired.

Acquisitions during the nine-month period ended September 30, 2017

Power

Step acquisition of Beacon Electric. On June 27, 2017, MPIC entered into a Deed of Absolute Sale of Shares with PLDT Communications and Energy Ventures (PCEV) to acquire the remaining 25% interest in Beacon Electric from PCEV for an aggregate purchase price of ₱21.8 billion. The acquired shares comprise of (a) 645,756,250 common shares constituting 25% of the outstanding common shares of Beacon Electric, and (b) 458,370,086 Class A preferred shares constituting 25% of the total economic rights on the outstanding Class A preferred shares of Beacon Electric.

The purchase consideration was settled as to ₱12.0 billion in cash while the balance of ₱9.8 billion shall be settled in four (4) equal annual installments amounting to ₱2.45 billion per year payable starting June 2018.

In order to fund the investment, MPIC completed an overnight placing of 4.5% of its directly held MERALCO shares for an aggregate consideration of ₱12.7 billion (see Note 9).

After the completion of the abovementioned transactions, MPIC owns a direct 10.5% interest in MERALCO and, through its 100% interest in Beacon Electric, a further 35.0%, thereby increasing its effective ownership interest in MERALCO from 41.2% to 45.5% and in GBPC to 56% directly and 6.4% indirectly (through MERALCO).

With MPIC acquiring control over Beacon Electric, this transaction was accounted for using the acquisition method under PFRS 3, *Business Combination*. In accordance with PFRS 3:

- remeasurement loss of ₱1,127 million was recognized in the consolidated statements comprehensive of income in relation with the 75% previously held interest in Beacon Electric (see Note 23); and

- Beacon Electric including GBPC was fully consolidated beginning acquisition date while MERALCO continue to be accounted for under the equity method of accounting (see Note 9).

The provisional fair values of the identifiable assets and liabilities as at the date of acquisition:

	Provisional Values
	(In Millions)
Assets	
Cash	₱17,156
Receivables	4,160
Investment in MERALCO	85,344
Property and equipment	53,978
Intangible asset	12,396
Other current assets	4,865
	177,899
Liabilities	
Accounts payable and other current liabilities	5,674
Loans payable	65,037
Deferred tax liability	3,326
Other noncurrent liabilities	5,718
	79,755
Non-controlling interest (at Beacon level)	₱9,571
Total identifiable net assets at fair value	₱88,573
Fair value of previously held interest	(67,280)
Fair value of non-controlling interest in GBPC	(11,212)
Goodwill arising on acquisition	10,548
Consideration transferred	₱20,629

Consideration transferred included the ₱12.0 billion paid in cash on transaction date and ₱8.6 billion representing the present value of the ₱9.8 billion payable on a deferred basis (see Note 16).

Net cash inflow on acquisition is as follows:

Cash acquired with the subsidiary[(a)]	₱17,156
Total cash paid on transaction date	(12,000)
Net cash inflow on transaction date	₱5,156

[(a)]*Cash acquired with the subsidiary is included in cash flows from investing activities.*

The purchase price allocation and loss on remeasurement are provisional and to be finalized within a period of one year from the date of the transaction. The fair value and gross amount of Beacon Electric's trade receivables amounted to ₱3,930 million and ₱4,224 million, respectively.

From the date of acquisition, Beacon Electric (including GBPC) contributed ₱6,475 million to the consolidated revenues. If the consolidation had taken place at the beginning of the year, contribution to the consolidated revenues would have been ₱17,227 million. Since this is a step-up acquisition, the incremental contribution to the net income attributable to MPIC (pertaining to the additional 25% ownership interest in Beacon Electric) amounted to ₱448 million from date of acquisition and ₱1,169 million had the transaction taken place at the beginning of the year.

Toll operations

Step acquisition of TMC. On April 4, 2017, Metro Pacific Tollways North Corporation (MPT North; formerly Metro Pacific Tollways Development Corporation; a wholly owned subsidiary of MPTC) completed the acquisition of 26,600 common shares of TMC representing 7% of total issued and outstanding stock of TMC for a total purchase price of ₱442.4 million.

The Company's investment in TMC was previously accounted for as an investment in an associate (see Note 9) as another significant shareholder held veto rights related to changes in operations and dividend policies that affect investors' returns. These veto rights fell away with the abovementioned transaction increasing MPT North's effective ownership in TMC from 60.0% to 67.0%. With MPT North acquiring control over TMC, this transaction was accounted for using the acquisition method under PFRS 3. In accordance with PFRS 3:

- gain of ₱1,391.4 million was recognized in the consolidated statements of comprehensive income as a result of the remeasurement of the 60% previously held interest in TMC (see Notes 9 and 23); and

- the intercompany relationship under the O&M Agreement between NLEX Corp. and TMC is effectively settled with no gain or loss recognized as the intercompany accounts were settled at recorded amounts.

The provisional fair values of the identifiable assets and liabilities as at the date of acquisition is shown below:

	Provisional Values
	(In Millions)
Assets	
Cash and cash equivalents	₱154
Receivables	300
Inventories	11
Other current assets	56
Property and equipment	71
Deposits and other noncurrent assets	31
	623
Liabilities	
Accounts payable and other current liabilities	441
Income tax payable	76
Provisions	175
Retention payable	19
Accrued employee benefits	7
	718
Total identifiable net assets (liabilities) at fair value	(95)
Noncontrolling interest	(44)
Fair value of previously held interest	(2,757)
Goodwill arising on acquisition	3,110
Consideration transferred	214
Intercompany accounts settled	228
Total cash paid on acquisition	₱442

Net cash outflow on acquisition is as follows:

Cash acquired with the subsidiary[a]	₱154
Total cash paid on acquisition	(442)
Net cash outflow	(₱288)

(a) Cash acquired with the subsidiary is included in cash flows from investing activities.

The fair value and gross amount of the receivables amounted to ₱299.8 million. None of the receivables have been impaired and it is expected that the full contractual amounts can be collected.

The non-controlling interests were recognized as a proportion of net assets acquired.

The goodwill of ₱3,109.7 million is attributable to the synergies and other benefits from combining the assets and activities of TMC to the Company. None of the goodwill recognized is expected to be deductible for income tax purposes.

TMC contributed nil operating revenues, since TMC revenues pertain mainly to its services to NLEX Corp. and therefore eliminated at consolidated level. Since this is a step-up acquisition, the incremental contribution to net income attributable to shareholders of MPTC (pertaining to the additional 7% ownership interest) amounted to ₱7.3 million from date of acquisition and ₱14.0 million had the transaction taken place at beginning of the year.

On April 27, 2017, Egis Road Operation S.A. (EROSA) and Egis Investment Partners Philippines, Inc. (EIPPI), entered into an SPA for EIPPI's acquisition of TMC shares, representing 13.0% of the issued and outstanding shares of TMC, held by EROSA for a total consideration of ₱821.47 million. The TMC shares purchase price will be paid by EIPPI to EROSA through the receipt of dividends from TMC (pre-merger) and NLEX Corp. (from and after merger).

EIPPI is jointly controlled by Egis Projects S.A. and MPT North with effective ownership of 54% and 46%, respectively. The above transaction increased MPT North's effective ownership in TMC from 67.0% to 72.98% (representing an increase of 5.98%) and was accounted for as an equity transaction with the net premium of ₱388.4 million recognized in equity.

The premium represents the difference between the carrying value of the additional interest acquired and the total consideration paid.

MPT North's share in the total purchase price	₱378
Less: Carrying value of the additional interest acquired in TMC	(10)
Difference recognized in "Other reserves" account	₱388

Healthcare

Acquisition of Delgado Clinic Inc. (DCI). On January 31, 2017, MPHHI completed the agreement to infuse approximately ₱133.5 million of cash into DCI, owner and operator of the Dr. Jesus C. Delgado Memorial Hospital (JDMH) via a subscription to preferred shares representing approximately 65% of the total expanded capital stock of DCI. The cash infusion from MPHHI will enable JDMH to upgrade its equipment and facilities, and expand its capacity.

MPHHI acquired DCI as part of its strategy to grow its portfolio and increase the Company's total bed capacity and to be the largest private hospital group in the Philippines. The acquisition was accounted for using the acquisition method.

The provisional fair values of the identifiable assets and liabilities as at the date of acquisition:

	Provisional Values
	(In Millions)
Assets	
Cash	₱144
Inventories and other current assets	30
Property and equipment	138
	312
Liabilities	
Accounts payable and other current liabilities	29
Loans payable	4
Deferred tax liability	39
Other noncurrent liabilities	35
	107
Total identifiable net assets at fair value	205
Non-controlling interest (35% at MPHHI level)	(72)
Goodwill arising on acquisition	–
Consideration transferred	₱133

Net cash inflow on acquisition is as follows:

Cash acquired with the subsidiary[(a)]	₱144
Total cash paid on acquisition	(133)
Net cash inflow	₱11

[(a)]*Cash acquired with the subsidiary is included in cash flows from investing activities.*

The fair value of the property and equipment is provisional pending receipt of the final valuations for those assets. The fair value and gross amount of DCI's trade receivables amounted to ₱6 million and ₱11 million, respectively. The difference between the fair value and the gross amount of the receivables represents the portion expected to be uncollectible.

The non-controlling interests were recognized as a proportion of net assets acquired.

From the date of acquisition, DCI has contributed ₱100.8 million to the consolidated revenue and ₱2.7 million to the consolidated net income for the eight-month period ended September 30, 2017. If the combination had taken place at the beginning of the year, contributions to the consolidated revenue and consolidated net income would have been ₱112.5 million of revenue and ₱1.9 million of net income for the nine-month period ended September 30, 2017. Total transaction costs for this, amounting to ₱0.8 million, have been expensed and are included in the "General and administrative expenses" in the consolidated statement of comprehensive income and are part of operating cash flows for the nine-month period ended September 30, 2017.

Logistics

PremierLogistic's (Premier) acquisition of group of assets. On April 4, 2017, PremierLogistics, Inc. (Premier), a subsidiary of MMI, completed the purchase of the businesses and assets, including key customer contracts of Ace Logistics Inc. (Ace) for an aggregate purchase price of ₱280.0 million.

Of the purchase price, ₱190.0 million was settled on closing, of which ₱30.0 million was withheld by Premier and applied towards the payment of the subscription price with respect to Ace's 10% interest in Premier after the closing of the transaction. The balance of ₱90.0 million shall be paid by way of installments: (i) ₱10.0 million each on December 31, 2017, 2018 and 2019; and (ii) ₱60.0 million on December 31, 2020.

Ace is engaged in the business of logistics, including warehousing, parcel and e-commerce delivery, trucking, freight forwarding, customs brokerage and domestic shipping and also has strong presence in pre-delivery inspection in the automotive industry. The transaction involved the sale by Ace of identified logistics assets, the novation of certain key contracts of Ace with its clients and vendors, and the transfer of certain key officers and employees of Ace to Premier. Premier intends to use the assets purchased to expand the list of logistics services it offers and to widen its client base.

The acquisition of the assets has been accounted for using the acquisition method. The provisional fair values of the assets acquired as at the date of acquisition:

	Provisional Values
	(In Millions)
Property and equipment	17
Total identifiable net assets at fair value	17
Provisional goodwill (at PremierLogistics level)	263
Total acquisition cost	280

The purchase price allocation is still provisional and the company has yet to attribute value to the customer contracts.

The goodwill comprises the value of expected synergies arising from the acquisition and a customer list, which is not separately recognized. Based on assessment, the customer list is not separable and therefore, it does not meet the criteria for recognition as an intangible asset under PAS 38. None of the goodwill recognized is expected to be deductible for income tax purposes.

Providing pro-forma information on the revenue and net income (as if the acquisition date was as at January 1, 2017) was deemed impracticable considering that a group of assets was purchased and is, in any event, immaterial.

Acquisitions during the nine-month period ended September 30, 2016

Water

Acquisition of common shares of ESTII. On June 16, 2016, MPW completed the acquisition of 65% of the outstanding capital stock of ESTII. ESTII is engaged in the business of designing, supplying, constructing, installing, and operating and maintaining wastewater and sewage treatment plant facilities. The transaction allows MPIC, through MPW, to diversify its water sector investment holdings and invest in the high growth wastewater EPC and O&M markets.

ESTII has a leading market position in the Philippine wastewater industry and has a valuable client base comprised of major mall, office, commercial and residential property developers, hotels and resorts, hospitals and industrial facilities.

The acquisition comprises of the purchase of 12,000,000 Class A common shares from Eco-System Technologies, Inc. (ESTI) representing 60% of total outstanding capital stock of ESTII, at a consideration of ₱141.67 per Class A common share, and subscription to 1,000,000 Class C common shares representing 5% of total outstanding capital stock of ESTII, at a consideration of ₱100.00 per Class C common share.

The fair value of the identifiable assets and liabilities of ESTII as at the date of acquisition:

	Final Values
	(In Millions)
Assets	
Cash	₱99
Inventories	33
Input VAT	139
Intangible assets	560
Property and equipment and other assets	69
	900
Liabilities	
Accounts payable and other current liabilities	7
Accrued employee benefits	11
	18
Total identifiable net assets at fair value	882
Non-controlling interest (35% at MPIC level)	(309)
Goodwill arising on acquisition	1,227
Consideration transferred	₱1,800

Net cash outflow on acquisition is as follows:

	Amount
	(In Millions)
Cash acquired with the subsidiary[(a)]	₱99
Total cash paid as of December 31, 2016	(1,800)
Net cash outflow	(₱1,701)

[(a)]*Cash acquired with the subsidiary is included in cash flows from investing activities.*

The net assets recognized in the December 31, 2016 consolidated financial statements were based on a provisional assessment of fair value while MPW sought an independent valuation for the assets of the acquired business. The valuation had not been completed by the date the 2016 consolidated financial statements were approved for issue by the BOD. In June 2017, the valuation was completed and the acquisition date fair value of the intangible assets decreased from ₱1,121 million to ₱560 million, with the difference effectively subsumed in the adjusted goodwill. The 2016 comparative information was no longer adjusted as the amount, including impact on profit or loss, was not material.

The intangible assets comprise of customer contracts and license to intellectual property rights over patents and utility models. The goodwill comprises the value of expected synergies arising from the acquisition. None of the goodwill recognized is expected to be deductible for income tax purposes.

As ESTII was incorporated by ESTI only on May 12, 2016, the Company did not provide any pro-forma information on the revenue and net income as though the acquisition date was as at January 1, 2016.

Total transaction costs, included as “General and administrative expenses” amounted to ₱6.6 million.

<u>Healthcare</u>

Acquisition of Hospitals. On December 16, 2015, MPHHI signed an Investment Agreement with Sacred Heart Hospital of Malolos Inc. (SHHM), located in the capital city of Bulacan. Under the Agreement, MPHHI is investing ₱150.0 million in SHHM, for a 51% ownership. Proceeds of the investment will fund the expansion of SHHM’s infrastructure to increase patient beds and to acquire various medical equipment. This investment transaction was completed on March 7, 2016.

On July 29, 2016, MPHHI completed acquisition of 469,077 shares, representing approximately a 93% stake in Marikina Valley Medical Center, Inc. (MVMC) for ₱2,117.80 per share. MVMC is a prominent tertiary hospital along Sumulong Highway in Marikina. On the same date, MPHHI paid the sellers the amount representing approximately 80% of the purchase price and the balance thereof was deposited in an Escrow Account which shall be released to the sellers in accordance with the terms of the Escrow Agreement. As of September 30, 2017, the conditions required for the release of the balance have not been met.

MPHHI acquired SHHM and MVMC as part of its strategy to grow its portfolio and increase the Company's total bed capacity and to be the largest private hospital group in the Philippines. The acquisitions were accounted for using the acquisition method.

The final fair value of the identifiable assets and liabilities of the acquired hospitals as at the date of acquisition were:

	SHHM	MVMC
	(In Millions)	
Assets		
Cash and cash equivalents	₱165	₱35
Receivables	25	129
Other current assets	14	21
Property and equipment	132	320
Other noncurrent assets	2	7
	338	512
Liabilities		
Accounts payable and accrued expenses	36	74
Other current liabilities	3	78
Other noncurrent liabilities	5	4
	44	156
Total identifiable net assets at fair value	294	356
Non-controlling interest	(144)	(25)
Goodwill arising on acquisition	–	662
Consideration transferred	₱150	₱993

Net cash outflow on acquisition is as follows:

	SHHM	MVMC
	(In Millions)	
Cash acquired with the subsidiary[(a)]	₱165	₱35
Total cash paid on acquisition	(150)	(993)
Net cash inflow (outflow)	₱15	(₱958)

[(a)]*Cash acquired with the subsidiary is included in cash flows from investing activities.*

The net assets recognized in the December 31, 2016 consolidated financial statements were based on a provisional assessment of fair value while MPHHI sought an independent valuation for the assets of the acquired businesses. The valuation had not been completed by the date the 2016 consolidated financial statements were approved for issue by the BOD.

In 2017, the valuation was completed and there were no material differences between the final and provisional fair values of the total identifiable fair values of the hospitals acquired.

The fair value and gross amount of SHHM's trade receivables amounted to ₱25.0 million and ₱36.0 million, respectively. The fair value and gross amount of MVMC's trade receivables amounted to ₱44.0 million and ₱57.0 million, respectively. The difference between the fair value and the gross amount of the receivables represents the portion expected to be uncollectible.

The goodwill arising from the acquisition of MVMC is primarily attributed to the expected synergies and other benefits from combining the assets and activities of MVMC with those of the hospitals of the Company. The goodwill is not deductible for income tax purposes.

The non-controlling interests were recognized as a proportion of net assets acquired.

From the date of acquisition to December 31, 2016, SHHM and MVMC have contributed ₱196.7 million and ₱260.3 million, respectively, to the consolidated revenue and ₱11.4 million and ₱43.9 million, respectively, to the consolidated net income. If the combination had taken place at the beginning of the year, contributions to the consolidated revenue and consolidated net income would have been ₱232.1 million of revenue and ₱16.4 million of net profit for SHHM and ₱588.0 million of revenue and ₱56.4 million of net profit for MVMC for the year ended December 31, 2016. Total combined transaction costs for these acquisitions, amounting to ₱3.4 million, have been expensed and are included in the "General and administrative expenses" in the consolidated statement of comprehensive income and are part of operating cash flows for the year ended December 31, 2016.

Logistics

MMI's acquisition of group of assets. On May 19, 2016, MMI completed the purchase of the businesses and assets (including certain contracts) of Basic Logistics Inc., A1Move Logistics, Inc., Philflash Logistics, Inc. and BasicLog Trade and Marketing Enterprises (Sellers), all of which are involved in the logistics business.

The transaction involved the acquisition by MMI of the logistics businesses and assets (including certain contracts) of the Sellers for a total purchase price consideration of ₱2,168.3 million, inclusive of applicable value-added taxes. The transaction was carried out through an asset purchase agreement involving, among others: (a) the sale by the Sellers of identified logistics assets, (b) the novation of certain key contracts of the Sellers with their respective clients, (c) the execution of new contracts required to ensure continued operations of the business under MMI, and (d) the transfer of certain key officers and employees of the Sellers to MMI.

The fair value of the acquired assets as at the date of acquisition:

	Final Values
	(In Millions)
Property and equipment	₱154
Intangible assets	91
Total identifiable net assets at fair value	245
Provisional goodwill (at MMI level)	1,691
Total acquisition cost	1,936
Applicable Input VAT	232
Total purchase price consideration, inclusive of Input VAT	₱2,168

The net assets recognized in the December 31, 2016 consolidated financial statements were based on a provisional assessment of fair value while MMI sought an independent valuation for the assets of the acquired business. The valuation had not been completed by the date the 2016 consolidated financial statements were approved for issue by the BOD. In May 2017, the valuation was completed and the acquisition date fair value of the property and equipment decreased from ₱705 million to ₱154 million, with the difference effectively subsumed in the adjusted goodwill. The 2016 comparative information was no longer adjusted as the amount, including impact on profit or loss, was not material.

The downward change in the values of the property and equipment after the final appraisal was viewed as an impairment indicator. Thus, impairment test was done which resulted in a provision for impairment amounting to ₱324.2 million relating mostly to goodwill (see Note 23).

The goodwill comprises the value of expected synergies arising from the acquisition and a customer list, which is not separately recognized. Based on assessment, the customer list is not separable and therefore, it does not meet the criteria for recognition as an intangible asset under PAS 38. None of the goodwill recognized is expected to be deductible for income tax purposes.

Providing pro-forma information on the revenue and net income (as if the acquisition date was as at January 1, 2016) was deemed impracticable considering that the group of assets was purchased from various sellers.

5. **Cash and Cash Equivalents, Short-term Deposits and Restricted Cash**

	September 30, 2017 (Unaudited)	December 31, 2016 (Audited)
	(In Millions)	
Cash and cash equivalents	**₱30,478**	₱15,455
Short-term deposits	**18,936**	4,014
	₱49,414	₱19,469

For the purpose of the interim consolidated statements of cash flows for the nine months ended September 30, 2017 and 2016, details of cash and cash equivalents:

	September 30, 2017	September 30, 2016
	(Unaudited)	
	(In Millions)	
Cash on hand and in banks	**₱5,422**	₱3,401
Short-term deposits that qualify as cash equivalents	**25,056**	14,685
	₱30,478	₱18,086

Restricted Cash. Restricted cash classified as part of current assets substantially pertains to sinking fund or debt service account (DSA) representing amounts set aside for semi-annual principal and interest payments of certain long-term debt. This DSA is maintained and replenished in accordance with the provision of the loan agreements.

In April 2014, NLEX Corp signed a target cost construction contract with Leighton Contractors (Asia) Ltd. (LCAL) for the construction of NLEX Segment 10. Pursuant to the contract, NLEX Corp placed a reserve amount of ₱889 million in an escrow account on July 28, 2014 to cover payment default leading to suspension of works. This reserve amount is included in the "Restricted cash - noncurrent" account in the consolidated statements of financial position as at December 31, 2016. Pursuant to the Escrow Agreement, NLEX Corp exercised its option to reduce the escrow account balance such that as at June 30, 2017, the new minimum balance amounted to ₱321.0 million. The new minimum balance is the amount equal to the forecast of LCAL's maximum committed costs over any given seven (7) weeks from the relevant Calculation Date until the forecast Completion Date plus a reasonable contingency allowance as agreed upon by both parties.

As at September 30, 2017, construction of Segment 10 is expected to be completed by first half of 2018 and as such, release of the reserve amount is expected within the same period. The restricted cash therefore has been reclassified to current restricted cash as at September 30, 2017.

6. **Receivables**

	September 30, 2017 (Unaudited)	December 31, 2016 (Audited)
	(In Millions)	
Trade receivables		
Power	**₱4,501**	₱–
Water	**3,068**	2,716
Healthcare	**1,452**	1,139
Others	**1,495**	816
Advances to Department of Public Works and Highways (DPWH)	**179**	180
Advances to affiliates	**159**	106
Advances to officers and employees	**152**	106
Notes receivable	**150**	150
Advances to customers	**41**	112
Others	**830**	756
	12,027	6,081
Less allowance for doubtful accounts	**958**	854
	11,069	5,227
Less current portion	**10,802**	5,171
Noncurrent portion (see Note 11)	**₱267**	₱56

Trade receivables, which are non-interest bearing, included receivables arising from the following:

- *Power.* Outstanding billings for energy fees and pass-through fuel costs arising from the delivery of electricity to customers and energy sales to the Wholesale Electricity Spot Market (WESM). Normal credit term is 15 to 30 days from the date of receipt of billing.

- *Water*. Receivables from customers with generally a 45-day term.

- *Healthcare.* Hospitals generally provide a 30-day credit term to its Health Maintanance Organizations (HMO), international insurance, PhilHealth and corporate accounts.

- *Others.* Include amount due from Easytrip Services Corporation (ESC), a joint venture of MPTC (see Note 9) amounting to ₱195.6 million for the NLEX and ₱11.4 million for the CAVITEX as at September 30, 2017. Pursuant to the Service Agreements, amounts due from ESC arising from the use of Easytrip tags in the NLEX and radio frequency identification (RFID) sticker tags in the CAVITEX, shall be remitted by ESC to the designated bank accounts within seven (7) days immediately following the date when any vehicle using the tags pass through the electronic payment lanes of the NLEX and CAVITEX. Other trade receivables account also included O&M and EPC construction services (with 60-day credit term) and logistics services (with settlement period of 30 to 90 days).

7. **Other Current Assets**

	September 30, 2017 (Unaudited)	December 31, 2016 (Audited)
	(In Millions)	
Inventories - at cost		
Power plant spare parts and consumables	**₱1,363**	₱–
Power plant coal and fuel	**1,008**	–
Hospital supplies	**451**	536
Rail engineering supplies	**344**	28
Others	**247**	207
Advances to contractors and consultants	**2,812**	1,518
Input VAT	**2,503**	1,354
Creditable withholding taxes	**718**	605
Prepaid expenses	**545**	337
Available-for-sale (AFS) financial assets (Note 8)	**55**	5
Due from related parties (see Note 16)	**23**	92
Miscellaneous deposits and others	**517**	381
	10,586	5,063
Less allowance for decline in value	**345**	335
	₱10,241	₱4,728

The "allowance for decline in value" substantially represents provision for impairment of portions of creditable withholding taxes expected not to be utilized.

8. **AFS Financial Assets**

	September 30, 2017 (Unaudited)	December 31, 2016 (Audited)
	(In Millions)	
Shares of stock:		
Quoted	**₱24**	₱19
Unlisted	**491**	491
Unit Investment Trust Fund (UITF)	**6,197**	972
Investment in bonds and notes	**1,262**	1,354
	7,974	2,836
Less: UITFs presented as short term deposits (see Note 5)	**6,197**	972
Current portion (see Note 7)	**55**	5
Noncurrent portion	**₱1,722**	₱1,859

The movements in the AFS financial assets are as follows:

	September 30, 2017 (Unaudited)	December 31, 2016 (Audited)
	(In Millions)	
Balance at beginning of year	**₱2,836**	₱3,631
Additions	**15,288**	13,824
Disposal and maturity	**(10,168)**	(14,679)
Unrealized changes in fair value	**18**	4
Reversal of impairment	**–**	56
Balance at end of the period	**₱7,974**	₱2,836

9. Investments and Advances

The associates and joint ventures of the Company are as follows:

Material Associates and Joint Venture. The Company has investments in the following material associates and joint venture:

	Place of Incorporation	Principal Activities	Ownership Interest in % **September 30, 2017**	December 31, 2016
Associates:				
MERALCO – Direct	Philippines	Power	**10.5**	15.0
MERALCO – Indirect [(a)]	Philippines	Power	**35.0**	26.2
GBPC – Indirect [(b)]	Philippines	Power	**–**	42.0
DMT	Thailand	Tollways	**29.4**	29.4
CII B&R	Vietnam	Tollways	**44.9**	44.9
TMC	Philippines	Tollways	**–**	60.0
Joint Venture:				
Beacon Electric	Philippines	Holding Company/Power	**–**	75.0

[(a)] *Held through Beacon Electric*
[(b)] *Held through BPHI.*

Individually immaterial investees. The Company has interests in the following individually immaterial investments in associates and joint ventures:

	Place of Incorporation	Principal Activities	Ownership Interest in % **September 30, 2017**	December 31, 2016
Associates:				
Manila Water Consortium Inc.	Philippines	Investment holding/ Water	**39.0**	39.0
EquiPacific HoldCo Inc.	Philippines	Investment holding/ Water	**30.0**	30.0
Watergy Business Solutions, Inc.	Philippines	Investment holding/ Water	**49.0**	49.0
Karayan Diliman Management, Inc.	Philippines	Engineering consultancy	**40.0**	40.0
Davao Doctors Hospital, Inc.	Philippines	Hospital operation	**35.2**	35.2
Medical Doctors Inc.	Philippines	Hospital operation	**32.8**	33.0
Manila Medical Services, Inc.	Philippines	Hospital operation	**20.0**	20.0
The Megaclinic, Inc. (Megaclinic)	Philippines	Clinic Management	**–**	51.0
Medi Linx Laboratory Inc.	Philippines	Clinical laboratory services. Incorporated in January 2017	**40.0**	–
AF Payments Inc.	Philippines	Operator of contactless payment system	**20.0**	20.0
Indra Philippines, Inc.	Philippines	Management and IT consultancy	**25.0**	25.0
First Gen Northern Energy Corp.	Philippines	Corporate life ended December 31, 2016	**33.3**	33.3
Costa De Madera	Philippines	Real estate	**62.0**	62.0
Metro Pacific Land Holdings, Inc.	Philippines	Real estate	**49.0**	49.0

	Place of Incorporation	Principal Activities	Ownership Interest in % **September 30, 2017**	December 31, 2016
Joint Ventures:				
Easytrip Services Corporation	Philippines	ETC system provider	**50.0**	50.0
Landco Pacific Corporation (Landco)	Philippines	Real estate	**38.1**	38.1
Metro Sanitas Corporation	Philippines	Clinical management	**50.0**	50.0
Lipa Medix Cancer Center Corporation	Philippines	Oncology treatment center	**50.0**	50.0

The account “Investments and advances” consist of the following components:

	September 30, 2017 (Unaudited)	December 31, 2016 (Audited)
	(In Millions)	
Equity method investees:		
Associates		
Material		
MERALCO	**₱109,951**	₱39,035
DMT	**6,865**	6,409
CII B&R	**3,734**	3,869
TMC	**–**	1,353
Others	**4,999**	4,653
Joint ventures		
Material – Beacon Electric	**–**	49,370
Others	**230**	125
	125,779	104,814
Investment in Beacon Electric’s preferred shares classified as AFS investments	**–**	20,622
Advances to equity method investees	**648**	1,120
	₱126,427	₱126,556

For the purposes of the interim consolidated statements of comprehensive income and cash flows for the nine months ended September 30, 2017 and 2016, movements in the “Equity method investees”:

	September 30, 2017	September 30, 2016
	(Unaudited)	
Acquisition costs		
Balance at beginning of year	**₱100,852**	₱79,419
Additions during the period:		
Equity infusion into existing investees	**347**	19,763
MERALCO (through consolidation of Beacon)	**83,144**	–
Disposal		
MERALCO (direct interest)	**(11,748)**	–
Step-up acquisition (see Note 4):		
TMC	**(1,584)**	–
Beacon Electric	**(45,506)**	–
Balance at end of the period	**125,505**	99,182

	September 30, 2017	September 30, 2016
	(Unaudited)	
Accumulated equity in net earnings		
Balance at beginning of year	**2,828**	4,525
Share in net earnings for the period:		
Beacon Electric	**1,928**	2,482
MERALCO	**3,409**	2,256
DMT	**394**	409
TMC	**50**	213
CII B&R	**49**	(63)
Others	**163**	126
Dividends:		
MERALCO	**(6,146)**	(4,239)
DMT	**(449)**	(261)
CII B&R	**(184)**	(219)
TMC	**(40)**	(307)
Beacon Electric	**–**	(3,172)
Others	**(59)**	(50)
Step-up	**(3,745)**	–
Disposal	**170**	–
Balance at end of the period	**(1,632)**	1,700
Accumulated share in the investees' OCI		
Balance at beginning of year	**2,018**	439
Share in investees' OCI during the period	**491**	842
Step-up	**388**	–
Disposal	**(107)**	–
Total	**2,790**	1,281
Less allowance for impairment loss		
Balance at beginning of year	**884**	510
Provision	**–**	–
Total	**884**	510
	₱125,779	₱101,653

Beacon Electric

As disclosed in Note 4, MPIC on June 27, 2017, entered into a Deed of Absolute Sale of Shares with PCEV to acquire the remaining 25% interest in Beacon Electric from PCEV for an aggregate purchase price of ₱21.8 billion. The acquisition was accounted for as a business combination resulting to the consolidation of Beacon Electric and consequently:

- the consolidation of BPHI and its subsidiary, GBPC; and
- the accounting elimination of MPIC's investment in Beacon Electric's preferred shares (Class A and Class B) previously classified as AFS investments (see disclosure below).

Beacon Electric's preferred shares (Class A and Class B) classified as AFS investments

On May 29, 2017, Beacon Electric redeemed the 277,337,560 Class B preferred shares held by the Company amounting to ₱3.5 billion. On June 27, 2017, MPIC completed the acquisition of 25% of Beacon Electric accounted for as a business combination (see Note 4), hence, the accounting elimination of the Company's investment in Beacon electric's preferred shares.

For the nine month periods ended September 30, 2017 and 2016, the Parent Company's total dividend income from Beacon Electric's preferred shares (both Class A and Class B) recognized in the statement of comprehensive income amounted to ₱2,540.9 million (pre-business combination; see Note 4) and ₱1,215.2 million, respectively (see Note 23).

MERALCO
As disclosed above, MPIC acquired the remaining 25% interest in Beacon Electric on June 27, 2017. As a result, MPIC's effective interest in MERALCO held indirectly through Beacon increased from 26.2% to 34.96% beginning June 27, 2017.

In June 2017, MPIC completed the sale of 50.7 million shares representing approximately 4.5% of outstanding capital stock of MERALCO through an overnight private placement for ₱250.0 per share or total proceeds of ₱12.7 billion which resulted to a gain of ₱731.9 million, net of ₱272.6 million transaction costs (see Note 23). The proceeds were used by the Company to partially fund its acquisition of the remaining 25% interest of PCEV in Beacon Electric (see Note 4). After this transaction, MPIC's direct interest in MERALCO decreased from 15.0% to 10.5%.

Beginning June 27, 2017, after the transactions disclosed above, the Company's combined effective interest in MERALCO is at 45.5%. The Company continues to equity account its ownership interest in MERALCO. The fair value of the Company's effective investment in MERALCO at 45.5% amounted to ₱143.9 billion as of September 30, 2017.

On August 3, 2017, the BOD of MERALCO approved the declaration of cash dividends consisting of an interim regular cash dividend of ₱4.489 per share and a special dividend of ₱4.436 per share to all common shareholders of record as at August 30, 2017, payable on September 22, 2017.

TMC
TMC is primarily engaged in the operations and maintenance of tollways, tollways facilities, interchanges and related works. TMC is the operator of NLEX and SCTEX under an O&M Agreement. As discussed on Note 4, on April 4, 2017, MPT North completed the acquisition of additional 26,600 common shares of TMC representing 7% of total issued and outstanding stock of TMC for a total purchase price of ₱442.4 million. The acquisition was accounted for as a business combination.

Metro Sanitas Corporation
On May 11, 2017, MPHHI sold its 51% stake at The MegaClinic, Inc., a subsidiary to Metro Sanitas Corporation for a total consideration of ₱32.1 million. The transfer of the investment in The MegaClinic, Inc. to Metro Sanitas Corporation, a jointly controlled entity, resulted to a loss of control over The MegaClinic Inc. with a loss on sale of ₱1.5 million recognized in the statement of comprehensive income.

10. **Service Concession Assets**

	September 30, 2017 (Unaudited)	December 31, 2016 (Audited)
	(In Millions)	
Water:		
Maynilad	**₱86,784**	₱81,546
Metro Iloilo Bulk Water Supply Corp.	**727**	703
PHI	**587**	579
	88,098	82,828
Toll operations:		
NLEX Corp (NLEX, SCTEX and Connector)	**34,304**	31,791
MPCALA Holdings, Inc. (MPCALA) (CALAX)	**23,988**	22,362
CIC (CAVITEX)	**9,005**	9,155
Cebu Cordova Link Expressway Corporation (CCLEX)	**284**	132
	67,581	63,440
Rail:		
LRMC (LRT-1)	**8,398**	6,425
	₱164,077	₱152,693

The movements in the service concession assets follow:

	As at September 30, 2017 (Unaudited)			
	Water	**Toll operations**	**Rail**	**Total**
	(In Millions)			
Cost:				
Balances at January 1, 2017	**₱102,345**	**₱69,121**	**₱6,425**	**₱177,891**
Additions	**7,360**	**3,802**	**1,740**	**12,902**
Capitalized borrowing cost	**–**	**1,067**	**233**	**1,300**
Balances at September 30, 2017	**109,705**	**73,990**	**8,398**	**192,093**
Accumulated amortization:				
Balances at January 1, 2017	**19,517**	**5,681**	**–**	**25,198**
Additions	**2,090**	**728**	**–**	**2,818**
Balances at September 30, 2017	**21,607**	**6,409**	**–**	**28,016**
	₱88,098	**₱67,581**	**₱8,398**	**₱164,077**

Water. Additions during the nine-month period ended September 30, 2017 substantially included Maynilad's costs of rehabilitation works and additional construction.

Toll. Additions to the service concession assets substantially pertain to the ongoing construction of CALAX and NLEX Corp's Segment 10 project, NLEX widening project covering Segments 2 and 3, NLEX toll plaza expansion and the ongoing pavement rehabilitation of the SCTEX. Remaining additions pertain to pre-construction costs on various toll road projects.

Rail. Additions pertain to costs of station and LRV rehabilitation works for the existing LRT-1 system and engineering, procurement, construction and other consultancy costs for LRT-1 Extension project.

11. Other Noncurrent Assets

	September 30, 2017 (Unaudited)	December 31, 2016 (Audited)
	(In Millions)	
Intangible assets arising from business combinations [(a)]		
Power	**₱12,103**	₱–
Water	**510**	1,091
Logistics	**78**	80
(forward)		

	September 30, 2017 (Unaudited)	December 31, 2016 (Audited)
Advances to contractors and consultants	**2,206**	300
Deferred FCDA charges [(b)]	**971**	764
Deferred project costs	**858**	858
Long-term cash and miscellaneous deposits	**785**	377
Property use rights [(c)]	**522**	554
Deferred input VAT	**495**	256
Deferred LRT-1 charges	**339**	93
Deferred financing costs [(d)]	**395**	441
Receivables (see Note 6)	**267**	56
Deposits for LTIP [(e)] (see Note 12)	**196**	46
Sinking fund	**149**	155
Pension asset	**61**	34
Others	**1,023**	749
	₱20,958	₱5,854

a. Intangible assets arising from business combinations comprise of: (i) GBPC's provisional value of customer contracts; (ii) ESTII's customer relationship and contracts and license to use intellectual property rights; and (iii) logistics customer contracts that were assigned/transferred through asset acquisitions (see Note 4).

b. Foreign currency differential adjustment (FCDA) is a tariff mechanism granted to Maynilad to allow it to recover losses or give back gains arising from the fluctuating movements of the peso against other currencies. In view of the automatic reimbursement mechanism, Maynilad recognizes deferred FCDA with a corresponding credit (debit) to FCDA revenues for the unrealized foreign exchange losses (foreign exchange gains) which have not been billed or which will be refunded to the customers. Deferred FCDA and deferred credits are calculated as the difference between the drawdown or rebased rate versus the closing rate. As at September 30, 2017, the FCDA balance is an asset recognized as deferred FCDA charges.

c. Certain subsidiaries entered into lease agreements for the operation and management of hospitals. The lease agreements qualified as business combinations where the identifiable assets consist of property use rights for the use of existing land and building over the term of the lease.

d. On February 11, 2016, LRMC entered into a ₱24.0 billion 15-year Omnibus Loan and Security Agreement (OLSA) with various financial institutions. LRMC incurred debt issue cost, portion of which was deferred to noncurrent asset as “Deferred financing cost”. The deferred financing cost is released to long-term debt in proportion to every future loan drawdowns that will be made.

e. To fund the LTIP programs for each cycle, MPIC enters into an Investment Management Agreement (IMA) with a Trustee Bank. The LTIP fund will continue to accumulate until the LTIP target payout.

12. **Accounts Payable and Other Current Liabilities**

	September 30, 2017 (Unaudited)	December 31, 2016 (Audited)
	(In Millions)	
Trade and accounts payable	**₱8,408**	₱4,583
Accrued construction costs [(a)]	**5,081**	4,279
Output taxes payable [(b)]	**2,133**	476
Accrued personnel costs	**1,949**	1,234
Interest and other financing charges	**1,820**	876
Accrued outside services and professional fees	**1,088**	924
Accrued expenses	**1,271**	934
Retention payable	**719**	457
Accrued PNCC and BCDA	**504**	140
LTIP payable [(c)]	**350**	–
Lease payable - current portion [(d)]	**72**	131
Others	**998**	931
	₱24,393	₱14,965

a. This represents unbilled construction costs from contractors and normally settled upon receipt of billings. Beginning June 27, 2017, with the consolidation of Beacon Electric and GBPC, this account included unbilled construction costs payable to the contractors of Panay Energy Development Corporation (PEDC) for the construction of the 1x150 MW (gross) CFB clean coal-fired expansion plant (PEDC3; see Note 27). Unbilled construction costs relating to PEDC3 amounted to ₱956.0 million as of September 30, 2017.

b. Beginning June 27, 2017 with the consolidation of Beacon Electric and GBPC, output taxes payable included the power generating companies' deferred output VAT on trade receivables. Deferred output VAT pertains to output VAT on amount billed to bilateral customers and net settlement with the Philippine Electricity Market Corporation, who in turn have not yet collected from their ultimate customers.

c. Certain of the Company's employees are eligible for long-term employee benefits under a long-term incentive plan (LTIP). The liability recognized on the LTIP comprises the present value of the defined benefit obligation and was determined using the projected unit credit method. Each LTIP performance cycle generally covers 3 years with payment intended to be made at the end of each cycle (without interim payments) and is contingent upon the achievement of an approved target core income of the Company by the end of the performance cycle. The current portion of the LTIP as at September 30, 2017 relates to MPTC's LTIP cycle ending 2017. The noncurrent portion of the LTIP as at September 30, 2017 amounting to ₱782.2 million, included in the "Other long-term liabilities" pertain to MPIC, Maynilad and MPHHI's LTIP cycle ending 2018.

d. Lease payable represents present value of future minimum lease payments relating to the lease agreements entered into by East Manila Hospital Managers Corporation (EHHMC), CVHMC and Metro Pacific Zamboanga Hospital Corporation (MPZHC), which lease agreements qualify as business combinations. The lease payable was initially determined at acquisition date and subsequently adjusted for payments and accretion. The noncurrent portion of the lease payable amounting to ₱1,011.3 million is included in the included in the "Other long-term liabilities".

13. Provisions

Movements in this account are as follow:

	September 30, 2017 (Unaudited)			
	(In Millions)			
	Heavy Maintenance	**Decommissioning Liability**	**Other Provisions**	**Total**
Balance at the beginning of year	**₱433**	**₱–**	**₱5,035**	**₱5,468**
Additions and accretion	**145**	**2**	**1,011**	**1,158**
Additions from step acquisition (see Note 4)	**–**	**352**	**951**	**1,303**
Payments	**(157)**		**(91)**	**(248)**
	421	**354**	**6,906**	**7,681**
Less current portion	**229**	**–**	**5,520**	**5,749**
	₱192	**₱354**	**₱1,386**	**₱1,932**

Decommissioning liability pertains to GBPC's estimated liability to decommission or dismantle the power plants at the end of their useful lives.

Other provisions consist of estimated liabilities for losses on claims by third parties. The information usually required by PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, is not disclosed as it may prejudice the Company's negotiation with third parties.

14. Long-term Debt

This account consists of:

	September 30, 2017 (Unaudited)	December 31, 2016 (Audited)
	(In Millions)	
Current portion	**₱14,551**	₱3,797
Noncurrent portion	**159,304**	93,219
	₱173,855	₱97,016

Details of the long-term debt per company/segment as follows:

	September 30, 2017 (Unaudited)			December 31, 2016 (Audited)
	Loans	**Long-term Bonds**	**Total**	Total
		(In Millions)		
Power	**₱63,346**	**₱–**	**₱63,346**	₱–
MPIC	**47,118**	**–**	**47,118**	36,878
Water	**26,951**	**–**	**26,951**	26,792
Toll Operations	**26,241**	**6,957**	**33,198**	32,543
Rail	**3,062**	**–**	**3,062**	657
Healthcare	**460**	**–**	**460**	588
Logistics	**200**	**–**	**200**	–
	167,378	**6,957**	**174,335**	97,458
Less unamortized debt issue cost	**(434)**	**(46)**	**(480)**	(442)
	₱166,944	**₱6,911**	**₱173,855**	₱97,016

Power

The following loans were consolidated upon gaining control over Beacon Electric:

Description	Interest Rate (per annum)	Terms	**September 30, 2017**
Beacon Electric			
Term loans	6.00% - 8.00%	Payable in 10 years with semi-annual interest and principal repayments	**₱16,157**
BPHI			
Term loans	5.55%	Payable in 10 years with semi-annual interest and principal repayments	**₱10,977**
GBPC			
Term loans	5.15% - 10.89%	Payable in 5 - 12 years with various types of interest and principal repayment terms	**₱36,212**
Total			**₱63,346**

Beacon Electric's loans are secured by a pledge on MERALCO shares owned by Beacon Electric while BPHI's loan is secured by a pledge on GBPC shares owned by BPHI. Beacon Electric and BPHI are also required to comply with certain debt covenants as stated in their respective loan agreements.

GBPC's various loan facilities included loan agreements entered by its subsidiaries Cebu Energy Development Corporation (CEDC), PEDC, and Toledo Power Company (TPC) with various lenders. Under the loan agreements, CEDC, PEDC and TPC are required to maintain a debt-to-equity ratio not exceeding 70:30 and shall ensure that the core equity must be at least 30% of the total project cost at project completion date and shall at all times be equivalent to at least 30% of the sum of total outstanding loan under the facility and the core equity. The loans are secured by (i) a real estate mortgage on all present and future assets, (ii) chattel mortgage on all present and future movable properties, (iii) pledge agreements on some shares owned by CEDC and PEDC and shareholder advances and subordinated loans, if any, (iv) assignment agreement on CEDC and PEDC's future revenues, (v) grantee rights of TPC for a Special Use Agreement issued by Department of Environment and National Resources.

On October 11, 2017, GBPC entered into loan agreements for a total amount of ₱4.5 billion with local banks. The loan is a 12-year fixed-rate facility.

Beacon Electric, BPHI, and GBPC subsidiaries are in compliance with their respective loan covenants as at September 30, 2017.

MPIC
On December 1, 2015, MPIC entered into separate agreements to secure loan facilities in the aggregate amount of ₱16.5 billion. MPIC drew ₱6.0 billion from this facility in 2016 and the remaining ₱10.5 billion were fully drawn as at September 30, 2017. The proceeds of which were used by MPIC to finance its investments in various projects and general corporate purposes.

Water
In 2014, Maynilad entered into a loan agreement with the Development Bank of the Philippines (DBP) originally amounting to ₱6.0 billion to partially finance the construction of Paranaque–Las Piñas sewerage system. The loan was subsequently reduced to ₱5.2 billion. As at December 31, 2016, the undrawn amount from the facility is at ₱2.2 billion. However, in January 2017, Maynilad proposed to amend the schedule of borrowing under the agreement due to the delayed implementation of the project as a result of delayed issuance of relevant permits. With the amendment, the undrawn amount was reduced to ₱1.8 billion. The amendments were approved by DBP on March 14, 2017. The ₱1.0 billion was drawn on August 1, 2017 and the remaining balance is scheduled to be drawn in March 2018.

The World Bank, through the Metro Manila Wastewater Management Project (MWMP), provided a US$275.0 million loan to the Land Bank of the Philippines (LBP) for relending to Maynilad and the concessionaire for the east service area, Manila Water Company, Inc. (Manila Water). The loan was divided equally between these two concessionaires. The MWMP is intended to finance investments in wastewater collection and treatment, and septage management in Metro Manila. In the first nine months of 2017, Maynilad made an additional drawdown of US$16.4 million from the facility. The undrawn amount from this facility is available until June 30, 2019 as approved by The World Bank in its letter dated June 15, 2017.

On June 7, 2017, Maynilad signed credit agreement with the Japan International Cooperation Agency (JICA) amounting to JPY13.0 billion and ₱1.4 billion to finance up to 70 percent of non-revenue water (NRW) capital expenditure projects from 2017 to 2020. The loan is on a reimbursement basis and the loan availability is 42 months or up to December 7, 2020. As at September 30, 2017, no reimbursement is made from this facility.

The loan agreement between Maynilad and certain Japanese Commercial Banks was also executed on June 7, 2017. The amount of loan is JPY7.9 billion and shall be used to fund capital expenditures for the water expansion projects from 2017 to 2019. The loan is available until June 07, 2019. As at September 30, 2017, Maynilad has not drawn from this facility.

Toll operations
₱1.4 Billion Term Loan Facility. On March 27, 2017, MPT North entered into Term Loan Facility Agreement with BDO Unibank Inc. for up to ₱1.4 billion loan due in 2027. MPT North shall pay semi-annually within 10 years based on the amortization schedule indicated in the Term Loan Facility Agreement. On March 30, 2017, the facility was fully drawn subject to an interest rate of 5.3241% per annum payable semi-annually. Under the Term Loan Facility Agreement, MPT North shall maintain debt service payment and reserve accounts.

₱600.0 Million Bridge Loan Facility. On June 7, 2017, CIC entered into a Bridge Loan Facility Agreement with BDO Unibank, Inc. and Rizal Commercial Banking Corporation for a 4.47% bridge loan amounting ₱600.0 million with quarterly interest payment and principal to be fully paid on December 6, 2017. The proceeds were used to finance the payment of Series 2010-1 Notes.

CIC's Prepayment of Series 2010-1 Notes. On June 15, 2017, the CIC prepaid its Series 2010-1 Notes. Total payments made amounted to US$14.1 million (₱698.2 million) of which, US$11.3 million (₱560.1 million) pertains to the outstanding principal and accrued interest for the quarter, and US$2.8 million (₱138.1 million) refers to the prepayment penalties and legal and professional fees charged to the Company. Unamortized debt issue cost as at June 15, 2017 amounting to $0.4 million (₱22.3 million) was expensed (see Note 23).

*AIF's Baht 1.7 Billion Term Loan Facility***.** On March 30, 2017, AIF entered into a Term Loan Facility Agreement with Mizuho Bank, Ltd. and Sumitomo Mitsui Banking Corporation for up to Baht 1.7 billion (₱2.5 billion) loan due 2022. Interest is to be paid quarterly while the principal is to be paid semi-annually in 10 installments with the final installment due April 2022. The loan is subject to a floating interest rate which is the aggregate of the applicable Bangkok Interbank Offered Rate (BIBOR) and margin of 1.65% and is secured by a pledge over all the AIF shares owned by FPM Tollway (Thailand) Limited and substantially all the DMT shares owned by AIF. All dividend proceeds in respect of the investment in DMT shall be applied to repay this loan. The loan agreement also contains, among others, covenants regarding the maintenance of certain financial ratios such as debt-to-equity ratio and debt service coverage ratio (DSCR), maintenance of ownership in DMT of at least 29.45%, and maintenance of debt-service reserve account. On May 2, 2017, AIF draw an amount of Baht 1.6 Billion from the loan and applied the proceeds to prepay the Baht 2.1 billion Term Loan Facility Agreement with Thanachart Bank Public Company Limited (including interest accrued thereon, outstanding principal and other related costs). Unamortized debt issue cost related to the prepaid loan amounting to ₱34.3 million was expensed and the company paid prepayment penalties and costs amounting to ₱46.6 million (see Note 23).

₱4.0 Billion Term Loan Facility. On October 13, 2017, MPTC entered into Term Loan Facility Agreement with Metropolitan Bank & Trust Company for up to ₱4.0 billion loan due in 2027. MPTC shall pay semi-annually within 10 years based on the amortization schedule indicated in the Term Loan Facility Agreement. On October 23, 2017, the facility was fully drawn subject to an interest rate of 5.400% per annum payable semi-annually. Under the Term Loan Facility Agreement, MPTC shall maintain debt service payment and reserve accounts.

₱4.0 Billion Term Loan Facility. On October 9, 2017, MPTC entered into Term Loan Facility Agreement with BDO Unibank, Inc. (BDO) for up to ₱4.0 billion loan due in 2027. MPTC shall pay semi-annually within 10 years based on the amortization schedule indicated in the Term Loan Facility Agreement. On October 18, 2017, the facility was fully drawn subject to an interest rate of 5.386% per annum payable semi-annually. Under the Term Loan Facility Agreement, MPTC shall maintain debt service payment and reserve accounts.

₱5.0 Billion Term Loan Facility. On December 4, 2015, NLEX Corp entered into a ten–year term loan facility agreement amounting to ₱5.0 billion with Philippine National Bank (PNB) to finance various capital expenditure projects. The loan facility was identified to have embedded derivatives but were not required to be bifurcated from the host loan. NLEX Corp made its first drawdown on December 10, 2015 amounting to ₱3.0 billion and drew the remaining ₱2.0 billion on October 24, 2017.

<u>Rail</u>

LRMC's Omnibus Loan and Security Agreement (OLSA). On February 11, 2016, LRMC entered into a ₱24.0 billion 15-year OLSA with certain banks. Amount allocated for the Cavite Extension and rehabilitation of the existing Light Rail Transit 1 (LRT 1) system amounted to ₱15.3 billion and ₱8.7 billion, respectively. For first nine months of 2017, LRMC made series of drawdowns totalling to ₱2.4 billion subject to interest rate of 7.1445% payable quarterly.

After September 30, 2017, LRMC made additional drawdowns amounting to a total of ₱1.4 billion on October 6 and November 6, 2017.

<u>Logistics</u>

₱1.0 Billion Term Loan Facility. On September 12, 2017, MMI entered into Term Loan Agreement with China Banking Corporation for partially financing the trucking and other capital expenditures of the Company. The loan facility has an aggregate amount of ₱1.0 billion with an availability period of 1year. The interest rate is (i) 5-year PDST-R2 Benchmark plus interest spread of 100 basis points p.a. or (ii) floor rate of

5% p.a whichever is higher. The principal amount of the loan shall be amortized in equal quarterly amortization while interest is paid quarterly in arrears on the outstanding principal amount of the loan. Under the loan agreement, beginning on the second anniversary of the loan, MMI's consolidated audited financial statements are required to maintain a net debt-to-equity ratio not exceeding 70:30 and debt service coverage ratio (DSCR) set at a minimum of 1.1x. MMI drew from this facility ₱200.0 million in September 20, 2017 and additional ₱200.0 million in October 10, 2017.

15. Service Concession Fees Payable

The movements in the service concession fees payable follow:

	As at September 30, 2017 (Unaudited)			
	Water	**Toll operations**	**Rail**	**Total**
	(In Millions)			
Balances at January 1, 2017	**₱7,318**	**₱18,551**	**₱3,005**	**₱28,874**
Foreign exchange differential	**238**	**–**	**–**	**238**
Interest accretion	**429**	**816**	**141**	**1,386**
Payment	**(997)**	**–**	**–**	**(997)**
	6,988	**19,367**	**3,146**	**29,501**
Less current portion	**889**	**–**	**–**	**889**
	₱6,099	**₱19,367**	**₱3,146**	**₱28,612**

Water
Concession fees relating to Maynilad's service concession agreement are denominated in various currencies. These are payable monthly following an amortization table up to the end of the concession period and are non-interest bearing.

Toll Operations
CALAX. Concession fees relating to the CALAX concession agreement is payable beginning on the 5th year (2020) over a period of 9 years from the signing of the concession agreement.

Connector Project. NLEX Corp shall pay periodic payments to DPWH representing the consideration for ranting the concession and basic right of way in the Connector Road Project. The payment shall commence on the first anniversary of the construction completion deadline, as extended, until the expiry of the concession period.

Interest accretion on concession fees in relation to the CALAX and Connector Project are capitalized as part of the capitalized borrowing of the "Service concession assets" account.

Rail
The concession fee for the LRT-1 concession agreement is payable in equal quarterly installments over the concession period with the first payment on the fifth anniversary of the Effective Date (with September 12, 2015 as the Effective Date of the concession agreement). Settlement of the concession fee is through the quarterly balancing payment mechanism reflecting netting of payments due to Grantors against receivable from Grantors. Interest accretion is capitalized as part of the capitalized borrowing of the "Service concession assets" account.

16. **Due to and from Related Parties**

The Company, in the normal course of business, has transactions with related parties which consist mainly of availment of noninterest-bearing cash advances which are due and demandable anytime.

Composition of amounts due to/from related parties follows:

	September 30, 2017 (Unaudited)	December 31, 2016 (Audited)
	(In Millions)	
Due from related parties:		
Landco	**₱44**	₱44
FPC	**2**	1
TMC	**–**	38
AFPI	**–**	29
Others	**8**	11
	54	123
Less allowance for impairment	**31**	31
	₱23	₱92
Due to related parties:		
PCEV	**₱15,360**	₱8,352
Smart	**72**	72
Others	**15**	15
	15,447	8,439
Less current portion	**3,825**	1,713
Noncurrent portion	**₱11,622**	₱6,726

Due to PCEV as at September 30, 2017 represents the present value of the outstanding amount for the purchase price of Beacon Electric shares acquired in May 2016 and June 2017.

- On May 30, 2016, MPIC acquired from PCEV 645,756,250 common shares and 458,370,086 preferred shares of Beacon Electric for the total consideration of ₱26.2 billion. The outstanding balance as at September 30, 2017 amounted to ₱7.2 billion (at nominal amount) with payment terms as follows: (a) ₱2.0 billion in June 2018, (b) ₱2.0 billion in June 2019, and (c) ₱3.2 billion in June 2020.

- On June 13, 2017, MPIC entered into a Share Purchase Agreement with PCEV for the purchase of PCEV's 25% remaining interest in Beacon Electric (see Note 4) for a total purchase price of ₱21.8 billion. Payable to PCEV as at September 30, 2017 amounting to ₱9.8 billion (at nominal amount) shall be settled equally over the next four years beginning June 30, 2018.

17. Equity

Details of authorized and issued capital stock follow:

	September 30, 2017 (Unaudited)		December 31, 2016 (Audited)	
	No. of Shares	**Amount**	No. of Shares	Amount
	(In Millions except for number of shares)			
Authorized common shares - ₱1.00 par value	**38,500,000,000**	**₱38,500**	38,500,000,000	₱38,500
Authorized preferred shares:				
Class A - ₱0.01 par value	**20,000,000,000**	**200**	20,000,000,000	200
Class B - ₱1.00 par value	**1,350,000,000**	**1,350**	1,350,000,000	1,350
Balance at end of the period	**59,850,000,000**	**₱40,050**	59,850,000,000	₱40,050
Issued and Outstanding - common shares:				
Balance at beginning of year	**31,527,848,752**	**₱31,528**	27,885,373,752	₱27,885
Issuance of shares	−	−	3,600,000,000	3,600
Exercise of stock option plan	**6,180,000**	**6**	42,475,000	43
Issued - common shares	**31,534,028,752**	**31,534**	31,527,848,752	31,528
Less: Treasury shares	**(23,970,000)**	**(24)**	(23,970,000)	(24)
Balance at end of the period	**31,510,058,752**	**₱31,510**	31,503,878,752	₱31,504
Treasury shares - common shares:				
Balance at beginning of year	**23,970,000**	**₱167**	−	₱−
Share buy-back	−	−	23,970,000	167
Balance at end of the period	**23,970,000**	**₱167**	23,970,000	₱167
Issued - preferred shares - Class A:				
Balance at beginning of year	**9,128,105,319**	**₱91**	5,000,000,000	₱50
Issuance of shares	−	−	4,128,105,319	41
Balance at end of the period	**9,128,105,319**	**₱91**	9,128,105,319	₱91
Total number of stockholders	**1,301**	−	1,313	−

Cash Dividends

	Nine Months Ended September 30	
	2017	2016
	(Unaudited) *(In Millions)*	
Final dividend in respect of the previous financial year declared during the following interim period:		
Common shareholder (₱0.068 and ₱0.061 per share in 2017 and 2016, respectively)	**₱2,142.3**	₱1,701.6
Class A preferred shareholders*	**4.6**	2.5
	₱2,146.9	₱1,704.1
Interim dividend declared and paid during the interim period:		
Common shareholder (₱0.0345 and ₱0.032 per share in 2017 and 2016, respectively)	**₱1,087.1**	₱1,008.8
Class A preferred shareholders*	**4.6**	2.9
	₱1,091.7	₱1,011.7

**MPHI is the sole holder of Class A preferred shares*

On March 1, 2017, the BOD approved the declaration of the cash dividends of ₱0.068 per common share in favor of the Parent Company's shareholders of record at March 30, 2017 with payment date of April 26, 2017. On the same date, the BOD also approved the declaration of cash dividends amounting to a total of ₱4.6 million in favor of MPHI as the sole holder of Class A Preferred shares.

On August 4, 2017, the BOD approved the declaration of the cash dividends of ₱0.0345 per common share in favor of the Parent Company's shareholders of record as at September 1, 2017 with payment date of September 26, 2017. On the same date, the BOD approved the declaration of cash dividends amounting to ₱4.6 million in favor of MPHI as the sole holder of Class A Preferred shares.

18. Equity Reserves and Other Comprehensive Income Reserve

Equity Reserves

Equity reserves consist of the following, net of applicable income taxes:

	September 30, 2017 (Unaudited)	December 31, 2016 (Audited)
	(In Millions)	
Effect of MPIC acquisition of Neo Oracle Holdings, Inc (NOHI) shares	**₱690**	₱690
Equity transactions:		
Disposal or dilution of equity interest in a subsidiary	**7,809**	7,809
Acquisition of NCI (see Note 4)	**(2,675)**	(2,350)
Other reserve from ESOP and RSUP	**178**	133
Total	**₱6,002**	₱6,282

Other comprehensive income reserve

Other comprehensive income reserve consists of the following, net of applicable income taxes:

	September 30, 2017 (Unaudited)	December 31, 2016 (Audited)
	(In Millions)	
Share in the OCI of equity method investees (see Note 9)	**₱2,413**	₱2,021
Fair value changes on AFS financial assets	**8**	(4)
Actuarial gains	**16**	1
Cumulative translation adjustment	**(249)**	(47)
Total	**₱2,188**	₱1,971

19. Other Comprehensive Income (Loss)

	Nine Months Ended September 30		**Three Months Ended September 30**	
	2017	2016	**2017**	2016
	(Unaudited) *(In Millions)*			
Items to be reclassified to profit or loss in subsequent periods:				
Share in OCI of equity method investees from (see Note 9):				
Exchange differences on translation of foreign operation	**₱379**	₱534	**₱137**	₱276
Net gain (loss) on change in fair value of AFS financial assets	**104**	332	**–**	–
Net gain (loss) on change in fair value of AFS financial assets	**20**	66	**9**	(23)
Exchange difference on translation of foreign operation	**(288)**	(250)	**(85)**	(151)
Income tax	**81**	64	**23**	38
	₱296	₱746	**₱84**	₱140

	Nine Months Ended September 30		Three Months Ended September 30	
	2017	2016	**2017**	2016
	(Unaudited) *(In Millions)*			
Items not to be reclassified to profit or loss in subsequent periods:				
Share in OCI of equity method investees from (see Note 9):				
Actuarial reserve	**(₱91)**	₱–	**₱11**	₱–
Actuarial reserve	**19**	–	**–**	–
Income tax	**(5)**	–	**–**	–
	(₱77)	₱–	**₱11**	₱–
	₱219	₱746	**₱95**	₱140

20. **Costs of Sales and Services**

	Nine Months Ended September 30	
	2017	2016
	(Unaudited) *(In Millions)*	
Personnel cost [(a)]	**₱3,042**	₱2,047
Amortization of service concession assets (see Note 10)	**2,818**	2,698
Fuel costs [(b)]	**2,591**	–
Cost of inventories [(c)]	**2,548**	2,043
Utilities	**1,295**	1,049
Depreciation and amortization	**1,190**	353
PNCC and BCDA fees	**1,105**	971
Repairs and maintenance	**979**	523
Contracted services	**926**	717
Operator's fee (see Notes 4 and 27)	**520**	1,631
Professional fees	**378**	365
Warehousing costs	**369**	142
Materials and supplies	**278**	272
Insurance	**147**	110
Purchased power [(b)]	**143**	–
Provision for heavy maintenance	**121**	122
Others	**575**	369
	₱19,025	₱13,412

a. In line with its strategic goal to improve operational efficiency, Maynilad offered a Special Opportunity Program (SOP), a redundancy and right-sizing program. This program offered a separation package based on the number of years, or fractions thereof, on a pro-rated basis, of service with Maynilad plus monetary equivalent of some benefits. Total estimated severance for the separated employees amounted to ₱553.4 million, of which, ₱276.7 million is paid out of company funds while remaining paid out of the retirement plan asset.

b. The Company started consolidating GBPC beginning June 27, 2017 (see Note 4). Fuel costs relates to consumption of coal and other fuel related costs for the generation of electricity. Purchased power represents cost of replacement power from WESM.

c. Cost of inventories includes cost of medical services, materials and supplies.

21. General and Administrative Expenses

	Nine Months Ended September 30	
	2017	2016
	(Unaudited) *(In Millions)*	
Personnel costs	**₱3,258**	₱2,514
Depreciation and amortization	**763**	606
Outside services	**761**	577
Taxes and licenses	**728**	398
Professional fees	**545**	462
Repairs and maintenance	**219**	202
Rentals	**218**	138
Advertising and promotion	**206**	194
Utilities	**193**	166
Collection charges	**163**	172
Transportation and travel	**156**	110
Administrative supplies	**135**	121
Entertainment, amusement and representation	**120**	119
Insurance	**103**	77
Public relation	**68**	82
Miscellaneous	**807**	637
	₱8,443	₱6,575

22. Interest Income and Expenses

The following are the sources of the Company's interest income:

	Nine Months Ended September 30	
	2017	2016
	(Unaudited) *(In Millions)*	
Cash and cash equivalents, short-term deposits and restricted cash	**₱315**	₱273
Investment in bonds, treasury notes and others	**37**	33
	₱352	₱306

The following are the sources of the Company's interest expense:

	Nine Months Ended September 30	
	2017	2016
	(Unaudited) *(In Millions)*	
Long-term debt	**₱4,239**	₱3,278
Accretion on Maynilad's service concession fees payable (see Note 15)	**429**	441
Accretion on financial liabilities	**488**	416
Amortization of debt issue costs	**54**	34
Others	**39**	13
	₱5,249	₱4,182

23. **Construction Revenue and Other Income and Construction Costs and Other Expenses**

	Nine Months Ended September 30	
	2017	2016
	(Unaudited) *(In Millions)*	
Construction revenue and other income:		
Construction revenue	**₱13,749**	₱9,813
Dividend income (see Note 9)	**2,630**	1,298
Gain on remeasurement of previously held interest (see Notes 4 and 9)	**1,391**	–
Gain on sale of investment (see Note 9)	**732**	–
FCDA and foreign exchange gains - net	**335**	458
Rental income	**105**	99
Income from advertising	**78**	86
Income from toll service facilities	**35**	29
Reduction in contingent liability	**–**	153
Others	**432**	744
	₱19,487	₱12,680

	Nine Months Ended September 30	
	2017	2016
	(Unaudited) *(In Millions)*	
Construction costs and other expenses:		
Construction costs	**₱13,749**	₱9,813
Loss on remeasurement of previously held interest (Note 4)	**1,127**	–
Provision for decline in value of assets	**324**	506
FCDA	**333**	420
Penalty and costs on prepayment of loan	**210**	–
Other provisions	**391**	103
Adjustment to amortized cost due to change in expected cash flow	**57**	–
Others	**367**	86
	₱16,558	₱10,928

24. Earnings per Share

The calculation of earnings per share follows:

		Nine Months Ended September 30	
		2017	2016
		(Unaudited) *(In Millions, except for Per Share amounts)*	
Net income attributable to equity holders of the Parent Company		**₱11,128**	₱9,480
Dividends on preference equity holders of the Parent Company		**(7)**	(5)
Net income attributable to ordinary equity holders of the Parent Company	(a)	**₱11,121**	₱9,475
Outstanding common shares at 1 January		**31,504**	27,885
Effect of issuance of common shares during the period		**3**	1,677
Effect of share buy-back (see Note 17)		**–**	(2)
Weighted average number of common shares for basic earnings per share	(b)	**31,507**	29,560
ESOP		**21**	27
Effect of share award (see Note 25)		**10**	4
Weighted average number of common shares adjusted for the effects of potential dilution	(c)	**31,538**	29,591
Basic earnings per share (in centavos)	(a/b)	**₱35.30**	₱32.05
Diluted earnings per share (in centavos)	(a/c)	**₱35.26**	₱32.02

25. Share-based Payments

As at September 30, 2017, there are no outstanding and exercisable share options for the First, Second and Third Grants.

The following table illustrates the number of, exercise prices of, and movements in share options during the period for the Fourth Grant:

	Fourth Grant			
	Tranche A		Tranche B	
	Number of shares	Exercise Price	Number of shares	Exercise Price
Outstanding at December 31, 2016	**12,525,000**	**₱4.60**	**56,000,000**	**₱4.60**
Exercised during the period	(6,180,000)	4.60	–	–
Expired during the period	–	–	–	–
Outstanding at September 30, 2017	**6,345,000**	**₱4.60**	**56,000,000**	**₱4.60**
Exercisable at:				
December 31, 2016	12,525,000	₱4.60	56,000,000	₱4.60
September 30, 2017	**6,345,000**	**₱4.60**	**56,000,000**	**₱4.60**

Carrying value of MPIC's ESOP included under "Equity reserves" in the equity section of the consolidated statement of financial position amounted to ₱61 million as at September 30, 2017 (see Note 18).

Restricted Stock Unit Plan (RSUP)
On July 14, 2016, the Compensation Committee of MPIC approved the RSUP as part of MPIC's LTIP. The RSUP, which has a validity period of ten (10) years, replaced the Parent Company's ESOP, which will expire in 2018.

As at September 30, 2017 and December 31, 2016, a total of 23,970,000 MPIC common shares had been acquired to partially cover up to approximately 27.4 million shares to be granted to the directors and key officers of the Company under MPIC's LTIP program, which included the RSUP. The shares acquired are presented under the "Treasury shares" account in the consolidated statements of financial position.

Total Share Award expense under the RSUP for the nine-month period ended September 30, 2017 and 2016 amounted to ₱50 million included in "Personnel costs" under "General and administrative expenses" account in the consolidated statements of comprehensive income.

26. **Contingencies**

The information provided in this report must be read in conjunction with the 2016 audited consolidated financial statements of the Company.

Updates to the contingencies disclosed in the annual consolidated financial statements as at December 31, 2016 are provided below. The ultimate outcome of these matters cannot be presently determined.

Water

Rate Rebasing Adjustment. Metropolitan Waterworks and Sewerage (MWSS) released Board of Trustees Resolution No. 2013-100-RO dated September 12, 2013 and Regulatory Office (RO) Resolution No. 13-010-CA dated September 10, 2013 on the rate rebasing adjustment for the rate rebasing period 2013 to 2017 reducing Maynilad's 2012 average all-in basic water charge by 4.82% or ₱1.46 per cubic meter (cu.m.) or ₱0.29 per cu.m. over the next five years. Maynilad has formally notified its objection and initiated arbitration proceedings. On October 4, 2013, Maynilad filed its Dispute Notice before the Appeals Panel.

On December 17, 2013, the RO released Resolution No. 13-011-CA regarding the implementation of a status quo for Maynilad's Standard Rates and FCDA for any and all its scheduled adjustments until such time that the Appeals Panel has issued the Final Award.

On January 5, 2015, Maynilad officially received the Appeals Panel's award dated December 29, 2014 (the "Arbitral Award") upholding Maynilad's alternative Rebasing Adjustment for the Fourth Rate Rebasing Period of 13.41% or its equivalent of ₱4.06 per cu.m. This increase has effectively been reduced to ₱3.06 per cu.m., following the integration of the ₱1.00 Currency Exchange Rate Adjustment (CERA) into the basic water charge. To mitigate the impact of the tariff increase on its customers, Maynilad offered to stagger its implementation over a three-year period.

The Arbitral Award, being final and binding on the parties, Maynilad asked the MWSS to cause its Board of Trustees to approve the 2015 Tariffs Table so that the same can be published and implemented 15 days after its publication.

However, the MWSS and the RO have chosen, over Maynilad's repeated objections, to defer the implementation of the Arbitral Award despite it being final and binding on the parties. In its letter dated

February 9, 2015, the MWSS and RO, who received their copy of the Arbitral Award on January 7, 2015, informed Maynilad that they have decided to await the final outcome of their arbitration with the other concessionaire, Manila Water, before making any official pronouncements on the applicable resulting water rates for the two concessionaires.

On February 20, 2015, Maynilad wrote the Philippine Government, through the Department of Finance (DOF), to call on the Undertaking which the Republic of the Philippines (ROP) issued in favor of Maynilad on July 31, 1997 and March 17, 2010. On March 9, 2015, Maynilad again wrote the ROP, through the DOF, to reiterate its demand against the Undertaking. The letters dated February 20 and March 9, 2015 are collectively referred to as the "Demand Letters". Maynilad demanded that it be paid, immediately and without further delay, the ₱3.4 billion in revenue losses that it had sustained as a direct result of the MWSS' and the RO's refusal to implement its correct Rebasing Adjustment from January 1, 2013 (the commencement of the Fourth Rate Rebasing Period) to February 28, 2015.

On March 27, 2015, Maynilad served a Notice of Arbitration and Statement of Claim upon the ROP, through the DOF. Maynilad gave notice and demanded that the ROP's failure or refusal to pay the amounts required under the Demand Letters be, pursuant to the terms of the Undertaking, referred to arbitration before a three-member panel appointed and conduct proceedings in Singapore in accordance with the 1976 United Nations Commission on International Trade Law (UNCITRAL) Arbitration Rules.

On April 21, 2015, the MWSS Board of Trustees in its Resolution No. 2015-004-CA dated March 25, 2015 approved to partially implement the Arbitral Award of a tariff adjustment of ₱0.64 per cu.m. which, net of the ₱1.00 CERA, actually translates to a tariff adjustment of negative ₱0.36 per cu.m. as opposed to the Arbitral Award of ₱3.06 per cu.m. tariff adjustment, net of CERA. For being contrary to the Final Award as well as the provisions of the concession agreement, Maynilad did not implement this tariff adjustment.

On May 14, 2015, the MWSS Board of Trustees in its Resolution No. 2015-060-RO approved a 7.52% increase in the prevailing average basic charge of ₱31.25 per cu.m. or an upward adjustment of ₱2.35 per cu.m. as partial implementation of the Arbitral Award. With the discontinuance of CERA, the net adjustment in average water charge is 4.32% or ₱1.35 per cu.m.

In the fourth quarter of 2015, the Arbitration Tribunal was constituted. On February 17, 2016, Maynilad again wrote the ROP, through the DOF, to reiterate its demand against the Undertaking and to update its claim. Evidentiary hearings were completed in December 2016. On July 24, 2017, the Arbitral Tribunal unanimously upheld the validity of Maynilad's claim against the Undertaking Letter issued by the ROP, through the DOF, to compensate Maynilad for the delayed implementation of its relevant tariffs for the rebasing period 2013 to 2017. The Tribunal ordered the ROP to reimburse Maynilad the amount of ₱3.4 billion for losses from March 11, 2015 to August 31, 2016, without prejudice to any rights that Maynilad may have to seek recourse against MWSS for losses incurred from January 1, 2013 to March 10, 2015. Further, the Tribunal ruled that Maynilad is entitled to recover from the Republic its losses from September 1, 2016 onwards. In case a disagreement on the amount of such losses arises, Maynilad may revert to the Tribunal for further determination. As at September 30, 2017, Maynilad's revenue losses due to the delayed implementation of the Arbitral Award is estimated at ₱10.5 billion.

Subsequently, Maynilad agreed with the corrected computation by the ROP of Maynilad's revenue losses from March 11, 2015 to August 31, 2016 in the amount of ₱3.18 billion (with cost of money as of August 31, 2016).

On March 31, 2017, Maynilad submitted a five-year business plan to Metropolitan Waterworks and Sewerage System – Regulatory Office (MWSS-RO) for the new rate rebasing covering the years 2018 to 2022.

Starting April 22, 2017, adjusted water rates which included increase in the FCDA, as well as an adjustment to cover the 1.9% Consumer Price Index were implemented.

In a decision dated August 30, 2017, the Regional Trial Court, Branch 93 of Quezon City ("RTC") granted the Petition for Confirmation and Enforcement of Arbitral Award which petitioner, Maynilad, filed in July 2015 following the refusal of MWSS and the MWSS Regulatory Office to implement the Final Award. Once the RTC decision confirming the Final Award and ordering its immediate implementation becomes final and executory, Maynilad's 2017 average basic charge would increase by 9.89% which represents the balance of the 13.41% Rebasing Adjustment that has yet to be implemented. This will translate to an average increase of ₱3.41/cu.m. of the 2017 average basic charge of ₱34.51/cu.m.

If and when implemented, the tariff increase would also ameliorate Maynilad's claim against the ROP for the revenue losses due to the delayed implementation of the Arbitral Award.

On September 27, 2017, the MWSS filed a Motion for Reconsideration ("MR"). In a hearing on the MR on October 6, 2017, the court granted Maynilad 10 days within which to file its comment to the MR, MWSS 10 days to reply to the comment, and Maynilad another 10 days to file its rejoinder.

Maynilad is coordinating and cooperating with the Government in finding the most efficient way to implement the judgment.

Real Property Taxes Assessment. On October 13, 2005, Maynilad and Manila Water (the Concessionaires) were jointly assessed by the Municipality of Norzagaray, Bulacan for real property taxes on certain common purpose facilities purportedly due from 1998 to 2005 amounting to ₱357.1 million. It is the position of the Concessionaires that these properties are owned by the ROP and therefore, exempt from taxation.

The supposed joint liability of the Concessionaires for real property tax, including interests, as at December 31, 2016 amounted to ₱1.0 billion.

After the Local Board of Assessment Appeals (LBAA) ruled in favor of the Municipality of Norzagaray, Bulacan, the Concessionaires elevated the ruling of the LBAA to the Central Board of Assessment Appeals (CBAA) by filing separate appeals. As at November 8, 2017, the case is still pending.

Disputes with MWSS. In prior years, Maynilad has been contesting certain charges billed by MWSS relating to: (a) the basis of the computation of interest; (b) MWSS cost of borrowings; and, (c) additional penalties. Consequently, Maynilad has not provided for these additional charges. These disputed charges have been reflected by virtue of the Debt and Capital Restructuring Agreement (DCRA) entered into in 2005. Accordingly, Maynilad has recognized these additional charges, referred to as Tranche B Concession Fees in the DCRA, amounting to US$30.1 million. The Receiver determined an additional amount of Tranche B Concession Fees of US$6.8 million. In 2005, Maynilad had recognized and fully paid Tranche B Concession Fees of US$36.9 million and the related accrued interest thereon.

Maynilad reconciled its liability to MWSS with the confirmation and billings of MWSS. The difference mainly pertains to disputed claims of MWSS consisting of additional Tranche B Concession Fees, borrowing cost and interest penalty under the Concession Agreement (prior to the DCRA). Maynilad's position on these charges is consistent with the Receiver's recommendation which was upheld by the Rehabilitation Court.

Following the issuance of the Rehabilitation Court's Order on December 19, 2007 disallowing the MWSS' disputed claims and the termination of Maynilad's rehabilitation proceedings, Maynilad and MWSS sought to resolve the matter in accordance with the dispute resolution requirements of the Transitional and Clarificatory Agreement (TCA).

Prior to the DCRA, Maynilad has accrued interest on its payable to MWSS based on the terms of the Concession Agreement, which was disputed by MWSS before the Rehabilitation Court. These already amounted to ₱985.3 million as at December 31, 2011 and have been charged to interest expense in prior years. Maynilad maintains that the accrued interest on its payable to MWSS has been adequately replaced by the Tranche B Concession Fees discussed above. Maynilad's position is consistent with the Receiver's recommendation which was upheld by the Rehabilitation Court. With the prescription of the TCA and in light of Maynilad's outstanding offer of US$14.0 million to fully settle the claim of MWSS, Maynilad reversed the amount of accrued interest in excess of the US$14.0 million settlement offer. The remaining balance of ₱607.2 million as at September 30, 2017 and December 31, 2016, which pertains to the disputed interest penalty under the Concession Agreement prior to DCRA, has remained in the books pending resolution of the remaining disputed claims of MWSS.

Others. Maynilad is a party to various civil and labor cases relating to breach of contracts with damages, illegal dismissal of employees, and nonpayment of backwages, benefits and performance bonus, among others.

Toll Operations

Toll Rate Adjustments - NLEX Corp. NLEX Corp, as petitioner-applicant, filed the following petitions for the approval of Periodic Toll Rate Adjustment (PTRA) with the Toll Regulatory Board (TRB) praying for the adjustments of the toll rates:

- In June 2012, for the NLEX PTRA effective January 1, 2013 (2012 Petition);
- In September 2014, for NLEX PTRA effective January 1, 2015 (2014 Petition); and
- In September 2016, for the PTRA for the NLEX and SCTEX effective January 1, 2017 (2016 Petition).

In August 2015, NLEX Corp wrote the ROP, acting by and through the TRB, a Final Demand for Compensation based on overdue toll rate adjustments that should have been effective January 1, 2013 and January 1, 2015 (Final Demand). However, the ROP/TRB failed to heed on the Final Demand and as such, NLEX Corp sent a Notice of Dispute to the ROP/TRB dated September 11, 2015 invoking STOA Clause 19 (Settlement of Disputes). STOA Clause 19.1 states that the parties shall endeavor to amicably settle the dispute within sixty (60) calendar days. The TRB sent several letters to NLEX Corp requesting the extension of the amicable settlement period. However, NLEX Corp has not received any feasible settlement offer from the ROP/TRB.

Accordingly, on April 4, 2016, NLEX Corp was compelled to issue a Notice of Arbitration and Statement of Claim (Notice of Arbitration) to the ROP, acting by and through the TRB, consistent with STOA Clause 19 in order to preserve its rights under the STOA.

In May 2016, TRB through Office of the Solicitor General (OSG) nominated their arbitrator for NLEX and their preferred venue for arbitration. In a letter dated June 1, 2016, NLEX Corp proposed that the arbitration be held in Singapore which is the seat of arbitration that the ROP has chosen for its various PPP projects, and proposed the Singapore International Arbitration Center as the Appointing Authority. In a letter dated July 13, 2016, the ROP, acting by and through the OSG, stated that it accepts Singapore as the venue of arbitration, but reiterated its previous proposal that a Philippine-based institution/person be the Appointing Authority.

Under the SCTEX Toll Operations Agreement, toll rate adjustment petitions shall be filed with the TRB yearly. Prior to NLEX Corp's take-over of the SCTEX operations, the Bases Conversion and Development Authority (BCDA) filed petitions for toll rate adjustment that should have been effective in 2012, 2013, 2014, and 2016. Thereafter, in September 2016, NLEX Corp, as petitioner-applicant, filed a petition for toll rate adjustment effective January 1, 2017.

On June 27, 2017, the initial case management conference was held in Singapore. As of September 30, 2017, total amount of compensation for TRB's inaction on lawful toll rate adjustments for NLEX and SCTEX, are approximately at ₱5.4 billion and ₱838.9 million (both VAT-exclusive and net of Government's share), respectively.

NLEX is in constructive discussions with Government to resolve these matters.

On October 18, 2017, The TRB provisionally approved the Php0.25/km Petition for Add-on Toll rate adjustment for the NLEX Closed System in relation with the Company's investment on the NLEX Lane Widening Project. The Company will start collecting the add-on toll rate adjustment on November 6, 2017.

Toll Rate Adjustments - CIC. CIC filed the following petitions for the approval of the PTRA with the TRB:

- On the R-1 Expressway:
    - In September 2011, for the PTRA effective January 1, 2012 (2011 Petition);
    - In September 2014, for the PTRA with an Application for Provisional Relief with toll rates effective January 1, 2015 (2014 Petition); and
    - In November 2016, for the PTRA effective January 1, 2017 (2016 Petition).
- On R-1 Extension:
    - In September 2013, for the PTRA effective January 1, 2014 (2013 Petition);
    - In September 2016, for the PTRA effective January 1, 2017 (2016 Petition).

In August 2015, for failure to implement toll rate adjustments, CIC filed notices with the TRB demanding settlement of the past due tariff increases amounting to ₱719.0 million based on the overdue toll rate adjustments as at July 31, 2015 for the CAVITEX.

In April 2016, CIC issued a Notice of Arbitration and Statement of Claim to the ROP, acting by and through the TRB, consistent with the dispute resolution procedures under its Toll Operation Agreement (TOA) to obtain compensation in the amount of ₱877 million (as of March 27, 2016) for TRB's inaction on lawful toll rate adjustments which were due January 1, 2012, January 1, 2014, and January 1, 2015. Singapore shall be the venue of arbitration. In February 2017, CIC received notice from the Permanent Court of Arbitration that the authority who will appoint the chairperson of the Arbitration Panel has been designated.

As at November 8, 2017, CIC has yet to receive regulatory approval for all the petitions filed on the PTRA. As of September 30, 2017, total amount of compensation for TRB's inaction on lawful toll rate adjustments which were due since January 1, 2012 for both R1 and R1-Extension is approximately at ₱1.26 billion (VAT-exclusive and net of PRA share).

CIC, however, is in constructive discussions with Government to resolve this.

Value-Added Tax (VAT). In view of RMC 39-2011, NLEX Corp started imposing VAT on toll fees from motorists and correspondingly started recognizing VAT liability on October 1, 2011. Through all the years that the issues of VAT are being discussed, NLEX Corp received the following VAT assessments:

- NLEX Corp received a Formal Letter of Demand from the BIR on March 16, 2009 requesting NLEX Corp to pay deficiency VAT plus penalties amounting to ₱1,010.5 million for taxable year 2006.
- NLEX Corp received a Final Assessment Notice from the BIR dated November 15, 2009, assessing NLEX Corp for deficiency VAT plus penalties amounting to ₱557.6 million for taxable year 2007.
- NLEX Corp received a Notice of Informal Assessment from the BIR dated October 5, 2009, assessing NLEX Corp for deficiency VAT plus penalties amounting to ₱470.9 million for taxable year 2008.
- On May 21, 2010, the BIR issued a Notice of Informal Conference assessing NLEX Corp for deficiency VAT plus penalties amounting to ₱1.0 billion for taxable year 2009.
- On June 11, 2010, NLEX Corp filed its position paper with the BIR reiterating its claim that it is not subject to VAT on toll fees.

On April 3, 2014, the BIR accepted and approved the NLEX Corp's application for abatement and issued a Certificate of Approval for the cancellation of the basic output tax, interest and compromise penalty amounting to ₱1,010.5 million and ₱584.6 million for taxable years 2006 and 2007, respectively.

Notwithstanding the foregoing, management believes, in consultation with its legal counsel, that in any event, the STOA among NLEX Corp, ROP, acting by and through the Toll Regulatory Board (TRB), and Philippine National Construction Corporation (PNCC), provides NLEX Corp with legal recourse in order to protect its lawful interests in case there is a change in existing laws, which makes the performance by NLEX Corp of its obligations materially more expensive.

Real Property Tax. NLEX Corp has filed several Petitions for Review under Section 226 of the Local Government Code with the LBAA of the Province of Bulacan on July 15, 2008 and April 16, 2013, seeking to declare as null and void certain tax assessments and tax declarations issued by the Provincial Assessor of the Province of Bulacan. The said tax declarations were issued in the name of NLEX Corp as owner of the NLEX and categorizing the NLEX as a commercial property, subject to real property tax. As at September 18, 2013, the total amount of tax assessed by the Province of Bulacan against NLEX Corp was ₱304.9 million. The LBAA has yet to determine whether said properties in fact covers portions of the NLEX, which NLEX Corp argues are part of the public domain and exempt from real property tax.

On September 27, 2013, the Bureau of Local Government Finance of the Department of Finance (DOF–BLGF) wrote a letter to the Province of Bulacan advising it to hold in abeyance any further course of action pertaining to the alleged real property tax delinquency. On October 4, 2013, the Provincial Treasurer of Bulacan has respected the directive from the DOF–BLGF to hold the enforcement of any collection remedies in abeyance. In January 2017, the provincial treasurer of Bulacan issued a notice of realty tax delinquencies for the years 2006 to 2017 stating that it could apply the remedies provided under the law for the collection of delinquent taxes.

The outcome of the claims on real property tax cannot be presently determined. The management of NLEX Corp believes that these claims will not have a significant impact on the Company's consolidated financial statements and believes that the STOA also provides NLEX Corp with legal recourse in order to protect its lawful interests in case there is a change in existing laws which makes the performance by NLEX Corp of its obligations materially more expensive.

Others. The companies in the toll operations segment are also parties to other cases and claims arising from the ordinary course of business filed by third parties, which are either pending decisions by the courts or are subject to settlement agreements. The outcome of these claims cannot be presently determined. In the opinion of management and its legal counsel, the eventual liability from these lawsuits or claims, if any, will not have a material adverse effect on the Company's consolidated financial statements.

Power

4th Regulatory Period Reset Application. MERALCO was among the first entrants to the Performance-Based Regulation (PBR). Rate setting under PBR is governed by the Rules for Setting Distribution Wheeling Rates (RDWR). The PBR scheme sets tariffs based on the regulated asset base of the Distribution Utility (DU), and the required operating and capital expenditures once every regulatory period (RP), to meet operational performance and service level requirements responsive to the need for adequate, reliable and quality power, efficient service, growth of all customer classes in the franchise area as approved by the Energy Regulatory Commission (ERC). PBR also employs a mechanism that penalizes or rewards a DU depending on its network and service performance. Rate filings and setting are done every RP where one RP consists of four regulatory years. A regulatory year (RY) begins on July 1st and ends on June 30th of the following year.

MERALCO's 3rd RP ended on June 30, 2015. The 4th RP for Group "A" entrants commenced on July 1, 2015 and shall end on June 30, 2019. To initiate the reset process, the ERC posted in its website on April 12, 2016, the following draft issuance for comments, to wit:

- Draft "Rules for Setting Distribution Wheeling Rates for Privately Owned Distribution Utilities Operating under Performance Based Regulation, First Entry Group: Fourth Regulatory Period";

- Draft "Position Paper: Regulatory Reset for the July 1, 2015 to June 30, 2019 Fourth Regulatory Period for the First Entry Group of Privately Owned Distribution Utilities subject to Performance Based Regulation"; and

- Draft "Commission Resolution on the Issues on the Implementation of PBR for Privately Owned DUs under the RDWR".

Under ERC Resolution No. 25, Series of 2016 dated July 12, 2016, the ERC promulgated a Resolution modifying the Rules for Setting Distribution Rates ("RDWR") for Privately-Owned Distribution Utilities Entering Performance Based Regulation ("PBR").

An initial hearing was originally set by the ERC for January 9, 2017 and all interested parties were to file their comments on the Petition by December 26, 2016.

Subsequently, however, the ERC reset the hearing to January 23, 2017 and deadline for filing comments was January 23, 2017. MERALCO filed its Comment to the Petition on January 9, 2017. Hearings were scheduled on May 15 and June 21, 2017. The ERC will issue an Order on the date of the next public consultation.

In a Notice dated November 16, 2016, the ERC approved the draft "Regulatory Asset Base ("RAB") Roll Forward Handbook for Privately Owned Electricity Distribution Utilities (DUs)" (RAB Handbook) for posting in its website. All interested parties were given until December 19, 2016 to submit their respective comments to the draft RAB Handbook. Thereafter, during the public consultation on January 9, 2017, the parties were given until February 9, 2017 to file their comments to the draft RAB Handbook. In an Omnibus Motion filed on February 9, 2017, MERALCO submitted its initial comments to the draft RAB Handbook but moved for the deferment of the proceedings until the consumer group Petition has been resolved. As at October 27, 2017, the ERC has yet to resolve MERALCO's Omnibus Motion.

MERALCO also files with the ERC its applications for over/under-recoveries of pass-through costs. These consist mainly of differential generation, transmission and system loss charges technically referred to as over/under-recoveries, which are refundable/recoverable from the customers, as allowed by law.

Interim Average Rate for RY 2016. On June 11, 2015, MERALCO filed its application for the approval of a proposed Interim Average Rate of ₱1.3939 per kWh and translation thereof into rate tariffs by customer category. On July 10, 2015, the ERC provisionally approved an Interim Average Rate of ₱1.3810 per kWh and the rate translation per customer class, which was reflected in the customer bills starting July 2015. MERALCO has completed the presentation of its evidence and is set to file its Formal Offer of Evidence (FOE) after the ERC rules on pending motions. As at October 27, 2017, the ERC has yet to resolve the pending motions.

Capital Expenditures ("*CAPEX*") *for RY 2016*. Absent the release by the ERC of the final rules to govern the filing of its 4th RP Reset, MERALCO filed on February 9, 2015 an application for approval of authority to implement its CAPEX program for RY 2016 (July 1, 2015 to June 30, 2016) pursuant to Section 20(b) of Commonwealth Act No. 146, as amended, otherwise known as the Public Service Act. On June 15, 2016, MERALCO received a copy of the ERC Decision dated April 12, 2016 which partially approved MERALCO's CAPEX program for RY 2016 amounting to ₱15.5 billion, subject to certain conditions. An intervenor has filed a Motion for Reconsideration of the Decision which is pending before the ERC. On July 25, 2016, MERALCO has filed its opposition to the Motion for Reconsideration. As at October 27, 2017, the ERC has yet to rule on the Motion for Reconsideration.

CAPEX for RY 2017. On March 8, 2016, MERALCO filed an application for approval of authority to implement its CAPEX program for RY 2017 (July 1, 2016 to June 30, 2017) pursuant to the Public Service Act. Hearings have been completed and MERALCO is awaiting the final decision of the ERC. On July 26, 2016, MERALCO received the Order dated May 5, 2016, granting MERALCO provisional authority to implement the nine (9) major projects and 37 residual projects constituting a substantial part of the CAPEX program, subject to certain conditions. On August 16, 2016, MERALCO filed a Motion for Partial Reconsideration on the requirement to submit an accounting of the depreciation fund. Hearings on the application have been completed. On September 14, 2016, MERALCO filed a Motion for Resolution. Subsequently, on April 25, 2017, MERALCO filed a Manifestation and Urgent Motion for Resolution. As at October 27, 2017, MERALCO is awaiting the final decision of the ERC.

CAPEX for RY 2018. On April 3, 2017, *MERALCO* filed an application for approval of authority to implement its *CAPEX* program for *RY* 2018 (July 1, 2017 to June 30, 2018) pursuant to the Public Service Act. On May 26, 2017, *MERALCO* received the Order dated May 15, 2017, granting *MERALCO* provisional authority to implement the 18 major projects and 36 residual projects constituting a substantial part of the *CAPEX* program, subject to certain conditions. Hearings were conducted on various dates. Also, a conference was conducted with the ERC technical staff and the invervenors on October 12, 2017. As at October 27, 2017, MERALCO shall be filing its FOE and submitting the case for resolution.

Supreme Court (SC) Temporary Restraining Order (TRO) on December 2013 Increase in MERALCO Billing Rate. On December 9, 2013, the ERC gave clearance to the request of MERALCO to implement a staggered collection over three (3) months covering the December 2013 billing month for the increase in generation charge and other bill components such as value added tax, local franchise tax, transmission charge, and system loss charge. The generation costs for the November 2013 supply month increased significantly because of the aberrant spike in the Wholesale Electricity Spot Market (WESM) charges on account of the non-compliance with WESM Rules by certain plants resulting in significant power generation capacities not being offered and dispatched, and the scheduled and extended shutdowns, and the forced outages, of several base load power plants, and the use of the more expensive liquid fuel or bio-diesel by the natural gas-fired power plants that were affected by the Malampaya Gas Field, shutdown from November 11 to December 10, 2013.

On December 19, 2013, several party-list representatives of the House of Representatives filed a Petition against MERALCO, ERC and the DOE before the SC, questioning the ERC clearance granted to MERALCO to charge the resulting price increase, alleging the lack of hearing and due process. It also sought for the declaration of the unconstitutionality of the Electric Power Industry Reform Act (EPIRA), which essentially declared the generation and supply sectors competitive and open, and not considered public utilities. A similar petition was filed by a consumer group and several private homeowners associations challenging also the legality of the Automatic Generation Rate Adjustment (AGRA) that the ERC had promulgated. Both petitions prayed for the issuance of TRO, and a Writ of Preliminary Injunction.

On December 23, 2013, the SC consolidated the two (2) Petitions and granted the application for TRO effective immediately and for a period of 60 days, which effectively enjoined the ERC and MERALCO from implementing the price increase. The SC also ordered MERALCO, ERC and DOE to file their respective comments to the Petitions. Oral Arguments were conducted on January 21, 2014, February 4, 2014 and February 11, 2014. Thereafter, the SC ordered all the Parties to the consolidated Petitions to file their respective Memorandum on or before February 26, 2014 after which the Petitions will be deemed submitted for resolution of the SC. MERALCO complied with said directive and filed its Memorandum on said date.

On February 18, 2014, acting on the motion filed by the Petitioners, the SC extended for another 60 days or until April 22, 2014, the TRO that it originally issued against MERALCO and ERC last December 23, 2013. The TRO was also similarly applied to certain generating companies, the NGCP, and the Philippine Electricity Market Corporation (PEMC; the administrator of WESM and market operator) who were all enjoined from collecting from MERALCO the deferred amounts representing the ₱4.15 per kWh price increase for the November 2013 supply month.

In the meantime, on January 30, 2014, MERALCO filed an Omnibus Motion with Manifestation with the ERC for the latter to direct PEMC to conduct a re-run or re-calculation of the WESM prices for the supply months of November to December 2013. Subsequently, on February 17, 2014, MERALCO filed with the ERC an Application for the recovery of deferred generation costs for the December 2013 supply month praying that it be allowed to recover the same over a six (6)-month period.

On March 3, 2014, the ERC issued an Order voiding the Luzon WESM prices during the November and December 2013 supply months on the basis of the preliminary findings of its Investigating Unit that these are not reasonable, rational and competitive, and imposing the use of regulated rates for the said period. PEMC was given seven (7) days upon receipt of the Order to calculate these regulated prices and implement the same in the revised WESM bills of the concerned DUs in Luzon. PEMC's recalculated power bills for the supply month of December 2013 resulted in a net reduction of the December 2013 supply month bill of the WESM by ₱9.3 billion. Due to the pendency of the TRO, no adjustment was made to the WESM bill of MERALCO for the November 2013 supply month. The timing of amounts to be credited to MERALCO is dependent on the reimbursement of PEMC from associated generator companies. However, several generating companies have filed motions for reconsideration questioning the Order dated March 3, 2014. MERALCO has filed a consolidated comment to these motions for reconsideration. In an Order dated October 15, 2014, the ERC denied the motions for reconsideration. The generating companies have appealed the Orders with the CA where the petitions are pending. MERALCO has filed a motion to intervene and a comment in intervention in the petition filed by a generating company and shall file similar pleadings in the cases filed by the other generators.

In view of the pendency of the various submissions before the ERC and mindful of the complexities in the implementation of ERC's Order dated March 3, 2014, the ERC directed PEMC to provide the market participants an additional period of 45 days to comply with the settlement of their respective adjusted WESM bills. In an Order dated May 9, 2014, the parties were then given an additional non-extendible period of 30 days from receipt of the Order within which to settle their WESM bills. However, in an Order dated June 6, 2014 and acting on an intervention filed by Angeles Electric Corporation, the ERC deemed it appropriate to hold in abeyance the settlement of PEMC's adjusted WESM bills by the market participants.

On April 22, 2014, the SC extended indefinitely the TRO issued on December 23, 2013 and February 18, 2014 and directed generating companies, NGCP and PEMC not to collect from MERALCO. As at October 27, 2017, the SC has yet to resolve the various petitions filed against MERALCO, ERC, and DOE.

ERC and DOE Resolutions on Retail Competition and Open Access Prohibiting the Operations of the Local Retail Electricity Supply business segment. On March 8, 2016, the ERC promulgated Resolution No. 05 Series of 2016 entitled "A Resolution Adopting the 2016 Rules Governing the Issuance of Licenses to Retail Electricity Suppliers (RES) and Prescribing the Requirements and Conditions Therefor". The Resolution removed the term Local RES as one of the entities that may engage in the business of supplying electricity to the Contestable Market without need of obtaining a license therefor from the ERC. Moreover, while an affiliate of a DU is allowed to become a RES, the allowance is "subject to restrictions imposed by the ERC on market share limits and the conduct of business activities".

On May 12, 2016, the ERC issued Resolutions No. 10 and 11, Series of 2016, which:

- Provided for Mandatory contestability. Failure of a Contestable Customer to switch to RES upon date of mandatory contestability (December 26, 2016 for those with average demand of at least one (1) MW and June 26, 2017 for at least 750 MW) shall result in the physical disconnection from the DU system unless it is served by the Suppliers of Last Resort (SOLR, or, if applicable, procures power from the WESM);

- Prohibits DUs from engaging in the Supply of electricity to the Contestable Market except in its capacity as a SOLR;

- Mandates Local RESs to wind down their supply businesses within a period of three (3) years;

- Imposes upon all RESs, including DU-affiliate RESs, a market-share cap of 30% of the total average monthly peak demand of all contestable customers in the competitive retail electricity market; and,

- Prohibits RESs from transacting more than 50% of the total energy transactions of its Supply business, with its affiliate Contestable Customers.

On May 27, 2016, MERALCO filed a Petition before Pasig RTC, praying that : (a) a TRO and subsequently a Writ of Preliminary Injunction ("WPI") enjoining the DOE and ERC from implementing the Assailed Rules be issued; and the Assailed Rules be declared null and void for being contrary to the EPIRA and its IRR. In an Order dated July 13, 2016, RTC-Pasig granted a WPI, which became effective on July 14, 2016, and shall be effective for the duration of the pendency of the Petition.

Meanwhile, ERC filed a Petition for Certiorari and Prohibition with prayer for TRO and/or WPI before the SC ("SC Petition"), which asserted that RTC-Pasig has no jurisdiction to take cognizance of MERALCO's Petition, citing Sec. 78 of the EPIRA. A similar petition was subsequently filed by the DOE before the SC.

On October 10, 2016, the SC, in relation to the Petition filed by DOE, issued a TRO that restrained, MERALCO, the RTC Pasig, their representatives, agents or other persons acting on their behalf from continuing the proceedings before the RTC Pasig, and from enforcing all orders, resolutions and decisions rendered in Special Civil Action No. 4149 until the petition before the SC is finally resolved. In a Resolution dated November 9, 2016, the SC denied MERALCO's motion for reconsideration of the October 10, 2016 Resolution.

On November 2, 2016, in relation to the Petition filed by the ERC, the SC issued a Resolution dated September 26, 2016, which partially granted the ERC Petition. While the SC allowed the RTC to proceed with the principal case of declaratory relief, it nonetheless issued a Preliminary Mandatory Injunction ("PMI") against RTC Pasig to vacate the preliminary injunction it previously issued, and Preliminary Injunction ("PI") ordering the RTC Pasig to refrain issuing further orders and resolutions tending to enjoin the implementation of EPIRA. On November 14, 2016, MERALCO filed a Motion for Partial Reconsideration with Very Urgent Motion to lift PMI/ PI.

On November 24, 2016, the ERC promulgated a resolution moving the contestability date of end users with an average monthly peak demand of at least one (1) MW from December 31, 2016 to February 26, 2017.

On January 17, 2017, MERALCO, through counsel, received an SC Resolution dated December 5, 2016, which consolidated the SC DOE Petition with the SC ERC Petition. The same resolution also denied the Motion for Partial Reconsideration filed by MERALCO.

In relation to the ERC and DOE Petitions, a separate Petition for Certiorari, Prohibition and Injuction was filed by Philippine Chamber of Commerce and Industry ("PCCI"), San Beda College Alabang, Inc., Ateneo de Manila University and Riverbanks Development Corporation. In said Petition PCCI et. al sought to declare as null and void, as well as to enjoin the DOE and ERC from implementing DOE Circular No. 2015-06- 0010, Series of 2015, ERC Resolution Nos. 5, 10, 11 and 28, Series of 2016. Acting on the Petition, the Supreme Court en banc through a Resolution dated February 21, 2017, issued a TRO enjoining the DOE and the ERC from implementing DOE Circular No. 2015-06- 0010 Series of 2015, ERC Resolution Nos. 5, 10, 11 and 28 Series of 2016. Pursuant to the foregoing, PEMC has taken the position that the TRO enjoined the voluntary contestability of 750 kW to 999 kW customers and has not allowed them to switch to the contestable market. The DOE, in a press release, has advised that it is in the process, together with PEMC and ERC, of drafting a general advisory for the guidance of RCOA stakeholders. The PCCI petition was consolidated with two other separate petitions filed by Siliman University and several distribution utilities. The DOE and ERC have also filed a consolidated comment on these petitions.

<u>Rail</u>

Claims with Grantors. In accordance with Schedule 5 of the LRT-1 Project Concession Agreement, LRMC is entitled to be compensated for the unavoidable incremental cost that the LRMC will incur to restore the Existing System to the level necessary to meet all of the baseline Existing System Requirements taking into consideration any Emergency Upgrade Contract executed by the Grantors for the same purpose, if the Existing System does not meet the Existing System Requirement (ESR) as certified by the Independent Consultant (IC).

LRMC is also entitled to receive compensation from the Grantors if the Grantors do not make available a minimum of one hundred (100) light rail vehicles (LRV) or the system is not able to operate to a cycle time of no more than one hundred and six (106) minutes, or a combination of the two on the effective date. The compensation is based on the formula and procedures provided for in the concession agreement.

On October 30, 2015, LRMC submitted a letter to the Department of Transportation and Communication (DOTC) representing its claim for ESR costs and LRV shortfall on the premise of the Grantors' obligation in relation to the condition of the Existing System prior or as of the effective date. Subsequently, on November 16, 2015, the Grantors sent a letter of dispute in response to the claims of LRMC.

On October 30, 2017, the Company submitted its invoice for the ninth Balancing Payment amounting to ₱367.4 million which included claims for fare deficit and Grantor's compensation payment.

As at November 8, 2017, LRMC has submitted 9 letters (first to 9th Balancing Payments) to the DOTC representing its claim for ESR costs and LRV shortfall on the premise of the Grantors obligation in relation to the condition of the Existing System prior or as of the Effective Date, fare deficit, and contractor and other additional costs incurred less Key Performance Indicator charges.

All claims are still undergoing discussion as at November 8, 2017.

<u>Others</u>

Donor's Tax. NOHI received on January 14, 2011 a Final Assessment Notice (FAN) demanding the payment of approximately ₱170.2 million as deficiency donor's tax (comprising of the basic tax due and 25% surcharge) on the excess of the book value over the selling price of several shares of stock in Bonifacio Land Corporation (BLC) which NOHI sold to a third party. The assessment was based on the finding of the Bureau of Internal Revenue–Large Taxpayer Service (BIR–LTS) that the transaction is subject to donor's tax as a "deemed gift" transaction under Section 100 of the 1997 National Internal Revenue Tax Code (the Tax Code).

On February 14, 2011, NOHI filed its formal protest to the FAN raising several factual and legal arguments. However, this was denied by the BIR through the letter it has delivered to NOHI stating its

Final Decision on Disputed Assessment (FDDA). NOHI then filed a Petition for Review with the Second Division of the Court of Tax Appeals (CTA) to challenge the FDDA.

On May 4, 2016, the CTA En Banc promulgated its decision, which was received on May 13, 2016, denying the company's Petition for Review dated October 21, 2014 and affirming the adverse decision of the Second Division of the Court dated June 11, 2014 and Resolution of the Second Division dated September 16, 2014 which denied NOHI's Motion for Reconsideration. On October 28, 2016, NOHI received a copy of the Resolution of the CTA En Banc dated October 18, 2016 denying NOHI's Motion for Reconsideration.

On December 12, 2016, NOHI filed with the SC the required Petition for Review as appeal from the decision and resolution of the CTA En Banc. On March 14, 2017, NOHI received a copy of the Resolution dated January 23, 2017 of the Supreme Court denying NOHI's Petition for Review on the decision of the Court of Tax Appeals en banc which affirmed the decision of the CTA Second Division ordering NOHI to pay donor's tax. On March 28, 2017, NOHI filed a Motion for Reconsideration on the aforesaid Resolution of the Supreme Court. On October 3, 2017, NOHI received the Resolution dated July 26, 2017 of the SC denying the Motion for Reconsideration.

27. **Contracts, Agreements and Commitments**

The information provided in this report must be read in conjunction with the 2016 audited consolidated financial statements of the Company.

Updates to certain contracts and commitments disclosed in the annual consolidated financial statements as at December 31, 2016 and new contracts entered into during the nine months ended September 30, 2017 are provided below:

MPIC

Issuance of Exchangeable Bond to GIC Private Limited (GIC). On July 2, 2014, GIC, through Arran Investment Private Limited, invested ₱3.7 billion for a 14.4% stake in MPHHI and paid ₱6.5 billion as consideration for an Exchangeable Bond which can be exchanged into a 25.5% stake in MPHHI in the future. The Exchangeable Bond was accounted for as an equity instrument with the interest accruing on the Exchangeable Bond recorded at its present value (see Note 31).

Power

Transfer of transmission facilities to the National Grid Corporation of the Philippines (NGCP). In February 2017, a Deed of Absolute Sale was executed between the generating subsidiaries of GBPC, namely Panay Energy Development Corporation (PEDC), Toledo Power Company (TPC) and Cebu Energy Development Corporation (CEDC), and the NGCP on the transfer of transmission facilities based on the initial list of assets as appraised by a third party appraiser. The transfer is expected to be completed in 2017.

Final Acceptance of PEDC 3. In 2014, GBPC's subsidiary, Panay Energy Development Corporation began the construction of PEDC 3 in its existing Panay Coal Plant Facility in Barangay Ingore, La Paz, Iloilo City. PEDC 3 is registered with the Board of Investments (BOI) under BOI Registration Number 2014-110 on July 22, 2014. PEDC declared commercial operations of its 150 MW Expansion Plant on January 26, 2017 in accordance with the terms and conditions of its Power Supply Agreements. The Project Completion Date of PEDC3 is expected to be achieved early 2018 subject to completion of the rectification works by the EPC contractor.

Investment Agreement with Alsons Consolidated Resources, Inc (ACR). In June 2017, ACR and GBPC entered into an investment agreement whereby GBPC will acquire a 50% stake in Alsons Thermal Energy Corporation (ATEC), the holding company for ACR's baseload coal-fired power plant assets. ATEC owns a 75% stake in the 210 MW Sarangani Energy Corporation (SEC) baseload coal-fired plant in Maasim, Sarangani Province. ATEC will also assume ACR's stake in San Ramon Power, Inc. (SRPI) which is developing a 105 MW baseload coal-fired plant in Zamboanga City. The agreement is subject to fulfilment of certain conditions. This potential transaction was cleared by the Philippine Competition on September 25, 2017 and as at November 8, 2017, is in the final stages of closing.

Integrated Solid Waste Management Facility Project (ISWM Project). In March 2017, the consortium consisting of MPIC, Covanta Energy, LLC and Macquarie Group, Ltd. has been granted Original Proponent Status (OPS) by The Quezon City Government to design, construct, finance, and operate an ISWM Project. The ISWM facility will be capable of processing and converting up to 3,000 metric tons per day of Quezon City's municipal solid waste into 42MWe of renewable energy, enough to power between 60,000 to 90,000 homes. The ISWM Project will be undertaken through a Joint Venture between QC LGU and the consortium in accordance with QC LGU Ordinance: No. SP-2336, s. 2014 (QC PPP Code).

As the original proponent of the ISWM Project, the consortium will have the exclusive rights to enter into detailed negotiations with the QC LGU. Upon successful completion of negotiations, the ISWM Project will be subjected to a competitive challenge consistent with government regulations. If and when the consortium is awarded the ISWM Project, development and construction would take approximately three (3) to four (4 years). It is expected that this project will be funded through a combination of debt and equity.

Toll Operations

Merger between NLEX Corp and TMC. On October 19, 2016, the BOD of NLEX Corp approved the proposed merger between NLEX Corp and TMC, with NLEX Corp as the surviving corporation. On November 17, 2016, majority of the stockholders of NLEX Corp confirmed and ratified the proposed merger between NLEX Corp and TMC. On April 17, 2017, NLEX Corp and TMC, signed the plan of merger and articles of merger, pursuant to which NLEX Corp and TMC will be merged, with NLEX Corp as the surviving corporation.

As the surviving corporation, NLEX Corp's corporate existence shall continue and shall: (a) acquire all respective rights, businesses, assets and other properties of TMC; and, (b) assume all the debts and liabilities of TMC.

The execution of the merger shall be subject to regulatory approvals, including the Philippine Competition Commission, and shall take effect 15 days from and after the approval by the SEC of the Articles of Merger and the issuance of Filing of the Articles of Merger. Upon the effective date of the merger, each TMC shareholder participating in the merger shall receive common shares in NLEX using the exchange ratio of 2.7 NLEX common shares for every 1 TMC common share (or such other exchange ratio prescribed by the SEC). Alternatively, a TMC shareholder who has exercised its appraisal right under the law will instead sell its TMC common shares to TMC for cash consideration, pursuant to the Corporation Code of the Philippine. Upon the effectivity of the merger, NLEX shall be deemed as having acquired all the assets, and assumed all the liabilities of TMC.

NLEX Corp will remain to be an indirect subsidiary of MPIC after the implementation of the merger, which is expected to be completed by second half of 2017.

Construction of the CALAX Laguna Segment. On June 30, 2017, MPCALA and DMCI Incorporated (DMCI) entered into the Construction Contract, pursuant to which DMCI has agreed to construct and complete the Civil Works for the Laguna Segment of the CALAX in the Philippines in accordance with the terms of the Construction Contract. The contract price for the Project is ₱7.2 billion (equivalent to approximately US$142.9 million), inclusive of taxes, subject to adjustments as provided for in the Construction Contract. DMCI shall commence the works on the seventh day from the date of DMCI's receipt of the notice to proceed from MPCALA (Commencement Date).

On July 3 2017, MPCALA issued the Notice to Proceed to DMCI signifying the official commencement of construction works for the project. The project is expected to be completed in 2020 and be fully operational by 2021.

Renegotiated Operations & Maintenance (O&M) Agreement with TMC. On March 6, 2017, TMC and NLEX Corp entered into a side letter agreement formalizing the Base Fee of the Operations & Maintenance Agreement (O&M Agreement). The amount of the Base Fee as of February 9, 2017 (Base date) is ₱1,136.8 million for the NLEX, Segment 7, Dau Interchange, Segment 8.1, Balagtas Interchange Northbound Exit and Segment 9.

Amendment to the Management Letter Agreement dated December 27, 2012 relating to CIC. On June 28, 2017, MPTC, Cavitex Holdings, Inc. (CHI) and CIC, amended the Management Period originally stated in the Management Letter Agreement dated December 27, 2012 effective on June 28, 2017. Accordingly, the Management Period for the management of CIC by MPTC is amended to be from January 2, 2013 and while MPTC holds the CHI Preferred Shares, or until MPTC becomes the 100% direct or indirect shareholder of CIC, whichever comes later.

Water

Cagayan de Oro 100 MLD Bulk Water Project (CDO Bulk Water Project). On August 14, 2017, MPW signed a joint venture agreement with the Cagayan de Oro Water District (COWD) for the formation of a joint venture company to undertake the supply of bulk treated water to address the requirements Cagayan de Oro City.

MPW was awarded the CDO Bulk Water Project last March 21, 2017 after undergoing a comparative challenge as required by the 2013 Revised Joint Venture Guidelines of the National Economic and Development Authority. The project has a term of 30 years (renewable for another 20 years), and involves the supply of up to 100 MLD of treated bulk water to COWD.

COWD currently serves a population of more than 700,000 residents and has approximately 85,000 service connections. The project involves the construction of new water transmission lines and rehabilitation of the Camaman-an Reservoir, and will also eventually involve the delivery of bulk treated water to service the requirements of Cagayan de Oro's western sector, which currently relies on deep wells for its water supply.

Pampanga Bulk Water Supply Project. On August 31, 2017, MPW officially received the Certificate of Acceptance, and the conferment of the Original Proponent Status for the Pampanga Bulk Water Supply Project from the Office of the Governor of Pampanga. Under the Province's Public-Private Partnership Code, MPW can now proceed to detailed negotiations with the Province for the Project. Upon successful completion of negotiations, the project will be subjected to competitive challenge consistent with the Code. The Province, including the highly-urbanized city of Angeles, has a total population of 2.6 million according to the 2015 census.

Rail

Rehabilitation of Existing System. LRMC entered into a two-year agreement with First Balfour, Inc. for its Structural Restoration Project which includes the parapets, faulty concrete and repair of river bridges of the LRT-1 line. The notice to proceed was signed and issued on March 17, 2017.

In line with this project, LRMC also signed an Independent Contractor Agreement with ESCA Incorporated for the expertise and services necessary in managing the Structural Restoration Project with First Balfour, Inc.

The structural restoration project is 12.10% complete as at September 30, 2017.

Construction of the Cavite Extension. On February 11, 2016, LRMC signed an EPC Agreement for the construction of LRT-1 Cavite Extension with Bouygues Travaux Publics Philippines Inc., Alstom Transport S.A. and Alstom Transport Construction Philippines Inc. which shall commence upon the issuance by the Grantors of a notice to proceed. As at November 8, 2017, the Notice to proceed is still pending. However, on May 30, 2017, LRMC received the Permit to Enter certificate from the Grantors allowing LRMC to enter the concerned properties and commence the construction of Cavite Extension.

On June 30, 2017, LRMC issued the Existing System NTP to Alstom Transport S.A. and Alstom Transport Construction Philippines Inc. to authorize commencement of the Existing System Works (signaling solution) in accordance with the EPC Agreement.

On August 31, 2017, LRMC issued the Cavite Extension NTP to the respective companies in the EPC Agreement for the authorization and direction to perform the Cavite Extension Works.

The Existing System Works and Cavite Extension are currently on its design phase as at September 30, 2017.

Project for the Rehabilitation, Operations and Maintenance of the Metro Rail Transit 3 (MRT-3 Project). In September 2017, MPIC was granted the original proponent status for the rehabilitation, operations and maintenance of the MRT-3. The proposal consists of the full and comprehensive rehabilitation of MRT-3 and its operation and maintenance under a 30-year concession. The rehabilitation plan, for which the capital expenditure is estimated at ₱12.5 billion, includes rail replacement, rehabilitation of signaling equipment, station upgrades, and the overhaul and eventual new replacement of existing LRVs. MPIC has also offered to purchase the Government's stake held by Land Bank of the Philippines and Development Bank of the Philippines in Metro Rail Transit Corporation. As original proponent of the Project, MPIC will have exclusive rights to enter negotiations with the Government in relation to the proposal. Upon successful completion of negotiations, the MRT-3 Project will be subjected to a swiss challenge consistent with the requirements of the Build-Operate-Transfer Law and its implementing rules.

28. Financial Instruments

Categories of Financial Instruments

There are no changes in the classification of financial assets resulting from changes in the use and purpose of these assets. The categories of the Company's financial assets and financial liabilities as at September 30, 2017 are:

	September 30, 2017				
	Financial Assets			Financial Liabilities	
	FVPL	Loans and Receivables	AFS Financial Assets	Other Financial Liabilities	Total
			(In Millions)		
ASSETS					
Cash and cash equivalents	**₱–**	**₱30,628**	**₱–**	**₱–**	**₱30,628**
Short-term deposits	**–**	**12,739**	**–**	**–**	**12,739**
Restricted cash	**–**	**3,730**	**–**	**–**	**3,730**
Receivables - net	**–**	**10,802**	**–**	**–**	**10,802**
Due from related parties	**–**	**23**	**–**	**–**	**23**
AFS financial assets:					
Investment in bonds	**–**	**–**	**1,262**	**–**	**1,262**
Investment in UITF	**–**	**–**	**6,197**	**–**	**6,197**
Investment in equity	**–**	**–**	**515**	**–**	**515**

(forward)

	September 30, 2017				
	Financial Assets			Financial Liabilities	
	FVPL	Loans and Receivables	AFS Financial Assets	Other Financial Liabilities	Total
			(In Millions)		
Deposit for LTIP	–	196	–	–	196
Other noncurrent assets	–	1,560	–	–	1,560
	₱-	₱59,678	₱7,974	₱–	₱67,652
LIABILITIES					
Accounts payable and other current liabilities [(a)]	₱–	₱–	₱–	₱21,414	₱21,414
Due to related parties	–	–	–	15,447	15,447
Service concession fees payable	–	–	–	29,501	29,501
Long-term debt	–	–	–	173,855	173,855
Deferred credits and other long-term liabilities	–	–	–	1,412	1,412
	₱–	₱–	₱–	₱241,629	₱241,629

[(a)]*Excludes statutory payables*

Fair Values

The following table shows a comparison, by classes, between the carrying values and fair values of certain of the Company's financial instruments as at September 30, 2017. Financial instruments with carrying amounts reasonably approximating their fair values are no longer included in the comparison.

	September 30, 2017				
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
				(In Millions)	
Assets measured at fair value					
AFS Financial Assets					
Shares of stock	₱515	₱24	₱490	₱–	₱515
Unit Investment Trust Fund	6,197	–	6,197	–	6,197
Investment in bonds and treasury Notes	1,262	619	644	–	1,262
	₱7,974	₱643	₱7,331	₱–	₱7,974
Assets for which fair values are disclosed					
Loans and Receivables					
Miscellaneous deposits	₱1,560	₱–	₱–	₱1,510	₱1,510
	₱1,560	₱–	₱–	₱1,510	₱1,510
Liabilities for which fair values are disclosed					
Other financial liabilities					
Service concession fees payable (current and noncurrent)	₱29,501	₱–	₱–	₱30,832	₱30,832
Long-term debt (current and noncurrent)	173,855	–	–	175,488	175,488
Customer guaranty deposit	1,018	–	–	1,078	1,078
Due to related parties	15,447	–	–	15,372	15,372
	₱219,821	₱–	₱–	₱222,770	₱222,770

During the nine-month period ended September 30, 2017, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurement. There were no change in the methods and assumptions used to measure the fair value of each class of assets and liabilities for which it is practicable to estimate such value.

Levels 1 and 2 Fair Value Hierarchy

Cash and Cash Equivalents. Due to the short-term nature of transactions, the fair value of cash and cash equivalents approximate the carrying amounts at the end of the reporting period.

Restricted Cash, Cash Deposits, and Accounts Payable and Other Current Liabilities. Carrying values approximate the fair values at the reporting date due to the short-term nature of the transactions.

Investments in UITF. A UITF uses the mark-to-market method in valuing the fund's securities. It is a valuation method which calculates the Net Asset Value (NAV) based on the estimated fair market value of the assets of the fund based on prices supplied by independent sources.

Due from Related Parties. Fair value of due from related parties approximates their carrying amounts as these are already to be settled within a year from the consolidated statement of financial position date.

Service Concession Fees Payable and Customers' Guaranty Deposits. Estimated fair value is based on the discounted value of future cash flows using the applicable rates for similar types of financial instruments.

Notes Receivable, Miscellaneous Deposits and Other Financial Assets. Estimated fair value is based on the present value of future cash flows discounted using the prevailing rates that are specific to the tenor of the instruments' cash flows at the end of each reporting period with credit spread adjustment.

Long-term Debt. For both fixed rate and floating rate (repriceable every six months) US dollar denominated debts and Philippine Peso-denominated fixed rate corporate notes, estimated fair value is based on the discounted value of future cash flows using the prevailing credit adjusted US risk-free rates and Philippine risk free rates that are adjusted for credit spread.

29. Supplemental Cash Flow Information

Non-cash investing activity

During the current interim period, the Company had a non-cash investing activity which was not reflected in the interim consolidated statement of cash flows. For the nine-month period ended September 30, 2017, a total of ₱957 million of interest accretion arising from service concession fee payable has been capitalized to service concession assets (see Notes 10 and 15).

Non-cash financing activities:

The following table shows significant changes in liabilities arising from financing activities, including changes arising from cash flows and non-cash changes:

	Service concession fee payable (see Note 15)	Long-term debt (see Note 14)	Due to Related Parties (see Note 16)
		(Unaudited) *(In Millions)*	
Balance as at December 31, 2016	₱28,874	₱97,016	₱8,439
Cash flow (see statements of cash flow)			
Proceeds	−	19,410	−
Payments	(997)	(7,814)	(2,001)
Transaction cost	−	(131)	−
	(997)	11,465	(2,001)
Non-cash			
Acquisition of subsidiary	−	65,037	−
Deferred purchase	−	−	8,629
Foreign exchange movements	238	144	−
Interest accretion	1,386	(23)	380
Amortization of debt issue costs	−	53	−
Others	−	163	−
	1,624	65,374	9,009
Balance as at September 30, 2017	₱29,501	₱173,855	₱15,447

30. Subsequent Events

Aside from those disclosed in Notes 14, 26 and 27, events occurring after September 30, 2017 include:

Toll Operations

Step-up Acquisition of ESC. On October 10, 2017, Egis Easytrip Services SA (EES), MPTC and ESC entered into a Share Purchase Agreement for the purchase by MPTC of 31,999 common shares of ESC representing 16% minus one share of the total issued and outstanding stock of ESC for a total purchase price of ₱84.8 million. The transaction was also completed on the same date.

ESC, is jointly controlled by MPT North and EES with effective ownership of 50% plus one share and 50% minus one share, respectively. Investment in ESC was previously accounted for as an investment in a joint venture (see Note 9). In accordance with PFRS 3:

- recognized a gain of ₱198.1 million in the consolidated statement of income as a result of the remeasurement of the 50% plus one share previously held interest in ESC; and

- the intercompany relationships under the Service Agreements between ESC and NLEX Corp. and ESC and CIC are effectively settled with no gain or loss recognized as the intercompany accounts were settled at recorded amounts.

The provisional fair values of the identifiable assets and liabilities as at the date of acquisition is shown below:

	Provisional Values
	(In Millions)
Assets	
Cash and cash equivalents	₱258
Receivables	118
Other current assets	16
Property and equipment	32
Deposits and other noncurrent assets	3
	427
Liabilities	
Accounts payable and other current liabilities	14
Refundable deposits	197
Long-term payable	2
Accrued employee benefits	4
	217
Total identifiable net assets at fair value	210
Non-controlling interests	(25)
Fair value of previously held interest	(328)
Goodwill arising on acquisition	364
Consideration transferred	221
Intercompany account settled	(136)
Total cash paid on acquisition	₱85

The fair value and gross amount of the receivables amounted to ₱118.0 million. None of the receivables have been impaired and it is expected that the full contractual amounts can be collected.

The non-controlling interests were recognized as a proportion of net assets acquired.

The goodwill of ₱363.7 million that arose on the acquisition can be attributed to the expected synergies arising from the acquisition. None of the goodwill recognized is expected to be deductible for income tax purposes.

Indirect acquisition by MPTC of equity interest in PT Nusantara Infrastructure Tbk (PT Nusantara). On November 3, 2017, MPTC, through its Indonesian subsidiary, PT Metro Pacific Tollways Indonesia (PT MPTI), acquired a total of 6,600,000,000 shares of PT Nusantara at a consideration of ₱1.05 (Indonesian Rupiah 270) per share. The acquired shares represent approximately 42.25% of the total issued capital stock of PT Nusantara on a fully-diluted basis. Together with PT MPTI's earlier acquisitions, PT MPTI holds a total of about 48.3% of the total issued capital stock of PT Nusantara on a fully diluted basis. The transaction was executed by way of a cross sale on the Indonesian Stock Exchange (IDX) pursuant to definitive transaction documents entered into with PT Matahari and other related parties. PT Nusantara is a publicly listed limited liability company duly established and existing under the laws of the Republic of Indonesia. Its infrastructure portfolio in Indonesia includes toll roads, ports, energy, water and telecommunication towers although approximately 80% of its core income is attributable to the toll roads.

MPTC acquired its interest in PT Nusantara as part of its strategy to expand its toll roads internationally and to enhance its profitability. The Company is currently evaluating how to account for this investment.

Healthcare

Acquisition of Saint Elizabeth Hospital Inc. (SEHI). On October 5, 2017, MPHHI completed the acquisition of 108,350 shares, representing approximately 54% stake in SEHI, a 248-bed tertiary level hospital located in General Santos City. The acquisition was completed through the execution of deeds of absolute sale covering SEHI shares acquired by MPHHI.

On October 5, 2017, MPHHI paid the sellers the amount representing approximately 10% of the purchase price to settle the applicable taxes and the balance thereof deposited in an Escrow Account which shall be released to the sellers in accordance with the terms of the Escrow Agreement.

MPHHI may infuse additional cash in SEHI in the near future, in order to support SEHI's plans to expand and improve its facilities. The additional cash infusion by MPHHI may increase its interest in SEHI to approximately 80%.

This acquisition shall be accounted for using the acquisition method. The provisional fair values of the identifiable assets and liabilities as at the date of acquisition:

	Provisional Values *(In Millions)*
Assets	
Cash	₱49
Receivables	101
Inventories and other current assets	38
Property and equipment	362
Other noncurrent assets	12
	562
Liabilities	
Accounts payable and other current liabilities	163
Loans payable	42
Deferred tax liability	62
Other noncurrent liabilities	33
	300
Total identifiable net assets at fair value	262
Non-controlling interest (46% at MPHHI level)	(120)
Goodwill arising on acquisition	36
Consideration transferred	₱178

The fair value of the property and equipment is provisional pending receipt of the final valuations for those assets.

31. Consolidated Subsidiaries

The consolidated subsidiaries of MPIC are as follows:

		September 30, 2017			December 31, 2016			
Name of Subsidiary	Place of Incorporation	**MPIC Direct Interest**	**Direct Interest of Subsidiary**	**MPIC Effective Interest**	MPIC Direct Interest	Direct Interest of Subsidiary	MPIC Effective Interest	Principal Activity
			(In %)			*(In %)*		
MPIC Subsidiaries								
Beacon Electric Asset Holdings, Inc. (Beacon Electric)	Philippines	**100.0**	**–**	**100.0**	75.0	–	75.0	Investment holding; Acquired the remaining 25% in June 27, 2017 (See Note 4)
Metro Pacific Tollways Corporation (MPTC)	Philippines	**99.9**	**–**	**99.9**	99.9	–	99.9	Investment holding
Maynilad Water Holding Company, Inc. (MWHC)	Philippines	**51.3**	**–**	**51.3**	51.3	–	51.3	Investment holding
MetroPac Water Investments Corporation (MPW)	Philippines	**100.0**	**–**	**100.0**	100.0	–	100.0	Investment holding
Metro Pacific Hospital Holdings, Inc. (MPHHI)	Philippines	**85.6**	**–**	**85.6**	85.6	–	85.6	Investment holding; With the Exchangeable Bond, the non-controlling shareholder is entitled to 39.89% effective ownership interest in MPHHI.
Metro Pacific Light Rail Corp. (MPLRC)	Philippines	**100.0**	**–**	**100.0**	100.0	–	100.0	Investment holding
MetroPac Logistics Company, Inc. (MPLC)	Philippines	**100.0**	**–**	**100.0**	100.0	–	100.0	Investment holding
MetroPac Clean Energy Holdings Corporation (MCE)	Philippines	**100.0**	**–**	**100.0**	100.0	–	100.0	Investment holding
Fragrant Cedar Holdings, Inc. (FCHI)	Philippines	**100.0**	**–**	**100.0**	100.0	–	100.0	Real estate
Porrovia Corporation	Philippines	**50.0**	**50.0**	**100.0**	50.0	50.0	100.0	Investment holding
Neo Oracle Holdings, Inc (NOHI)	Philippines	**96.6**	**–**	**96.6**	96.6	–	96.6	Investment holding and Real estate; Formerly Metro Pacific Corporation (MPC). NOHI's corporate life ended December 31, 2013 and is currently under the process of liquidation.
MPIC-JGS Airport Holdings, Inc. (MPIC-JGS)	Philippines	**58.8**	**–**	**58.8**	58.8	–	58.8	Investment holding; BOD of MPIC-JGS approved the shortening of the company's corporate life to until February 15, 2016.
Metro Global Green Waste, Inc. (MGGW)	Philippines	**70.0**	**–**	**70.0**	70.0	–	70.0	Investment holding; BOD of MGGW approved the shortening of the company's corporate life to until December 31, 2017.
MPIC Infrastructure Holdings Limited (MIHL)	BVI	**100.0**	**–**	**100.0**	100.0	–	100.0	Investment holding
Beacon Electric Subsidiary								
Beacon PowerGen Holdings, Inc. (BPHI)	Philippines	**–**	**100.0**	**100.0**	–	–	–	Investment holding
BPHI Subsidiary								

Name of Subsidiary	Place of Incorporation	**September 30, 2017** MPIC Direct Interest	Direct Interest of Subsidiary	MPIC Effective Interest	December 31, 2016 MPIC Direct Interest	Direct Interest of Subsidiary	MPIC Effective Interest	Principal Activity
			(In %)			*(In %)*		
Global Business Power Corporation (GBPC)	Philippines	**–**	**56.0**	**62.4**	–	–	–	Investment Holding
GBPC Subsidiaries								
ARB Power Ventures, Inc. (APVI)	Philippines	**–**	**100.0**	**62.4**	**–**	–	–	Investment holding
GBH Power Resources, Inc. (GPRI)	Philippines	**–**	**100.0**	**62.4**	**–**	–	–	Power Generation
Global Energy Supply Corporation (GESC)	Philippines	**–**	**100.0**	**62.4**	**–**	–	–	Power Distribution
Global Hydro Power Corporation (GHPC)	Philippines	**–**	**100.0**	**62.4**	**–**	–	–	Power Generation
Global Renewables Power Corporation (GRPC)	Philippines	**–**	**100.0**	**62.4**	**–**	–	–	Power Generation
Mindanao Energy Development Corporation (MEDC)	Philippines	**–**	**100.0**	**62.4**	**–**	–	–	Power Generation
Toledo Cebu International Trading Resources Corporation (TCITRC)	Philippines	**–**	**100.0**	**62.4**	**–**	–	–	Trading business
Toledo Holdings Corporation (THC)	Philippines	**–**	**100.0**	**62.4**	**–**	–	–	Investment holding
Toledo Power Company (TPC)	Philippines	**–**	**100.0**	**62.4**	**–**	–	–	Power Generation
Global Formosa Power Holdings, Inc. (GFPHI)	Philippines	**–**	**93.2**	**58.2**	**–**	–	–	Investment holding
Panay Power Holdings Corporation (PPHC)	Philippines	**–**	**89.3**	**55.7**	**–**	–	–	Investment holding
Lunar Power Core, Inc. (LPCI)	Philippines	**–**	**57.5**	**35.9**	**–**	–	–	Investment holding
GFPHI Subsidiary								
Cebu Energy Development Corporation (CEDC)	Philippines	**–**	**56.0**	**32.6**	**–**	–	–	Power Generation
LPCI Subsidiary								
Global Luzon Energy Development Corporation (GLEDC)	Philippines	**–**	**100.0**	**35.9**	**–**	–	–	Power Generation
PPHC Subsidiaries								
Panay Power Company (PPC)	Philippines	**–**	**100.0**	**55.7**	**–**	–	–	Power Generation
Panay Energy Development Corporation (PEDC)	Philippines	**–**	**100.0**	**55.7**	**–**	–	–	Power Generation
GRPC Subsidiary								
CACI Power Corporation (CACI)	Philippines	**–**	**100.0**	**62.4**	**–**	–	–	Power Generation
MPTC Subsidiaries								
Metro Pacific Tollways North Corporation (MPT North; formerly Metro Pacific Tollways Development Corporation)	Philippines	**–**	**100.0**	**99.9**	–	100.0	99.9	Investment holding

Name of Subsidiary	Place of Incorporation	September 30, 2017 MPIC Direct Interest	Direct Interest of Subsidiary	MPIC Effective Interest	December 31, 2016 MPIC Direct Interest	Direct Interest of Subsidiary	MPIC Effective Interest	Principal Activity
			(In %)			*(In %)*		
Cavitex Infrastructure Corporation (CIC) and subsidiaries	Philippines	**–**	**100.0**	**99.9**	–	100.0	99.9	Tollway operations; Interest in CIC is held through a Management Letter Agreement (see Note 27). CIC holds the concession agreement for the CAVITEX.
Metro Strategic Infrastructure Holdings, Inc. (MSIHI)	Philippines	**–**	**97.0**	**96.9**	–	97.0	96.9	Investment holding
MPT Asia	BVI	**–**	**100.0**	**99.9**	–	100.0	99.9	Investment holding
Metro Pacific Tollways Management Services, Inc. (MPTMSI) [(a)]	Philippines	**–**	**100.0**	**99.9**	–	100.0	99.9	Formerly M+ Corporation. Incorporated on August 24, 2016 with the primary purpose to carry on the toll collection function of CAVITEX and CALAX.
Metro Pacific Tollways South Corporation	Philippines	**–**	**100.0**	**99.9**	–	100.0	99.9	Holding company
MPTDC Subsidiaries								
NLEX Corporation	Philippines	**–**	**75.6**	**75.5**	–	75.6	75.5	Tollway operations; Change in the corporate name from Manila North Tollways Corporation was approved by the SEC on February 13, 2017.
Tollways Management Corporation (TMC)	Philippines		**73.0**	**72.9**	–	–	–	Tollway management
Collared Wren Holdings, Inc. (CWHI)	Philippines	**–**	**100.0**	**99.9**	–	100.0	99.9	Investment holding
Larkwing Holdings, Inc. (LHI)	Philippines	**–**	**100.0**	**99.9**	–	100.0	99.9	Investment holding
MPCALA Holdings, Inc. (MPCALA)	Philippines	**–**	**51.0**	**99.9**	–	51.0	99.9	Tollway operations; MPCALA is owned by MPTDC at 51% and the remaining 49% owned equally by CWHI and LHI.; holds the concession agreement for the CALAX.
Cebu Cordova Link Expressway Corporation (CCLEC)	Philippines	**–**	**100.0**	**99.9**	–	100.0	99.9	Tollway operations; CCLEC holds the concession agreement for the CCLEX
Metro Pacific Tollways Vizmin	Philippines	**–**	**100.0**	**99.9**	–	100.0	99.9	Investment holding
Luzon Tollways Corporation (LTC)	Philippines	**–**	**100.0**	**99.9**	–	100.0	99.9	Tollway operations; Dormant
NLEX Corp Subsidiary								
NLEX Ventures Corporation	Philippines	**–**	**100.0**	**75.5**	–	100.0	75.5	Service facilities management
MPT Asia Subsidiaries								
MPT Thailand Corporation	BVI	**–**	**100.0**	**99.9**	–	100.0	99.9	Investment holding
FPM Tollway (Thailand) Limited	Hong Kong	**–**	**100.0**	**99.9**	–	100.0	99.9	Investment holding
AIF Toll Road Holdings (Thailand) Co., Ltd (AIF)	Thailand	**–**	**100.0**	**99.9**	–	100.0	99.9	Investment holding; holds the investment in DMT (see Note 9).
MPT Vietnam Corporation	BVI	**–**	**100.0**	**99.9**	–	–	–	Investment holding
Metro Pacific Tollways South Corporation								

		September 30, 2017			December 31, 2016			
Name of Subsidiary	Place of Incorporation	**MPIC Direct Interest**	**Direct Interest of Subsidiary**	**MPIC Effective Interest**	MPIC Direct Interest	Direct Interest of Subsidiary	MPIC Effective Interest	Principal Activity
			(In %)			*(In %)*		
Metro Pacific Tollways South Management Corporation	Philippines	**–**	**100.0**	**99.9**	–	–	–	Tollway operations
MWHC Subsidiary								
Maynilad Water Services, Inc. (Maynilad)	Philippines	**5.2**	**92.9**	**52.8**	5.2	92.9	52.8	Water and sewerage services; Holds the concession agreement for the water distribution in the West Concession Area.
Maynilad Subsidiaries								
Amayi Water Solutions, Inc. (AWSI)	Philippines	**–**	**100.0**	**52.8**	–	100.0	52.8	Water and sewerage services
Philippine Hydro, Inc. (PHI)	Philippines	**–**	**100.0**	**52.8**	–	100.0	52.8	Water and sewerage services
MPW Subsidiaries								
MetroPac Cagayan De Oro, Inc. (MCDO)	Philippines	**–**	**100.0**	**100.0**	–	100.0	100.0	Water services
MetroPac Iloilo Holdings Corp.(MILO)	Philippines	**–**	**100.0**	**100.0**	–	100.0	100.0	Investment holding/ Water services
Metro Iloilo Bulk Water Supply Corp.	Philippines	**–**	**80.0**	**80.0**	–	80.0	80.0	Bulk water services; Holds the joint venture agreement for the bulk water supply in Metro Iloilo Water District.
Eco-System Technologies International, Inc. (ESTII)	Philippines	**–**	**65.0**	**65.0**	–	65.0	65.0	EPC and O&M contractor
MetroPac Cagayan de Oro Holdings, Inc.	Philippines	**–**	**100.0**	**100.0**	–	–	–	Investment holding
MetroPac Baguio Holdings Inc.	Philippines	**–**	**100.0**	**100.0**	–	–	–	Investment holding
MPHHI Subsidiaries								
Riverside Medical Center, Inc (RMCI)	Philippines	**–**	**78.0**	**66.7**	–	78.0	66.7	Hospital operation
East Manila Hospital Managers Corp. (EMHMC)	Philippines	**–**	**100.0**	**85.6**	–	100.0	85.6	Hospital operation; Doing business under the name and style of Our Lady of Lourdes Hospital
Asian Hospital Inc. (AHI)	Philippines	**–**	**85.6**	**73.3**	–	85.6	73.3	Hospital operation
Colinas Verdes Hospital Managers Corp. (CVHMC)	Philippines	**–**	**100.0**	**85.6**	–	100.0	85.6	Hospital operation; Doing business under the name and style of Cardinal Santos Medical Center.
AHI Hospital Holdings Corp.	Philippines	**–**	**100.0**	**85.6**	–	100.0	85.6	Investment holding, Formerly Bumrungrad International Philippines Inc.
De Los Santos Medical Center Inc. (DLSMC)	Philippines	**–**	**51.0**	**43.7**	–	51.0	43.7	Hospital operation
The Megaclinic, Inc. (Megaclinic)	Philippines	**–**	**–**	**–**	–	51.0	43.7	Clinic management
Central Luzon Doctors' Hospital, Inc. (CLDH)	Philippines	**–**	**51.0**	**43.7**	–	51.0	43.7	Hospital operation
Metro Pacific Zamboanga Hospital Corp. (MPZHC)	Philippines	**–**	**100.0**	**85.6**	–	100.0	85.6	Hospital operation; Doing business under the name and style of West Metro Medical Center.

Name of Subsidiary	Place of Incorporation	**September 30, 2017** MPIC Direct Interest	**Direct Interest of Subsidiary**	**MPIC Effective Interest**	December 31, 2016 MPIC Direct Interest	Direct Interest of Subsidiary	MPIC Effective Interest	Principal Activity
			(In %)			*(In %)*		
Medigo Corporation	Philippines	**–**	**100.0**	**85.6**	–	100.0	85.6	Telehealth operation; Formerly First Call 24/7 Corporation
Sacred Heart Hospital of Malolos Inc. (SHHM)	Philippines	**–**	**51.0**	**43.7**	–	51.0	43.7	Hospital operation; Acquired in 2016 (see Note 4).
Marikina Valley Medical Center, Inc. (MVMC)	Philippines	**–**	**93.0**	**79.6**	–	93.0	79.6	Hospital operation
Delgado Clinic Inc. (DCI)	Philippines	**–**	**65.0**	**55.6**	–	–	–	Hospital operation; Doing business under the name and style of Dr. Jesus C. Delgado Memorial Hospital; Acquired in 2017 (see Note 4).
Metro RMCI Cancer Center Corporation	Philippines	**–**	**51.0**	**43.7**	–	–	–	Clinic management; Incorporated in February 6, 2017
RMCI Subsidiary								
Riverside College, Inc. (RCI)	Philippines	**–**	**100.0**	**66.7**	–	100.0	66.7	School operations
CVHMC Subsidiary								
Colinas Healthcare, Inc.	Philippines	**–**	**100.0**	**85.6**	–	100.0	85.6	Clinic management
CLDH Subsidiary								
Metro CLDH Cancer Center Corporation	Philippines	**–**	**100.0**	**43.7**	–	100.0	43.7	Clinic management
MPLRC Subsidiaries								
Light Rail Manila Holdings Inc.(LRMH)	Philippines	**–**	**50.0**	**50.0**	–	50.0	50.0	Investment holding
Light Rail Manila Corporation (LRMC)	Philippines	**–**	**55.0**	**55.0**	–	55.0	55.0	Rail operations; Holds the concession agreement for the LRT-1.
Light Rail Manila Holdings 2, Inc.	Philippines	**–**	**50.0**	**50.0**	–	50.0	50.0	Investment holding
Light Rail Manila Holdings 6, Inc.	Philippines	**–**	**50.0**	**50.0**	–	50.0	50.0	Investment holding
MPLC Subsidiaries								
MetroPac Movers, Inc (MMI)	Philippines	–	**76.0**	**76.0**	–	76.0	76.0	Logistics
LogisticsPro, Inc.	Philippines	–	**100.0**	**100.0**	–	100.0	100.0	Logistics
MMI Subsidiaries								
MetroPac Trucking Company, Inc.	Philippines	–	**100.0**	**76.0**	–	100.0	76.0	Logistics
TruckingPro, Inc	Philippines	–	**100.0**	**76.0**	–	100.0	76.0	Logistics
PremierLogistics, Inc.	Philippines	–	**90.0**	**68.4**	–	100.0	76.0	Logistics
PremierTrucking, Inc.	Philippines	–	**100.0**	**76.0**	–	100.0	76.0	Logistics
OneLogistics, Inc.	Philippines	–	**100.0**	**76.0**	–	100.0	76.0	Logistics
NOHI Subsidiaries								
First Pacific Bancshares Philippines, Inc.	Philippines	–	**100.0**	**96.6**	–	100.0	96.6	Investment holding
Metro Pacific Management Services, Inc.	Philippines	–	**100.0**	**96.6**	–	100.0	96.6	Management services

		September 30, 2017			December 31, 2016			
Name of Subsidiary	Place of Incorporation	**MPIC Direct Interest**	**Direct Interest of Subsidiary**	**MPIC Effective Interest**	MPIC Direct Interest	Direct Interest of Subsidiary	MPIC Effective Interest	Principal Activity
			(In %)			*(In %)*		
First Pacific Realty Partners Corporation	Philippines	–	**50.0**	**48.3**	–	50.0	48.3	Investment holding
Metro Tagaytay Land Co., Inc.	Philippines	–	**100.0**	**96.6**	–	100.0	96.6	Real estate; Pre-operating.
Pacific Plaza Towers Management Services, Inc.	Philippines	–	**100.0**	**96.6**	–	100.0	96.6	Management services; Dormant.
Philippine International Paper Corporation	Philippines	–	**100.0**	**96.6**	–	100.0	96.6	Investment holding; Dormant.
Pollux Realty Development Corporation	Philippines	–	**100.0**	**96.6**	–	100.0	96.6	Investment holding; Dormant.
Metro Asia Link Holdings, Inc.	Philippines	–	**60.0**	**58.0**	–	60.0	58.0	Investment holding; Dormant.

Item 2

Management's Discussion and Analysis of Financial Condition and Results of Operations

Financial Highlights and Key Performance Indicators

The summary financial information presented below as at September 30, 2017 and for the nine-month periods ended September 30, 2017 and 2016 was derived from the Company's unaudited interim consolidated financial statements, prepared in accordance with Philippine Accounting Standard 34, *Interim Financial Reporting*. The information below is not necessarily indicative of the results of future operations.

In this Report, Core EBITDA, Core EBITDA Margin and Core Income are not measures of performance under Philippine Financial Reporting Standards (PFRS), and users of this Report should not consider Core EBITDA, Core EBITDA Margin and Core Income in isolation or as alternatives to net income as an indicator of the Company's operating performance or to cash flow from operating, investing and financing activities as a measure of liquidity, or any other measures of performance under PFRS. There are various Core EBITDA, Core EBITDA Margin and Core income calculation methods, accordingly, the Company's presentation of these measures may not be comparable to similarly titled measures used by other companies.

The following discussion and analysis of the Group's financial condition and results of operations should be read in conjunction with the accompanying unaudited interim condensed consolidated financial statements and the related notes as at September 30, 2017 and for the nine-month periods ended September 30, 2017 and 2016 ("September 30, 2017 Interim Consolidated Financial Statements") included in this Report.

	Unaudited		Increase (Decrease)	
	9M 2017	**9M 2016**	**Amount**	**%**
		(in Php Millions)		
Operating Revenues	43,093	33,139	9,954	30
Income before income tax	19,650	16,451	3,199	19
Core EBITDA	24,092	18,950	5,142	27
Core EBITDA margin	56%	57%	-1%	(2)
Attributable to owners of the Parent Company:				
Net income	11,128	9,480	1,648	17
Core income	11,330	9,284	2,046	22
Non-recurring income (expense)	(202)	196	(398)	>100

Overview

Highlights for the first nine months of the year which had financial impact are as follows:

- *Expanding the Hospital Business - Acquisition of Delgado Clinic Inc. (DCI).* On January 31, 2017, Metro Pacific Hospital Holdings, Inc. (MPHHI) completed agreement to infuse approximately ₱133.5 million of cash into DCI, owner and operator of the Dr. Jesus C. Delgado Memorial Hospital (JDMH) via a subscription to preferred shares representing approximately 65% of the total expanded capital stock of DCI. The cash infusion from MPHHI will enable JDMH to upgrade its equipment and facilities, and expand its capacity. MPHHI acquired DCI as part of its strategy to grow its portfolio, increase the Company's total bed capacity and be the largest private hospital group in the Philippines (see Note 4 to the September 30, 2017 Interim Consolidated Financial Statements).

- *Deeper participation in Power sector.* On June 13, 2017, MPIC signed a Share Purchase Agreement with PLDT Communications and Energy Venture Inc. (PCEV) for the purchase of PCEV's 25% remaining interests in Beacon Electric Asset Holdings Inc. (Beacon Electric) (both common and preferred shares) at a total purchase price of ₱21.8 billion. This purchase consideration was settled as to ₱12.0 billion in cash with the balance of ₱9.8 billion to be paid over the next four (4) years. In order to fund the investment, MPIC completed an overnight placing of 4.5% of its directly held Manila Electric Company (MERALCO) shares for an aggregate consideration of ₱12.7 billion. Following this and related financing transactions, MPIC's economic interest in MERALCO is 45.5% and in Global Business Power Corporation (GBPC) 62.4% (see Note 4 to the September 30, 2017 Interim Consolidated Financial Statements).

- *Step Acquisition of Tollways Management Corporation (TMC).* On April 4, 2017, MPT North (formerly Metro Pacific Tollways Development Corporation) completed the acquisition of additional 7% ownership in TMC from EROSA which increased its effective ownership from 60.0% to 67.0%. This acquisition was accounted for as a business combination with MPT North acquiring control over TMC (see Note 4 to the September 30, 2017 Interim Consolidated Financial Statements).

The following events and transactions did not have any significant financial impact as of September 30, 2017 but are expected to affect financial results in the future:

- *Expanding Water Business outside Metro Manila.*
  - MetroPac Water Investments Corporation (MPW) received the Notice of Award (NOA) for the Cagayan de Oro 100 MLD Bulk Water Project (CDO Bulk Water Project) on March 23, 2017. The CDO Bulk Water Project, which has a term of 30 years, renewable for another 20 years, involves the acquisition and construction of a 100 MLD water treatment plant and the construction of new water transmission lines and rehabilitation of the Camaman-an Reservoir, to supply the Cagayan de Oro Water District which currently has approximately 90,000 service connections. The estimated project cost is approximately ₱2.8 billion. This project will be implemented through a joint venture company to be owned by MPW (95%) and the Cagayan de Oro Water District (5%). The definitive agreements implementing the joint venture is expected to be signed upon completion of the requirements in the NOA.

  - On August 31, 2017, the MPW was officially granted original proponent status for the Pampanga Bulk Water Supply Project by the Office of the Governor of Pampanga, paving the way for the company to negotiate details of the project. Upon successful completion of negotiations, the project will undergo a competitive challenge consistent with the Province's Public-Private Partnership Code.

- *Merger between NLEX Corp and TMC.* On October 19, 2016, the BOD of NLEX Corporation (NLEX Corp; formerly Manila North Tollways Corporation) approved the proposed merger between NLEX Corp and TMC, with NLEX Corp as the surviving corporation. On November 17, 2016, majority of the stockholders of NLEX Corp confirmed and ratified the proposed merger between NLEX Corp and TMC. On April 17, 2017, NLEX Corp and TMC, signed the plan of merger and articles of merger, pursuant to which NLEX Corp and TMC will be merged, with NLEX Corp as the surviving corporation. As the surviving corporation, NLEX Corp's corporate existence shall continue and shall: (a) acquire all respective rights, businesses, assets and other properties of TMC; and, (b) assume all the debts and liabilities of TMC. NLEX Corp will remain to be an indirect subsidiary of MPIC after the implementation of the merger, which is expected to be completed within the year.

- *Expanding the Power Business*.
  - In March 2017, an MPIC led consortium including Covanta Energy, LLC and Macquarie Group, Ltd. was granted Original Proponent Status by the Quezon City Government for a 42 MW energy from waste project. The project will design, construct, finance and operate an Integrated Solid Waste Management (ISWM) facility in Quezon City. The ISWM facility will be capable of processing and converting up to 3,000 metric tons per day of Quezon City's municipal solid waste into 42MW of renewable energy, enough to power between 60,000 to 90,000 homes.

  - In June 2017, GBPC and Alsons Consolidated Resources Inc. (ACR) forged an agreement where the former will acquire a 50% interest in Alsons Thermal Power Corp. (ATEC). Under the deal, ACR will sell 14,952,678 shares to GBPC with a base purchase price of ₱4.25 billion. This investment was cleared by the Philippine Competition Commission on September 25, 2017 and is now in the final stages of closing.

- *Replicating LRT1 success to MRT3*. In September 2017, MPIC was granted the original proponent status for the rehabilitation, operations and maintenance of MRT3. The proposal consists of the full and comprehensive rehabilitation of MRT3 and its operation and maintenance under a 30-year concession ("MRT-3 Project"). The rehabilitation plan, for which capital expenditure is estimated at ₱12.5 billion, includes rail replacement, rehabilitation of signaling equipment, station upgrades, and the overhaul and eventual replacement of existing LRVs. MPIC has also offered to purchase the Government's stake held by Land Bank of the Philippines and Development Bank of the Philippines in Metro Rail Transit Corporation. As original proponent of the MRT-3 Project, MPIC will have exclusive rights to enter negotiations with the Government in relation to the proposal. Upon successful completion of negotiations, the MRT-3 Project will be subjected to a swiss challenge consistent with the requirements of the Build-Operate-Transfer Law and its implementing rules.

- *Gearing up on Logistics business.* Metropac Movers Inc. (MMI) signed an agreement in January 2017 to acquire certain assets and business of Ace Logistics, Inc. (Ace) for an aggregate purchase price of ₱280 million. The acquisition was conditionally completed in April 2017. Ace is engaged in the business of logistics, including warehousing, courier express and parcel delivery, e-commerce delivery, trucking, freight forwarding, customs brokerage and domestic shipping. Ace also has a strong presence in pre-delivery inspection in the automotive industry, which MPIC intends to expand.

Description of Operating Segments of the Group

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components. An operating segment's operating results are reviewed regularly by the chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

The following are the Group's reportable segments:

- *Power*, which primarily relates to the operations of MERALCO in relation to the distribution, supply and generation of electricity and GBPC in relation to power generation. The investment in MERALCO is held both directly and indirectly through Beacon Electric while the investment in GBPC is held through Beacon Electric's wholly-owned entity, Beacon PowerGen Holdings Inc. (BPHI).

- *Toll operations*, which primarily relate to operations and maintenance of toll facilities by Metro Pacific Tollways Corporation (MPTC) and its subsidiaries NLEX Corp and Cavitex Infrastructure Corporation (CIC), TMC and associates, CII Bridges and Roads Investment Joint Stock Company (CII B&R) and Don Muang Tollway Public Ltd (DMT). Certain toll projects are either under pre-construction or on-going construction as at September 30, 2017.

- *Water*, which relates to the provision of water and sewerage services by Maynilad Water Holding Company, Inc. (MWHC) and its subsidiaries Maynilad Water Services, Inc. (Maynilad) and Philippine Hydro, Inc. (PHI), and other water-related services by MPW.

- *Healthcare*, which primarily relates to operations and management of hospitals and nursing colleges and such other enterprises that have similar undertakings by MPHHI.

- *Rail*, which primarily relates to Metro Pacific Light Rail Corporation (MPLRC) and its subsidiary, Light Rail Manila Corporation (LRMC), the concessionaire for the operations and maintenance of the Light Rail Transit Line 1 (LRT-1) and construction of the LRT-1 south extension.

- *Logistics*, which primarily relates to the Company's logistics business through MetroPac Logistics Company, Inc. (MPLC) and its subsidiaries, MetroPac Movers, Inc. (MMI).

- *Others*, which represent holding companies and operations of subsidiaries and other investees involved in real estate and provision of services.

Operational Review

I - MPIC CONSOLIDATED

The Company's chief operating decision maker is the BOD. The BOD monitors the operating results of each business unit separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on: consolidated net income for the period; earnings before interest, taxes and depreciation and amortization, or Core EBITDA; Core EBITDA margin; and core income. Net income for the period is measured consistent with consolidated net income in the consolidated financial statements.

Core EBITDA is measured as net income excluding depreciation and amortization of property and equipment and intangible assets, asset impairment on noncurrent assets, financing costs, interest income, equity in net earnings (losses) of associates and joint ventures, net foreign exchange gains (losses), net gains (losses) on derivative financial instruments, provision for (benefit from) income tax and other non-recurring income (expenses). Core EBITDA margin pertains to Core EBITDA divided by service revenues.

Performance of the operating segments are also assessed based on a measure of recurring profit or core income. Core income is measured as net income attributable to owners of the Parent Company excluding the effects of foreign exchange and derivative gains or losses and non-recurring items (NRI), net of tax effect of aforementioned. NRI represent gains or losses that, based on occurrence or size, are not considered usual operating items.

The following section includes discussion of the Company's results of its operations as presented in its consolidated financial statements as well as management's assessments of the performance of the Group which is translated to core (or recurring) profit and non-core (or non-recurring) profit.

9M 2017 versus 9M 2016

MPIC Consolidated Statements of Comprehensive Income

	Unaudited		Increase (Decrease)	
	9M 2017	**9M 2016**	**Amount**	**%**
		(in Php Millions)		
Operating revenues	43,093	33,139	9,954	30
Cost of sales and services	19,025	13,412	5,613	42
General and administrative expenses	8,443	6,575	1,868	28
Interest expense	5,249	4,182	1,067	26
Share in net earnings of equity method investees	5,993	5,423	570	11
Interest income	352	306	46	15
Other income (expense) - net	2,929	1,752	1,177	67
Provision for income tax	4,252	2,737	1,515	55
Attributable to owners of the Parent Company:				
Net income	11,128	9,480	1,648	17
Other comprehensive income (loss)	219	746	(527)	(71)
Total comprehensive income	11,345	10,213	1,132	11
Core income	11,330	9,284	2,046	22
Non-recurring income (expense)	(202)	196	(398)	>100

Revenues

The Company’s revenues increased by 30% to ₱43,093 million for the first nine months of 2017, reflecting consolidation of GBPC which contributed 15% or ₱6,475 million to the group’s revenues together with improved performances from the following operating segments.

- Water utilities posted a 4% increase in revenues on the strength of (i) Maynilad’s 2% billed volume growth and a 1.9% inflationary increase in tariff effective end of April 2017; and (ii) MPW’s Bulk water and Sewage Treatment Plant services’ contribution.
- Toll revenues are higher by 9% with average daily entries for the first nine months of 2017 up by 7% on the NLEX, 22% on the SCTEX and 8% on the CAVITEX compared with the same period in 2016.
- Hospital revenues increased by 20% to ₱7,872 million driven by (i) contributions from Marikina Valley Medical Center (acquired on July 29, 2016) and JDMH (acquired on January 31, 2017) and (iii) increased number of out-patients served across all hospitals.
- Rail revenues grew 5% driven by the 7% growth in average daily ridership.
- Also, contributing to the increase in revenues is the Logistics business owing to the acquisition of certain logistics assets and businesses in May 2016. Logistics revenues during the first nine months of 2017 at ₱836 million compared to ₱229 million during the same period last year.

Cost of Sales and Services

Cost of sales and services increased by 42% to ₱19,025 million for the first nine months of 2017 due to:

- GBPC’s consolidation accounting for 30% or ₱4,044 million of the increase.
- Maynilad’s one-time separation expenses for redundancies and redefined job functions brought about by changes in work processes.
- Logistics business grew with the expansion of trucking and warehouse services resulting in increased personnel, maintenance and other warehouse cost.

- Increased amortization expense of concession assets from completed capital expenditures at Maynilad and MPTC.

General and administrative expenses

General and administrative expenses increased by 28% to ₱8,443 million for the first nine months of 2017 due to:

- consolidation of GBPC accounting for 9% or ₱574 million of the total increase.
- increases in personnel costs with annual salary increases and expanded headcount to support the growing logistics business.
- Hospital growth amounted to ₱353 million or 5% of the total increase driven by the contribution from new hospitals MVMC and JDMH and increase in personnel cost with expanded headcount.

Interest expense

Interest expense increased by 26% to ₱5,249 million for the first nine months of 2017 due to:

- Interest from acquired debt from consolidating Beacon Electric including BPHI and GBPC beginning June 27, 2017
- Interest from loan drawdowns made during the year (see Note 14 to the September 30, 2017 Interim Consolidated Financial Statements).

Share in net earnings of equity method investees

Share in net earnings of equity method investees increased by 11% to ₱5,993 million for the first nine months of 2017 mainly due to the increase in effective ownership in MERALCO (See Note 9 to the September 30, 2017 Interim Consolidated Financial Statements).

Other income (expense) – net

Other income (net) included dividend income from Beacon Electric's Preferred shares, gain on remeasurement of previously held interest in TMC and gain on sale of MERALCO offset by the loss on remeasurement of previously held interest in Beacon Electric (See Notes 4 and 23 to the September 30, 2017 Interim Consolidated Financial Statements).

Consolidated net income attributable to equity holders of the Parent Company

The 17% or ₱1,648 million increase in the consolidated net income attributable to equity holders of the Parent Company is mainly attributable to (i) an expanded power portfolio through increased investment in Beacon Electric; (ii) robust traffic growth on each of the roads held by MPTC; and (iii) continuing growth in the Hospital Group.

Other comprehensive income (loss) attributable to equity holders of the Parent Company

The Company recorded other comprehensive income of ₱219 million during the first nine months of 2017 compared with ₱746 million in 2016 as it recognized a lower share in MERALCO's change in fair value of available-for-sale financial assets and recognition of Actuarial loss as compared with nil in the first nine months of 2016.

Core Income attributable to equity holders of the Parent Company

MPIC's share in the consolidated core income increased by 22% from ₱9,284 million for the first nine months of 2016 to ₱11,330 million in 2017 primarily reflecting the following:

- Power (distribution and generation) accounted for ₱7.6 billion or 54% of the aggregate contribution;
- Toll operations contributed ₱3.0 billion or 21% of the total;
- Water (distribution, production and sewerage treatment) contributed ₱2.8 billion or 20% of the total;

- Hospital group contributed ₱518 million or 4% of the total; and,
- the Rail, Logistics and others contributed ₱173 million or 1% of the total.

The figures referred to above represent MPIC's share in the stand-alone core income of the operating companies, net of consolidation adjustments.

Non-recurring income (expenses)

Non-recurring expense amounted to ₱202 million for the first nine months of 2017 comprise of (a) accounting loss on remeasurement of previously held interest in Beacon Electric, (b) refinancing costs, (c) project expenses and (d) one-time separation expense as a result of Maynilad's redundancy and right-sizing program, offset by the (a) accounting gain from remeasurement of previously held interest in TMC and (b) gain on sale of MERALCO. Last year's non-recurring income amounted to ₱196 million and mainly included Maynilad's remeasurement of future deferred taxes.

II - OPERATING SEGMENTS OF THE GROUP

Power - MERALCO

Manila Electric Company	9M 2017	9M 2016	Increase (Decrease) Amount	%
	Unaudited			
	(in Php Millions)			
Revenues	**214,389**	195,164	19,225	10
Expenses	**193,808**	174,940	18,868	11
Core income	**15,370**	14,966	404	3
Reported net income attributable to equity holders of MERALCO	**15,928**	15,676	252	2
Capital Expenditure	**8,075**	7,634	441	6
Key Performance Indicators			**Increase (Decrease)**	
	9M 2017	**9M 2016**	**Amount**	**%**
Volume Sold (in mln kwh)	**31,401**	30,103	1,298	4
System Loss (12-month moving average)	**6.05%**	6.40%	-0.35%	(5)

Operational highlights

MERALCO's Core Net Income for the first nine months of 2017 grew by 3% to ₱15.4 billion. Distribution revenues rose by 4% in line with volume growth on flat tariffs which combined with an improved result from associated companies to increase Core Income by 3% to ₱15.4 billion for the period

The 4% increase in energy sales was noted across all customer classes which all grew by 4%. Residential growth was driven by the increasing number of condominiums, apartments and government housing. Commercial sector grew on continued expansion of the Business Process Outsourcing and Gaming Operators while the Industrial sector was anchored on the robust performance of the semiconductor, food and beverage, and basic metal industries.

Total revenues rose 10% to ₱214.4 billion due to increased energy sales and higher pass-through generation charges driven by sharply higher fuel prices caused by a scheduled maintenance shutdown of the Malampaya gas facilities, increased price of coal and oil and the depreciation of the Philippine Peso against the U.S. dollar.

MERALCO spent ₱8.1 billion on capital expenditures in the first nine months of 2017 to address critical loading of existing facilities and to accommodate growth in demand and customer connections. MERALCO surpassed the previous year's operating performance for system loss, achieving a record best of 6.1% at the end of September 2017, 2.4 percentage points lower than the regulatory cap of 8.5% set by the Energy Regulatory Commission (ERC).

MERALCO continues to increase the scope of its power projects through MERALCO PowerGen Corporation (MGen):

- San Buenaventura Power Limited (SBPL), a joint venture between MGen and Thailand's New Growth B.V., a subsidiary of EGCO, is developing a 455 MW (net) supercritical coal-fired power plant in Mauban, Quezon. Construction is proceeding as scheduled, with commercial operation due in June 2019. The plant capacity is contracted under an ERC approved PSA with MERALCO.

- Redondo Peninsula Energy, Inc. (RP Energy), a joint venture of MGen, Therma Luzon, Inc., and Taiwan Cogeneration International Corporation, is awaiting ERC approval of the Power Supply Agreement (PSA) with MERALCO covering a substantial portion of its first 300 MW capacity coal-fired power plant.

- Atimonan One Energy Corporation is awaiting review and approval of its PSA from the ERC for it to issue a Notice to Proceed for the Engineering, Procurement and Construction (EPC) for its 2x600 MW coal-fired plant in Atimonan, Quezon. The PSA for the entire capacity is contracted by MERALCO.

Revenues

Consolidated revenues in the first nine months of 2017 amounted to ₱214.4 billion, 10% higher than the ₱195.2 billion in the same period in 2016. The higher revenues are the result of the combined effect of (i) a 4% increase in volume of energy sold; (ii) the increased generation charge related to the 20-day maintenance shutdown of the Malampaya gas facilities and the extended maintenance outages of certain coalfired power plants; (iii) increased price of coal, oil and gas; and (iv) the depreciation of the peso versus the U.S. dollar.

Expenses

Purchased power cost, the biggest component of MERALCO's expenses, is the cost of electricity supply. MERALCO does not operate its own generation capacity in the Philippines at present and purchases all of the power it distributes from the National Power Corporation (NPC) and its Successor Generating Companies, the WESM and Independent Power Producers.

Net income

MERALCO's net income increased by 2% to ₱15.9 billion for the first nine months of 2017 from ₱15.7 billion in 2016. This is mainly driven by increased power of volume sold and lower losses at FPM Power.

Power - GBPC

GBPC	9M 2017	9M 2016	Increase (Decrease) Amount	%
	Unaudited			
	(in Php Millions)			
Revenue	**17,227**	12,956	4,271	33
EBITDA Core	**6,979**	6,185	794	13
Core Income	**2,079**	1,939	140	7
Reported Net Income attributable to equity holders of GBPC	**2,034**	1,850	184	10

Key Performance Indicators	9M 2017	9M 2016	Increase (Decrease) Amount	%
Electricity Sold (consolidated; GWh)	**3,278**	2,690	588	22
Bilateral – Generation	**2,765**	2,398	367	15
Bilateral – WESM	**261**	199	62	31
WESM – Spot Sales	**252**	93	159	170

GBPC sold 3,278 GWH in the first nine months of 2017, an increase of 22% from a year earlier. Core Net Income for the first nine months of 2017 was ₱2.1 billion.

GBPC's subsidiary, Panay Energy Development Corporation, began operations of its 150 MW expansion plant in the first quarter of this year. However, final plant acceptance is pending until all rectification works are completed, probably in early 2018.

GBPC is looking at several projects to expand its energy portfolio through investment in solar, bagasse, pumped storage, hydro and run of river energy sources as part of the company's commitment to offer flexible energy solutions to its customers.

During the third quarter, Global Energy Supply Corporation (GESC), signed power supply agreements with two of the country's biggest property developers to supply power of up to 62 MW to certain malls in the Visayas under the ERC's retail competition and open access (RCOA) scheme. The partnership with these property developers underscores GBPC's commitment to support expansion of fast-growing cities in the Visayas region.

Revenues

Revenue growth of 33% is mainly driven by higher pass-through cost resulting from higher coal and fuel prices. Excluding the pass-through revenues, capital recovery and other revenues grew by 9% which is mainly driven by the 22% increase in electricity sold partly offset by some price (and margin) reduction.

Net Income

GBPC's Reported Net Income increased by 10% mainly due to the benefits of the increase in revenue being largely offset by the higher income tax expense driven by the expiration of Income Tax Holiday in Cebu Energy Development Corporation (CEDC) in November 2016 and PEDC (units 1 and 2) in March 2017.

Toll Operations

Metro Pacific Tollways Corporation	9M 2017	9M 2016	Increase (Decrease) Amount	%
	Unaudited			
	(in Php Millions)			
Consolidated Statements of Income				
Net toll revenues	**9,605**	8,794	811	9
Cost of Services	**3,420**	3,671	(251)	(7)
Operating expenses	**1,027**	928	99	11
Interest expense - net	**(959)**	(820)	139	17
Share in earnings of an associate	**507**	319	188	59
Other income - net	**186**	275	(89)	(32)
Provision for income tax	**(998)**	(900)	(98)	11
Core Income	**3,024**	2,365	659	28
Non-recurring income (expense) - net	**1,483**	(185)	1,668	>100
Reported net income	**5,366**	2,880	2,486	86
Reported net income attributable to equity holders of MPTC	**4,507**	2,180	2,327	107
Core EBITDA	**6,259**	5,292	967	18
Core EBITDA margin	**65%**	60%	5%	8
Capital Expenditure	**3,988**	3,949	39	1

Key Performance Indicators	9M 2017	9M 2016	Increase (Decrease) Amount	%
Average Daily Vehicle Entries:				
NLEX	**233,243**	217,191	16,052	7
SCTEX	**53,406**	43,600	9,806	22
CAVITEX	**137,627**	127,632	9,995	8
DMT and CII B&R	**150,536**	144,436	6,100	4

Operational highlights

MPTC recorded Core Net Income of ₱3.0 billion in the first nine months of 2017, up 28% from the ₱2.4 billion recorded a year earlier on the strength of an 8% increase in system-wide vehicle entries to an average of 589,307 a day and tight cost controls.

Tollroads in the Philippines:

Average daily vehicle entries for all three of our domestic tollways system (NLEX, CAVITEX and SCTEX) rose 10% to 438,771 compared with the same period in 2016.

Traffic on the NLEX grew 7% and surged by 22% on the SCTEX following integration of these two roads in 2016. Traffic on the CAVITEX rose 8% driven by growth in residential communities in Cavite and tourism in Batangas.

For all our built roads, we are focused on investment to meet rising demand:

- Toll plaza expansions were undertaken at major points such as Balintawak, Meycauayan and Mindanao Ave. New exits to increase accessibility to industrial hubs and subdivisions were also added.

- Segments 2 and 3 of the NLEX Road-Widening Project are complete and approval of add-on toll rate of ₱0.25 per kilometer was received from the Toll Regulatory Board on September 22, 2017.

- Construction of the second stage of the ₱10.5 billion NLEX Harbour Link running from Valenzuela City to C3 in Caloocan City is expected to be completed by the first half of 2018.

- On the CAVITEX, construction of the ₱12.6 billion C5 Link Expressway joining C-5 Road in Taguig to R-1 (Coastal) Expressway commenced in June. Completion of this 7.7-kilometer road is expected in 2020.

Progress on new roads is as follows:

- Construction of the ₱23.3 billion 8-kilometer elevated NLEX-SLEX Connector Road Project is due to begin in the second quarter of 2018. Running from the NLEX in Caloocan City and connecting to the South Luzon Expressway (SLEX) in the City of Manila the road is targeted for completion in 2020.

- Ground breaking for the ₱16.9 billion 44.6-kilometer Cavite Laguna Expressway, connecting the CAVITEX to Binan in Laguna, was held on June 19, 2017. An initial seven kilometers of the project has cleared right-of-way hurdles and the Government is committed to delivering the remaining 40 kilometers to achieve planned completion by 2021.

- Ground breaking for the ₱26.3 billion 8.25-kilometer Cebu-Cordova Link Expressway, a road and bridge connecting Cebu City to Mactan Island via Cordova, was held on March 27, 2017. Construction is expected to commence later this year and to finish by 2020.

- Ground breaking for the ₱6.0 billion 2.6-kilometer Radial Road 10 section (R10 Section) of the NLEX Harbour Link was held on August 15, 2017. The R10 Section will be the continuation of the NLEX Harbour Link passing through MacArthur Highway in Valenzuela City, Governor Pascual Avenue in Malabon and C-3 Road and 5th Avenue in Caloocan City. Commencement of construction is expected to happen at the beginning of next year with completion by 2019.

MPTC will spend approximately ₱122.8 billion in the next five (5) years on building highways and tollroads around the Philippines. It is imperative that overdue tariff increases, now ranging between 20% and 48% on different parts of the network, be implemented to pay for all this. We are in constructive talks with the Government on how best to achieve this and are hopeful of resolution soon.

The merger of NLEX Corporation and Tollways Management Corporation, the Operations and Maintenance provider to the NLEX, is still awaiting approval by the Securities and Exchange Commission. The merger, with NLEX Corp as the surviving entity, is expected to cut costs and improve access to the capital necessary to finance further expansion.

MPTC launched its digital tollways program on August 22, 2017 to build awareness of the various electronic payment options now available for motorists traveling the NLEX, CAVITEX and SCTEX. These payment options include Easy Trip RFID, Mastercard contactless cards, and beep™ cards. MPTC's collaboration with digital enablers is a step towards delivering high quality modern infrastructure, both physical and digital, to more Filipinos via the toll roads network.

Tollroads outside the Philippines:

DMT in Bangkok reported a 2% increase in daily traffic to 97,838 while CII B&R in Vietnam delivered an 8% increase to 52,698 in the first nine months of the year.

As part of our push to build an ASEAN tollroad portfolio we have now also invested in Indonesia. In November 2017, MPTC, through its wholly-owned Indonesian subsidiary, PT Metro Pacific Tollways Indonesia, acquired approximately 48.3% ownership stake in PT Nusantara Infrastructure Tbk (PT Nusantara), a publicly listed limited liability company in Indonesia. PT Nusantara's infrastructure portfolio generates approximately 80% of its Core Net Income from tollroads, which attract over 300,000 vehicle entries a day.

Our presence now in the Philippines, Thailand, Vietnam and Indonesia means we are well on the way to establishing a PAN-ASEAN Tollways group.

Net Toll Revenues

Net toll revenues for the first nine months of 2017 amounted to ₱9.6 billion, 9% higher than the revenue recognized during the same period last year, mainly due to strong traffic growth on the NLEX (7%), SCTEX (22%) and CAVITEX (8%).

Cost of Services and Operating expenses

Despite the 9% increase in toll revenues, costs and expenses decreased by 3% to ₱4.4 billion during the first nine months of 2017. The decrease in expenses is largely attributable to the decrease in O&M fees from ₱1,484 million for the first nine months of 2016 to ₱433 million in 2017 owing to the consolidation of TMC beginning April 2017 (see Notes 4 and 27 to the September 30, 2017 Interim Consolidated Financial Statements).

Core income

Core income increased by 28% to ₱3.0 billion due to the combination of traffic growth on NLEX, SCTEX and CAVITEX and transfer of the investment in DMT from MPIC to MPTC. DMT was transferred from MPIC to MPTC in September 2016. Note, however, that such transfer of the DMT investment would not have any material impact on the consolidated results of MPIC.

Non-recurring income

Non-recurring income included accounting gain on remeasurement of previously held interest in TMC amounting to ₱1.8 billion at MPTC level (see Notes 4 and 23 to the September 30, 2017 Interim Consolidated Financial Statements) offset by the refinancing cost and project expenses.

Reported Net income attributable to equity holders of MPTC

Reported Net Income grew significantly more than growth in Core Income with MPTC recognizing a remeasurement gain on previously held interest in TMC as discussed above.

Water

	Unaudited		Increase (Decrease)	
Maynilad Water Services, Inc.	**9M 2017**	**9M 2016**	**Amount**	**%**
		(in Php Millions)		
Consolidated Statements of Income				
Revenues	**15,578**	15,220	358	2
Costs and Expenses	**6,484**	5,956	528	9
Interest expense - net	**(1,295)**	(1,479)	184	(12)
Other income (expense) - net	**(306)**	(52)	254	>100
Benefit from (Provision for) income tax	**(1,918)**	(2,341)	423	(18)
Core Income	**5,575**	5,391	184	3
Non-recurring income (expense)	**(470)**	(590)	(120)	(20)
Reported Net Income	**5,105**	4,801	304	6
Core EBITDA	**10,764**	11,051	(287)	(3)
Core EBITDA margin	**69%**	73%	-4%	(5)
Capital Expenditure	**7,662**	5,929	1,733	29
Key Performance Indicators			**Increase (Decrease)**	
	9M 2017	**9M 2016**	**Amount**	**%**
Volume of water supplied (MCM)	**565.6**	532.2	33.4	6
Volume of water billed (MCM)	**383.4**	374.2	9.2	2
Volume of water billed (MCM) - Consolidated	**395.7**	384.0	11.7	3
Non revenue water % (average)	**32.2%**	29.7%	2.5%	8
Non revenue water % (period end)	**32.5%**	30.6%	1.9%	6
Billed customers (period end)	**1,347,747**	1,301,619	46,128	4
Customer mix (% based on billed volume)				
Domestic (residential and semi-business)	**81.0%**	81.2%	-0.2%	(0)
Non-domestic (commercial and industrial)	**19.0%**	18.8%	0.2%	1

Operational highlights

MPIC's water business comprises its investments in Maynilad, the biggest water utility in the Philippines, and MetroPac Water Investments Corporation (MPW), the Company's unit focused on business development outside Metro Manila. The water segment's contribution to Core Net Income amounted to ₱2.8 billion in the first nine months of 2017, most of it attributable to Maynilad.

Maynilad – 1 million people receiving water at ₱1 centavo per liter – the lowest price in ASEAN
The matter of the Maynilad tariff implementation remains unresolved although the arbitration panel in Singapore ruled in favor of Maynilad more than two months ago in its related claim on the Republic of the Philippines:

- In 2014, Maynilad received a favorable award in the arbitration of its 2013-2017 water tariff which centered on Corporate Income Taxes being a recoverable expense. The MWSS has still not implemented the awarded tariff increase while indicating they will await clarification from the Supreme Court of the Philippines before proceeding.

- Acting in formal accordance with the provisions of its concession, Maynilad notified the Republic of the Philippines ("Republic") that it was calling on the Republic's written undertaking to compensate Maynilad for losses arising from delayed implementation of the new tariff. On March 27, 2015, Maynilad served a Notice of Arbitration against the Republic.

- On July 24, 2017, the Arbitral Tribunal unanimously upheld Maynilad's claim for compensation for the delayed implementation of its tariff increases for the rebasing period 2013 to 2017. The Tribunal ordered the Republic to reimburse Maynilad for losses from March 11, 2015 to August 31, 2016, without prejudice to any rights that Maynilad may have to seek recourse against MWSS for losses incurred from January 1, 2013 to March 10, 2015. Further, the Tribunal ruled that Maynilad is entitled to recover from the Republic its losses from September 1, 2016 onwards. In the event of disagreement on the amount of such losses, Maynilad may revert to the Tribunal for further determination.

- In a decision dated August 30, 2017, the Regional Trial Court of Quezon City granted the Petition for Confirmation and Enforcement of Arbitral Award that Maynilad filed in July 2015. We are awaiting confirmation from the MWSS as to whether it will act on this.

Maynilad is now in discussion with Government on settling its claim. However, the issue of the tariff going forward remains unresolved.

Non-Revenue Water (NRW) measured at the District Metered Area level increased to 32.5% as at the end of September 2017 from 30.6% in 2016 due to the abnormal water production in connection with last year's El Niño phenomenon. Just ten years ago, when MPIC first invested in Maynilad, NRW was at a staggering 68% and millions of customers had inadequate access to water. Continuing its unstinting work on service improvement, Maynilad repaired 21,874 pipe leaks across its concession area in the first nine months of the year.

Maynilad installed 37 kilometers of water pipes in the period, expanding its distribution line to 7,674 kilometers. Drinking water supply and sewerage coverage were 98% and 15% of its population, respectively, while 24-hour service and average water pressure of over 7 psi were maintained at 100%.

For 2017, Maynilad allotted ₱12.5 billion for its water and wastewater infrastructure projects; ₱5.0 billion for sewerage and sanitation programs and ₱7.5 billion for water sources and recovery of water losses.

For the first nine months of the year, capital expenditure stood at ₱7.7 billion, much of it directed to upgrading and building reservoirs and pumping stations, laying primary pipelines and construction of wastewater facilities to improve public health. Maynilad is currently building six new sewage treatment plants (STPs) in various parts of the West concession area to expedite the provision of sewerage and sanitation services for its customers. Once completed, these new wastewater facilities will be able to serve approximately 1,340,000 Maynilad customers.

MetroPac Water Investments Corporation
The Group's success in clean water production and distribution is expanding through water infrastructure projects won last year through MPW:

- Metro Iloilo Bulk Water Supply Corp. (MIB), a joint venture with the Metro Iloilo Water District (MIWD), commenced operations on July 5, 2016. MIB holds the joint venture project for the supply of up to 170 million liters per day (MLD) of bulk treated water to MIWD. Since commencement of operations, MIB has increased capacity to 46 MLD as of end-June 2017 from pre-take over capacity of 40 MLD, while optimizing power consumption and improving operational efficiency. The rehabilitation of the water facility of MIWD continues and is expected to be finished by June 2018. Once completed, capacity is expected to increase to a maximum of 61 MLD.

- Laguna Water District Aquatech Resources Corporation (LARC), in which MPW owns an effective stake of 27%, commenced operation and management of the distribution network of the Laguna Water District on January 1, 2016. As at end of September 2017, LARC has expanded its coverage to additional barangays in Nagcarlan, and increased water pressure in several locations. LARC has also realized marked enhancements in billing accuracy and collection efficiency through system developments, partnerships with collecting agents, and relocation of its office. 24/7 water availability also improved from 57% of customers pre-takeover to 87%.

- On August 14, 2017, the company signed a joint venture agreement with the Cagayan de Oro Water District for the supply of 100 MLD of treated bulk water over a term of 30 years, renewable for another 20 years. The project will be implemented through a joint venture company to be owned by MPW (95%) and the Cagayan de Oro Water District (5%).

To date, MPW's operating water projects have a total contracted or potential capacity to provide more than 390 MLD of water – equivalent to 28% of Maynilad's current billed volume of 1,370 MLD.

MPW continues to explore opportunities to supply clean water in markets outside Metro Manila. On August 31, 2017, the company was officially granted original proponent status for the Pampanga Bulk Water Supply Project by the Office of the Governor of Pampanga, paving the way for the company to negotiate details of the project. Upon successful completion of negotiations, the project will undergo a competitive challenge consistent with the Province's Public-Private Partnership Code.

When planned projects in the Philippines and elsewhere in ASEAN are placing MPW on a clear path to provide more water than Maynilad.

Maynilad's Revenues

	9M 2017	9M 2016	Increase (Decrease)	
	Unaudited		Amount	%
	(in Php Millions)			
Water Services	**12,591**	12,254	337	3
Sewer Services	**2,700**	2,635	65	2
Other Contract & Services	**287**	331	(44)	(13)
Total Revenues	**15,578**	15,220	358	2

Revenues slightly increased by 2% to ₱15.6 billion from ₱15.2 billion in the same period in 2016. Volume sold during this period grew 2% to 383.4 million cubic meters as compared with last year while the number of water connections (or billed customers) rose 4% to 1,347,747 at the end of September 2017. Percentage increases in the components of Maynilad's revenues are set out above.

Costs and Expenses

Costs and expenses increased by 9% to ₱6.5 billion compared with ₱6.0 billion last year primarily driven by increases in amortization of intangible assets which grew in line with Maynilad's continuing capital expenditure program. In addition, light and power increased due primarily to higher average power rates, coupled with higher electrical usage as a result of increased operating hours of pumping stations and in-line boosters to improve service levels in the South, increased water treatment activities in Putatan treatment plant to address water quality issues, and more sewage treatment plants in operation.

Core income

Core net income for the first nine months of 2017 increased by 3% to ₱5.6 billion from ₱5.4 billion mainly due to the 2% increase in revenue and lower average tax rate.

Non-recurring expenses

Non-recurring expense for the first nine months of 2017 substantially comprises Special Opportunity Program (SOP) costing ₱275 million which was recorded in March 2017.

Reported Net Income

The increase in Reported Net Income by 6% is higher than the increase in Core Income of 3% owing to the recognition of the SOP expense as mentioned above.

Healthcare

	9M 2017	9M 2016	Increase (Decrease)	
Healthcare Group*	Unaudited		Amount	%
	(in Php Millions)			
Gross Revenues	**16,530**	14,582	1,948	13
Expenses	**13,021**	11,406	1,615	14
Core EBITDA	**3,629**	3,243	386	12
Core Income	**1,510**	1,333	177	13
Reported Net Income	**1,518**	1,335	183	14
Key Performance Indicators			Increase (Decrease)	
	9M 2017	9M 2016	Amount	%
Occupancy rate (%) - Standard Beds	**66%**	70%	-4%	(5)
Total beds available	**2,967**	2,814	153	5
No. of Patients - In patient	**124,573**	118,141	6,432	5
No. of Patients - Out patient	**2,293,042**	2,017,166	275,876	14
No. of Accredited Doctors	**7,781**	7,347	434	6
No. of Enrollees (schools) - average YTD	**6,236**	5,543	693	13

**Combined financial results of entities under the healthcare group (e.g. subsidiaries and associates).*

Metro Pacific Hospital Holdings, Inc. saw aggregate Core Net Income surge by 13% to ₱1.5 billion in the first nine months of 2017 compared with the same period last year. Of the increase in Core Net Income, 4% was attributable to the contribution from new hospital acquisitions made in the latter part of 2016 while 9% was through organic growth driven by lower interest expense, cost savings from purchasing synergies and increasing patient revenues across the company's existing hospitals.

On January 31, 2017, MPHHI signed an agreement to infuse approximately ₱133.5 million into Delgado Clinic Inc., owner and operator of the Dr. Jesus C. Delgado Memorial Hospital via a subscription to preferred shares representing approximately 65% of the total expanded capital stock of DCI. The cash infusion from MPHHI will enable the 68-year-old JDMH to upgrade its equipment and facilities and expand its capacity to serve its surrounding communities.

On October 5, 2017, MPHHI completed the acquisition of a 54% stake in St. Elizabeth Hospital, Inc., a 248-bed tertiary level hospital located in General Santos City. MPHHI may infuse additional cash in SEHI in the near future to support SEHI's plans to expand and improve its facilities. An additional cash infusion by MPHHI could increase its interest in SEHI to approximately 80%. SEHI is MPHHI's 3rd hospital investment in Mindanao in support of the Government's thrust to spur economic development in the southern Philippines.

MPHHI has grown to 14 hospitals as at end of October 2017, with approximately 3,000 beds – eight hospitals in Metro Manila and six around the country (Bulacan, Tarlac, Bacolod, Davao, Zamboanga, and General Santos). MPHHI's healthcare portfolio also includes two healthcare colleges, Davao Doctors College and Riverside College in Bacolod, three primary care clinics, Megaclinic in SM Megamall Ortigas and TopHealth in SM San Lazaro, and a newly built cancer center in a joint venture with Lipa Medix in Batangas.

Rail

Rail	9M 2017	9M 2016	Increase (Decrease) Amount	%
	Unaudited			
	(in Php Millions)			
Farebox revenues	**2,327**	2,224	103	5
Expenses	**1,842**	1,722	120	7
Core EBITDA	**590**	557	33	6
Core Income	**380**	424	(44)	(10)
Reported Net Income	**372**	428	(56)	(13)
Key Performance Indicators			**Increase (Decrease)**	
	9M 2017	**9M 2016**	**Amount**	**%**
Average daily ridership	**431,281**	404,307	26,974	7
Available LRV (period end)	**106**	92	14	15

LRMC has operated the LRT Line 1 ("LRT-1"), since September 12, 2015 and has since then improved efficiencies and introduced new operational practices resulting in higher train frequencies to reduce waiting times, improve safety and cleanliness of stations, while extending operating hours and increasing customer satisfaction.

As at September 30, 2017, LRMC has successfully restored 29 Light Rail Vehicles (LRVs) bringing the total available to 106 LRVs and reduced cycle time to 100 minutes from an average of 118 minutes pre-takeover to cut waiting and travel times for passengers.

In August 2017, LRMC formally received the certification of its management systems to global standards by an international certification body. LRMC is now certified compliant for international standards in Quality Management Systems (ISO 9001:2015) and Environmental Management Systems (ISO 14001:2015), following a two-year companywide program to improve operational efficiencies. LRMC's certification makes LRT-1 the first and only railway system in the Philippines to have achieved the ISO certifications.

Contributing as well to the overall riding experience is the growing acceptability of the beep™ card, the contactless payment card that allows commuters to switch seamlessly from one train system to another. AF Payments Inc., operator of the Automated Fare Collection System in which MPIC has a 20% shareholding, has issued over 4.0 million cards since it launched beep™ in December 2014.

Through these operational efficiencies and innovation, LRMC served an average daily ridership of 431,281 in the first nine months of 2017, an improvement of 7% from the average daily ridership of 404,307 recorded in the same period last year. During the first nine months of 2017, the highest recorded daily ridership reached a record high of 548,000, well up from the 2016 high of of 533,000.

Further improvements in the overall riding experience are expected as the company nears completion of its rail replacement project – with 94% project completion as of end-September 2017. The rail replacement project is expected to be completed by the end of 2017 and will enable LRMC to increase train running speeds to 60 kilometers per hour, further reducing passenger waiting time with an expected 6% rise in the number of daily trips using the current number of LRVs in operation.

In March 2017, the LRT-1 Structural Restoration Project was given the Notice to Proceed with target completion in two years. This project will improve passenger safety with the restoration of 36-year-old parapets, faulty concrete, and repair of the railway’s river bridges. The Structural Restoration Project also complements the ongoing ₱750-million Station Improvement Project. LRMC inaugurated the Doroteo Jose Station in February 2017 and is currently refurbishing all remaining stations, aiming for completion by the second half of 2018.

LRMC contributed ₱210 million to MPIC’s Core Income for the period with increased ridership following the rehabilitation of LRVs together with operating cost savings and deferred capex spending, some of which is due to delay in the acquisition of rights of way by the Government. Moving forward, the combination of pending tariff adjustments partly offset by a rising cost base as operations expand to Cavite, will see profits normalize.

MPIC seeks to replicate LRMC’s success with LRT1 on Metro Rail Transit Line 3 (MRT-3), the most heavily utilized metro line traversing one of the busiest and most important thoroughfares in Manila. In September 2017, MPIC was granted the original proponent status for the rehabilitation, operations and maintenance of MRT-3. The proposal consists of the full and comprehensive rehabilitation of MRT3 and its operation and maintenance under a 30-year concession (“MRT-3 Project”). The rehabilitation plan, for which capital expenditure is estimated at ₱12.5 billion, includes rail replacement, rehabilitation of signaling equipment, station upgrades, and the overhaul and eventual replacement of existing LRVs. MPIC has also offered to purchase the Government’s stake held by Land Bank of the Philippines and Development Bank of the Philippines in Metro Rail Transit Corporation. As original proponent of the MRT-3 Project, MPIC will have exclusive rights to enter negotiations with the Government in relation to the proposal. Upon successful completion of negotiations, the MRT-3 Project will be subjected to a swiss challenge consistent with the requirements of the Build-Operate-Transfer Law and its implementing rules.

Logistics:

Following the acquisition of a majority of Basic Logistics in 2016, Metropac Movers Inc. signed an agreement in January 2017 to acquire certain assets and business of Ace Logistics, Inc. for an aggregate purchase price of ₱280 million. The acquisition was conditionally completed in April 2017. Ace is engaged in the business of logistics, including warehousing, courier express and parcel delivery, e-commerce delivery, trucking, freight forwarding, customs brokerage and domestic shipping. Ace also has a strong presence in pre-delivery inspection in the automotive industry, which MPIC intends to expand.

MMI is in active discussions for further opportunities in the logistics business.

3Q 2017 versus 3Q 2016

MPIC Consolidated Statements of Comprehensive Income

	3Q 2017	3Q 2016	Increase (Decrease)	
	Unaudited		Amount	%
	(in Php Millions)			
Operating Revenues	18,997	11,398	7,599	67
Cost of Sales and Services	9,083	4,658	4,425	95
General and administrative expenses	3,442	2,342	1,100	47
Interest expense	2,517	1,456	1,061	73
Share in net earnings of equity method investees	2,569	1,901	668	35
Interest income	178	93	85	91
Other income - net	174	(22)	196	>100
Provision for income tax	1,661	1,123	538	48
Attributable to owners of the Parent Company:				
Net income	3,307	2,500	807	32
Other comprehensive income (loss)	95	140	(45)	(32)
Total comprehensive income	3,400	2,642	758	29
Core income	3,530	2,640	890	34
Non-recurring income (expense)	(223)	(140)	83	59

Revenues

The Company's revenues increased by 67% to ₱18,997 million for the third quarter of 2017, reflecting (i) consolidation of GBPC which contributed 57% or ₱6,476 million to the group's revenues; and (ii) improved performances form the following operating segments.

- Water utilities posted a 9% increase in revenues brought about by (i) Maynilad's 4% billed volume growth and a 1.9% inflationary increase in tariff effective April 2017; and (ii) MPW's Bulk water and Sewage Treatment Plant service contribution.
- Toll revenues grew by 10% mainly due to higher traffic across all our roads.
- Hospital revenues also increased by 16% driven by the increasing number of outpatients served and new contributions from MVMC and JDMH.
- Rail revenues grew 7% driven by the 8% growth in average daily ridership.

Cost of Sales and Services

Cost of sales and services increased by 95% to ₱9,083 million for the third quarter of 2017 due to:

- GBPC's consolidation accounting for 87% or ₱4,044 million of the increase.
- Hospital growth is mainly driven by the contribution from new hospitals (MVMC and JDMH) and increased medical services and supplies in line with the increase in patients served.
- increases in personnel costs with annual salary increases and expanded headcount to support the growing logistics business.

General and administrative expenses

General and administrative expenses increased by 47% to ₱3,442 million for the first nine months of 2017 due to:

- consolidation of GBPC accounting for 25% or ₱574 million of the total increase.
- Hospital growth is driven by the contribution from new hospitals and higher personnel cost driven by expanded headcount and higher depreciation from the continuous hospital improvements.
- increases in personnel costs with annual salary increases and expanded headcount to support the growing logistics business.

Interest expense

Interest expense increased by 73% to ₱2,517 million for the third quarter of 2017 mainly due to consolidating Beacon Electric including BPHI and GBPC beginning June 27, 2017 and interest from drawdowns made during the current period.

Share in net earnings of equity method investees

Increase in MPIC's share in the net earnings of associates and joint venture for the third quarter of 2017 is primarily attributable to increase in effective share in MERALCO from 41.2% in 3Q2016 to 45.5% in 3Q2017.

Other income (expense) – net

Other income (net) at ₱174 million in 3Q2017 is mainly composed of the dividend income from AFS amounting to ₱89 million and higher advertisement income from MPTC and LRMC. 3Q2016 is mainly composed of provision reversals offset by foreign exchange losses.

Consolidated net income attributable to equity holders of the Parent Company

Consolidated net income increased from ₱2,500 million to ₱3,307 million for the third quarter. The increase was mainly driven by the strong growth in profit contribution of the major businesses and increased effective ownership in MERALCO.

Core Income attributable to equity holders of the Parent Company

MPIC's share in the consolidated core income increased by 34% from ₱2,640 million for the third quarter of 2015 to ₱3,530 million in 2017 mainly reflecting the following:

- Power (distribution and generation) accounted for ₱2.3 billion or 51% of the aggregate contribution;
- Toll operations contributed ₱1.0 billion or 21% of the total;
- Water (distribution, production and sewerage treatment) contributed ₱1.0 billion or 21% of the total;
- the Healthcare contributed ₱210 million or 5% of the total; and,
- the Rail, Logistics and others contributed ₱69 million or 2% of the total.

The figures referred to above represent MPIC's share in the stand-alone core income of the operating companies, net of consolidation adjustments.

Non-recurring income (expenses)

Non-recurring expense amounted to ₱223 million for the third quarter 2017 is composed of business development expenses and provisions.

Discussion on Financial Position as at December 31, 2016 and September 30, 2017

Assets

The following table summarizes the individual increases (decreases) of consolidated asset accounts.

	September 30, 2017 Unaudited	%	December 31, 2016 Audited	%	Increase (Decrease) Amount	%
	(in Php Millions)					
ASSETS						
Current assets						
Cash and cash equivalents and short-term deposits	**49,414**	66	19,469	61	29,945	>100
Restricted cash	**3,730**	5	2,432	8	1,298	53
Receivables	**10,802**	15	5,171	16	5,631	>100
Other current assets	**10,241**	14	4,728	15	5,513	>100
	74,187	100	**31,800**	100	42,387	>100
Noncurrent Assets						
Restricted cash	–	–	889	–	(889)	(100)
Available for sale financial assets	**1,722**	–	1,859	1	(137)	(7)
Investments and advances	**126,427**	31	126,556	40	(129)	(0)
Service concession assets	**164,077**	39	152,693	47	11,384	7
Property, plant and equipment	**64,319**	16	10,480	3	53,839	>100
Goodwill	**35,536**	9	21,004	7	14,532	69
Deferred tax assets	**940**	–	467	–	473	>100
Other noncurrent assets	**20,958**	5	5,854	2	15,104	>100
	413,979	100	319,802	100	94,177	29

The significant increase in most balance sheet captions from December 31, 2016 to September 30, 2017 is due to the consolidation of Beacon Electric and GBPC for the first time in 2017.

- *Cash and cash equivalents and short-term deposits* – (Increase) Mainly due to cash and cash equivalent acquired from consolidating Beacon Electric including GBPC combined with the drawdown of additional loans at MPTC, MPIC and LRMC less capital expenditure payments (see "Liquidity and Capital Resources" for the summary of the Group's statement of cash flow for the nine-month ended September 30, 2017).

- *Restricted Cash – current and non-current portions* – (Increase) Mainly attributable to restricted cash acquired from consolidating GBPC and increase in restricted cash allotted for the scheduled payment of loans offset by the partial release of MPTC's restricted cash related to the construction of Segment 10 (see Note 5 to the September 30, 2017 Interim Consolidated Financial Statements).

- *Receivables* – (Increase) Mainly driven by the trade and other receivables acquired from consolidating GBPC (see Notes 4 and 6 to the September 30, 2017 Interim Consolidated Financial Statements). In addition, trade receivables also increased consistent with improvement in revenues.

- *Other current assets* – (Increase) Mainly driven by the Input VAT, inventories and other current assets acquired from consolidating GBPC (see Notes 4 and 7 to the September 30, 2017 Interim Consolidated Financial Statements).

- *Investments and advances* – (Slight decrease) Decrease is attributable to the step up acquisitions of Beacon Electric and TMC (derecognition of the equity investment to line-by-line consolidation) offset by the increase in equity investment in MERALCO (increase in effective ownership by 4.5% beginning June 2017) See Notes 4 and 9 to the September 30, 2017 Interim Consolidated Financial Statements.

- *Goodwill* – (Increase) Due to the goodwill arising from business combination of Beacon Electric and TMC. In addition, the finalization of PPA of MMI and ESTII contributed to the increase. (See Note 4 to the September 30, 2017 Interim Consolidated Financial Statements).

- *Service concession assets* – (Increase) Mainly due to the additional capital expenditures for the year, net of amortization. See Note 10 to the September 30, 2017 Interim Consolidated Financial Statements for the nature of the additions to the service concession assets.

- *Property, plant and equipment* – (Increase) Mainly driven by the consolidation of GBPC (see Note 4 to the September 30, 2017 Interim Consolidated Financial Statements). In addition, acquisitions from Hospitals net of depreciation also contributed to the increase.

- *Other noncurrent assets* – (Increase) Mainly driven by the intangible asset arising from business combination from consolidating GBPC (see Notes 4 and 11 to the September 30, 2017 Interim Consolidated Financial Statements).

Liabilities and Equity

The following table summarizes the individual increases (decreases) of consolidated liability and equity accounts.

	September 30, 2017		December 31, 2016		Increase (Decrease)	
	Unaudited	**%**	**Audited**	**%**	**Amount**	**%**
			(in Php millions)			
Current Liabilities						
Accounts payable and other current liabilities	**24,393**	47	14,965	56	9,428	63
Income tax payable	**1,415**	3	466	2	949	>100
Due to related parties	**3,825**	8	1,713	6	2,112	>100
Current portion of:						
Provisions	**5,749**	11	5,229	19	520	10
Long-term debt	**14,551**	29	3,797	14	10,754	>100
Service concession fees payable	**889**	2	874	3	15	2
	50,822	100	27,044	100	23,778	88
Noncurrent Liabilities						
Noncurrent portion of:						
Provisions	**1,932**	1	239	–	1,693	>100
Service concession fees payable	**28,612**	13	28,000	21	612	2
Long-term debts	**159,304**	73	93,219	68	66,085	71
Due to related parties	**11,622**	5	6,726	5	4,896	73
Deferred tax liabilities	**7,902**	4	3,925	3	3,977	>100
Other long-term liabilities	**9,096**	4	4,368	3	4,728	>100
	218,468	100	136,477	100	81,991	60
Equity						
Capital stock	**31,625**	20	31,619	21	6	–
Additional paid-in capital	**68,463**	43	68,438	45	25	–
Treasury shares	**(167)**	–	(167)	–	–	–
Equity reserves	**6,002**	4	6,282	4	(280)	(4)
Retained earnings	**51,871**	32	43,889	29	7,982	18
Other comprehensive income reserve	**2,188**	1	1,971	1	217	11
Total equity attributable to owners of the Parent Company	**159,982**	100	152,032	100	7,950	5
Non-controlling interest	**58,894**		36,049		22,845	63

- *Accounts payable and other current liabilities* – (Increase) Mainly due to the trade and other payables acquired from consolidating GBPC (see Notes 4 and 12 to the September 30, 2017 Interim Consolidated Financial Statements).

- *Provisions – current and noncurrent portions* – (Increase) Acquired provisions from consolidating GBPC and MPTC's periodic provision for heavy maintenance and certain accruals for the period (See Notes 4 and 13 to the September 30, 2017 Interim Consolidated Financial Statements).

- *Service concession fees payable – current and noncurrent portions* – (Increase) Represents movement in foreign exchange and accretion net of actual payment of concession fees (see Note 15 to the September 30, 2017 Interim Consolidated Financial Statements).

- Due to related parties – (Increase) The increase is mainly driven by the deferred purchase portion of MPIC's acquisition of the remaining 25% of Beacon Electric from PCEV in June 2017 net of payments made during the first half of 2017. See Note 16 to the September 30, 2017 Interim Consolidated Financial Statements.

- *Long-term debt – current and noncurrent portions* – (Increase) Mainly due to loans acquired from consolidating Beacon Electric, BPHI and GBPC. Additional loan drawdowns were also made during the first nine months of 2017 by MPIC, MPTC, Maynilad and LRMC (see Note 14 to the September 30, 2017 Interim Consolidated Financial Statements).

- *Retained earnings* – (Increase) Attributable to the net income earned for the period, net of dividends declared in March 2017 and in August 2017.

- *Non-controlling interest* – (Increase) Increase is substantially driven by the consolidation of majority owned subsidiaries GBPC, TMC and DCI.

Liquidity and Capital Resources

The following table shows a summary of the Group's unaudited statements of cash flows for the first nine months of 2017 and 2016 as well as our consolidated capitalization as of September 30, 2017, and December 31, 2016:

	Unaudited		Increase (Decrease)	
	9M 2017	**9M 2016**	**Amount**	**%**
	(in Php Millions)			
Cash Flows				
Net cash provided by operating activities	**18,813**	14,876	3,937	26
Net cash provided by (used in) investing activities	**(2,724)**	(33,229)	(30,505)	(92)
Net cash provided by (used in) financing activities	**(1,066)**	19,970	(21,036)	>100
Net increase in cash and cash equivalents	**15,023**	1,617	13,406	>100
Capital expenditures	**15,302**	12,953	2,349	18

	Unaudited September 30, 2017	Audited December 31, 2016	Increase (Decrease) Amount	%
	(in Php Millions)			
Capitalization				
Long-term debt net of current portion	**159,304**	93,219	66,085	71
Current portion of long-term debt	**14,551**	3,797	10,754	>100
Total short and long-term debt	**173,855**	97,016	76,839	79
Non-controlling interest	**58,894**	36,049	22,845	63
Total equity attributable to owners of the Parent Company	**159,982**	152,032	7,950	5
Cash and cash equivalents	**30,478**	15,455	15,023	97
Short-term deposits	**18,936**	4,014	14,922	>100

As at September 30, 2017, MPIC's consolidated cash and cash equivalents and short-term deposits totaled ₱49,414 million, an increase of ₱29,945 million from ₱19,469 million as at December 31, 2016. This is mainly driven by the cash and cash equivalents and short-term deposits acquired from consolidating Beacon Electric and its subsidiaries, BPHI and GBPC.

Operating Activities

MPIC's consolidated net operating cash flow in the first nine months of 2017 posted a 26% increase from ₱14,876 million to ₱18,813 largely attributable to the improvement in the operations of the Company's major segments. Total revenues for the nine-month period ended September 30, 2017 increased by ₱9,954 million to ₱43,093 million.

Investing activities

Net cash used in by investing activities amounted to ₱2,724 million during the first nine months of 2017. Below are the significant transactions during the first nine months of 2017:

Cash inflow arising from the following transaction:

- *Sale of 4.5% share in MERALCO.* In June 2017, MPIC sold 50.7 million MERALCO shares or 4.5% out of its 15% direct interest in MERALCO to various institutional investors through overnight placement. Selling price is ₱12.7 billion less transaction cost related to the sale of ₱272 million. The proceeds were used to acquire the remaining 25% interest in Beacon Electric from PCEV.
- *Redemption of Beacon Electric Class B Preferred Shares.* In May 2017, Beacon Electric redeemed all Class B Preferred shares held by MPIC amounting to ₱3.5 billion.
- *Dividends received.* Total dividends received for the nine-month period is ₱9.6 billion of which majority are dividends from Beacon Preferred shares amounting to ₱2.5 billion and dividends from associated companies amounting to ₱6.9 billion.

Cash outflow arising from the following transactions:

- *Acquisition of the remaining 25% interest in Beacon Electric.* In June 2017, MPIC acquired the remaining 25% ownership in Beacon Electric at an aggregate purchase price of ₱21.8 billion of which ₱12.0 billion was paid in cash and the remaining ₱9.8 billion on a deferred purchase. Net cash outflow is net of cash and cash equivalents acquired from Beacon Electric including BPHI and GBPC.
- *Capital expenditures.* Capital expenditures for the nine-month period ended September 30, 2017 comprised additions to service concession assets of Maynilad and MPTC and continuous improvements for the Hospitals. Refer to Note 10 to the September 30, 2017 Interim Consolidated Financial Statements for the nature of the additions to the service concession assets.

Financing Activities

The Company’s consolidated net cash outflow from financing activities amounted to ₱1,066 million in the first nine meonths of 2017. Drawdowns amounted to ₱10.5 billion, ₱4.4 billion, ₱1.7 billion and ₱2.4 billion from MPIC, MPTC, Maynilad an LRMC, respectively. Aside from scheduled payment of debt (including interest) and service concession fees of Maynilad, cash outflow included dividends paid to owners of the Parent company amounting to ₱3.2 billion and dividends paid to non-controlling shareholders amounting to ₱2.0 billion, a significant portion of which was attributable to the share in the dividends of the non-controlling shareholders of NLEX Corp and MWHC.

FINANCIAL SOUNDNESS INDICATORS

Financial Ratios	Formula	September 30, 2017	December 31, 2016
a) Current Ratio	Total Current Assets / Total Current Liabilities	1.46	1.18
b) Solvency Ratio[a]	NPAT + Depreciation and amortization / Total Liabilities	0.10	0.13
c) Debt-to-Equity Ratio	Total Debt / Total Stockholders' Equity	0.79	0.52
d) Asset to Equity Ratio	Total Assets / Total Stockholders' Equity	2.23	1.87

Financial Ratios	Formula	September 30, 2017	September 30, 2016
e) Interest Rate Coverage Ratio	EBIT / Net Interest Expense	5.01	5.24
f) Net Profit margin	Net Profit after tax / Net Revenues	35.7%	41.4%
g) Return on assets[b]	NPAT + Interest Expense (net of tax) / Average Total Assets	4.7%	5.3%
h) Return on Equity[b]	Net Profit after tax / Average Total Stockholders' Equity	7.6%	8.2%

Financial Ratios	Formula	September 30, 2017	December 31, 2016
i) Return on assets[a]	NPAT + Interest Expense (net of tax) / Average Total Assets	6.3%	6.5%
j) Return on Equity[a]	Net Profit after tax / Average Total Stockholders' Equity	10.1%	9.9%

[a] *Annualized*

[b] *for the nine-month period ended September 30, 2017 and 2016*

RISK FACTORS

As an investment and management company, MPIC undertakes risk management at a number of distinct levels:

1. **On entering new investments**

   MPIC has taken steps to increase its presence in Southeast Asia through its equity investments in Thailand's DMT, Vietnam's CII B&R and Indonesia's PT Nusantara, while remaining committed to its core business in the Philippines. MPIC's geographic focus remains to be predominantly the Philippines within which its management team has extensive experience.

   Prior to making a new investment, any business to be acquired is subject to an extensive due diligence including financial, operational, regulatory and risk management. Risks to investment returns are then calibrated and specific measures to manage these risks are determined. The Group is highly selective in the investment opportunities it examines. Due diligence is conducted on a phased basis to minimize costs of evaluating opportunities that may ultimately not be pursued.

   MPIC's investments involve - to varying degrees - a partnership approach with MPIC taking a controlling position and key operating partners providing operational and technological input and thereby mitigating risks associated with investing in new business areas. These partners are equity partners - and having co-invested with the Group in a particular opportunity, they will participate in the risks and rewards of the business alongside MPIC.

   Financing for new investments is through a combination of debt and/or equity by reference to the underlying strength of the cash flow of the target business and the overall financing position of MPIC itself.

2. **On ongoing Management of the Financial Stability of the Holding Company**

   MPIC does not guarantee the borrowings of its investee companies and there are no cross default provisions from one investee company to another. Financial stability of the holding company, including its dividend commitment to shareholders, is managed by reference to the ability of the investee companies to remit dividends to MPIC to cover operating costs and service borrowings. MPIC avoids currency and investment cycle mismatches by borrowing mostly in Philippine Pesos using primarily long term instruments with fixed rates.

   MPIC sets the level of debt on its Parent Company so as to withstand variability of dividend receipts from its operating companies associated with regulatory and other risks described below.

3. **Risk Management within the Operating Companies**

   - *Operational risks.* Each of the operating companies has a full management team which is responsible for having their own plan to manage risk which is reviewed annually by their respective Risk Management Committees and periodically by MPIC.

   - *Political and Regulatory risks.* The majority of our invested capital is deployed into businesses which are directly regulated by arms of the state: electricity distribution; water supply and distribution along with sewage treatment; tollroads; and light rail. Each of these businesses has concession or franchise agreements which involve a degree of operating performance obligation in order to retain our rights and earn our expected returns. In some cases, these agreements provide for retrospective assessment of the extent of our overall operational and financial performance sometimes over a period of years.

   - *Risks arising from these types of businesses include the potential for differences with regulators involving interpretation of the relevant agreements – either during the period in question or in* *retrospect.* To manage these risks, the investee companies have established dedicated regulatory management groups with experienced personnel. Their duty is to manage the relationship with regulators, keep management up-to-date on the status of the relationship and ensure companies are well prepared for any forthcoming regulatory changes or challenges.

- *Competition and Market.*

  Power

  - MERALCO carries a degree of market risk and its returns in the short term may be influenced by consumers who elect to self-generate and disconnect from the distribution grid. We are mitigating that risk by improving efficiencies to the point that makes it largely uneconomic to self-generate. With the move to Open Access from June 2013, MERALCO takes risks associated with buying and selling some power on its own account instead of on a pass through basis. MERALCO has an experienced management team in place to lead this business. MERALCO is now also invested in power generation with attendant demand volume and price risks and fuel source price and supply risks. The primary mitigants are contracting to match demand and supply side volumes where possible and employing highly experienced power market professionals to manage any open positions by trading in the market.

  - GBPC's increased competition in the power industry, including competition resulting from legislative, regulatory and industry restructuring efforts, could have a significant adverse impact on GBPC's future operations and financial performance. In recent years, the Government has sought to implement measures designed to establish a competitive energy market. These measures include the privatization of substantially all NPC-owned power generation facilities and all Government-owned and operated transmission facilities. In addition, renewable energy is provided priority dispatch as well as Government incentives, making such forms of energy a competitor against non-renewable forms of energy such as coal and fuel oil. The move towards a more competitive environment could result in the emergence of new competitors. Some of these competitors may have greater financial resources and have more extensive operational experience than GBPC, giving them the ability to respond to operational, technological, financial and other challenges more quickly than GBPC. These competitors may therefore be more successful than GBPC in acquiring existing power generation facilities or in obtaining financing for and in the construction of new power generation facilities. The varying types of fuel used by GBPC's competitors could allow them to sell electricity at a lower price or, as compared to certain of GBPC's existing or future power generation facilities, produce electricity at a lower cost. The ongoing restructuring of the Philippine power industry may affect GBPC's financial position, results of operations and cash flows. GBPC may not be able to compete effectively against its competitors or maintain its market share and profit margins.

  Toll Operations

  - At MPTC, we set tariffs on new road projects based on traffic projections agreed with the regulator. Rising fuel prices, alternative means of transport and existing or prospective alternative routes are all factors that can affect the number of vehicles that use our roads.

    We alleviate this risk by choosing our projects carefully. Existing high traffic density, difficulty in securing competing routes, a high potential for growth given demographic changes and conservative growth estimates, even with the prior factors included in the assessment, are the important variables we consider when committing to traffic projections with the regulator.

Healthcare

- For the Hospitals group, investment is taking place to enable more qualified personnel to better serve patients more efficiently and in upgraded facilities with better equipment.

  The primary risk is that investment runs ahead of demand and patient ability or willingness to pay. We mitigate this risk by ensuring we know our target market and scale our improvements to their ability to pay. The pace of medical innovation is accelerating requiring increased management of the risks that costly equipment may become out of date before its cost is fully recovered and traditional healthcare delivery models may be disrupted.

Rail

- For Rail, LRMC was granted sole right to operate and maintain LRT Line 1. Customers have non-rail alternatives such as buses and jeepneys.

Logistics

- MPIC's newest business is Logistics which offers warehouse management, hauling, trucking and related services to various companies in the Philippines. There are numerous large competing logistics companies which means revenues and margins may be eroded through their various initiatives to gain market share.

  MPIC's logistics business is managing competitive risk through appointing a strong management team with experience in the logistics business.

o *Safety and Security risk.* These risks are most pronounced in our light rail operations through LRMC.

- The operation of LRMC has significant operational safety and security risks. These risks have been exacerbated by the poor condition and inadequate maintenance of the system prior to the September 12, 2015 takeover by LRMC. LRMC is mitigating these risks by establishing a Safety Management System driven from the top, appointing a strong senior management team with extensive light rail operating experience and using a combination of engineering and administrative controls in the operations and maintenance of LRT 1. The risk of terrorism in the trains and stations, which is assessed as the top risk of LRMC, is also mitigated through strict inspection of incoming passengers, x-ray screening in high density stations, banning of wrapped packages as well as potentially harmful tools and chemicals and use of K9 dogs trained in bomb detection in each station. In addition, there are risks to projected financial returns through late delivery of Government procured items such as Rights of Way, additional Light Rail Vehicles (LRVs), and the Common Station. Plans to mitigate these risks include consistently engaging the regulators on the status of the projects' milestones and joint regular performance reviews by both parties – the Concessionaire (LRMC) and the Grantors (the DOTC and the Light Rail Transit Authority or LRTA).

- For GBPC, possible hazards among its employees include fires, electrical shocks and burns, boiler fires and pressure vessel explosions, and contact with hazardous chemicals, moving objects and heavy equipment, fall, confined space works, marine operations such as off-loading of coal which are common risks in power plant facilities. GBPC is implementing safety programs and policies aimed at reducing and/or eliminating these accidents. In addition, GBPC is investing in manpower safety training, adequate machine safety design, installed fire protection systems, emergency response equipment and regular fire-drills, provision of personal protective equipment, machine guarding, site inspections, regular equipment maintenance and 3rd party certifications, and monitoring systems for emergency and security purposes. All GBPC power plants are ISO-certified.

- For Maynilad, possible common safety-related incidents include potential slips, trips and falls into a confined space such as in waste water treatment plants. These incidents become more acute with the presence of dangerous gases in the air throughout the facility. Specifically, the main gases of concern in wastewater treatment plants are methane, hydrogen sulfide and too much oxygen (or the lack of it). Beyond these gas hazards are the dangers that can be brought by chlorine, a purifying chemical that is used by Maynilad in the decontamination of the waste and effluent water. Maynilad is mitigating these risks through closely monitoring employees who are at higher risk for hazard exposure, providing preventive measures to ensure safety.

- *Supply side risk.* These risks are most pronounced in our water business through Maynilad and power generation operations through GBPC.

  - The water company has some supply side risk in that: (i) it secures almost all of its supply from a single source – the Angat dam; and (ii) this water source is shared by another water concessionaire, a hydroelectric plant, and the needs of farmers for irrigation. A water usage protocol is in place to ensure all users receive water as expected within the constraints of available supply. Following significant water supply disruptions in the past, the business has experienced periods of lower water supply than allowed for in its concession. We have worked to moderate our reliance on Angat by developing the Putatan Water Treatment Plant. In addition, the Sumag Diversion Project, which was initiated by the Government, aims to provide additional 188 MLD of water, was jointly implemented by Maynilad and Manila Water.

  - GBPC is exposed to supply side regarding sourcing of sufficient appropriate coal for its boilers which are designed to operate with coal that has a relatively high ash content. GBPC mitigates this risk by utilizing coal from a variety of sources and mixing alternatively inert material with coal as needed.

4. Financial Risk Management

MPIC's investee companies' financial risks are primarily: interest rate risk, foreign currency risk, liquidity risk, credit risk and equity price risk (see Note 35 - *Financial Risk Management Objectives and Policies* to the 2016 Audited Consolidated Financial Statements). The Board of Directors of each investee company reviews and approves policies for managing each of these risks as follows:

- *Interest Rate Risk.* Interest rate exposure is managed by using a mix of fixed and variable rate debt. Open interest rate risk exposure lies in the delay between project award and debt drawdown. This is managed through conservative bidding.

- *Foreign Currency Risk.* In general the investee companies will place some degree of reliance on their regulated return mechanisms to pass through foreign currency risk. The current liquidity and depth of the Philippine credit market is such that there should be little need for raising new borrowings in foreign currency. Similar to the interest rate risk discussed above, the delay between project award and debt drawdown exposes the Company to foreign exchange currency fluctuations. This is managed through early identification of requirements for foreign currencies and formulation of US and third currency buying plans, including hedging. Additionally, the Group closely monitors economic outlook provided by several financial institutions.

  Maynilad has some foreign currency borrowing but there is a mechanism in place wherein it can recover currency fluctuations as approved by MWSS.

- *Liquidity Risk.* Each business monitors its cash position using a cash forecasting system wherein all expected collections, disbursements and other payments are determined in detail.

- *Credit Risk.* Credit risk is managed by setting limits on the amount of risk a business is willing to accept for individual counterparties and by monitoring exposures in relation to such limits.

- *Equity Price Risk.* The Company's investee companies are generally not faced with equity price risk beyond that normal for any listed company, where relevant. MPIC's investment in MERALCO, through Beacon Electric, is partly financed by borrowings which require a certain security cover based on the price of MERALCO's shares on the Philippine Stock Exchange (PSE) on a volume weighted 30 trading day average calculation. MERALCO's share price would have to decline by 76.64% from its price as at September 30, 2017 before Beacon Electric would be required to top-up collateral with cash or pay-down debt.

Key Variable and Other Qualitative and Quantitative Factors

i. *Events that will trigger direct or contingent financial obligation that is material to the company, including any default or acceleration of an obligation*

   Refer to Note 26 – *Contingencies* and Note 27 – *Significant Contracts, Agreements and Commitments* to the September 30, 2017 Interim Consolidated Financial Statements for the updates on the Company's financial obligations.

ii. *All material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the company with unconsolidated entities or other persons created during the reporting periods*

   Refer to Note 27 – *Significant Contracts, Agreements and Commitments* to the September 30, 2017 Interim Consolidated Financial Statements for the updates on the Company's financial obligations.

   Refer to Note 9 – *Investments and Advances* to the September 30, 2017 Interim Consolidated Financial Statements for the updates on Beacon Electric's debt.

iii. *Description of any material commitments for capital expenditures, general purpose of such commitments, expected sources of funds for such expenditures*

   Refer to Note 27 – *Significant Contracts, Agreements and Commitments* to the September 30, 2017 Interim Consolidated Financial Statements for the updates on the Company's commitments.

iv. *Any known trends, events or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on net sales or revenues or income from continuing operations*

   The Company's results of operations are highly dependent on its ability to set and collect adequate tariffs under its concession agreements with the Philippine Government. Please refer to Note 26 – *Contingencies* to the September 30, 2017 Interim Consolidated Financial Statements.

v. *Any seasonal aspects that had a material effect on the financial condition or results of operations*

   Please refer to Note 3 – *Operating Segment Information* to the September 30, 2017 Interim Consolidated Financial Statements.