

SOLID MOVES: TOWARDS NATION-BUILDING

2008 was a year of transformation and consolidation for MPIC. With a handful of strong moves, we solidified our position in three strategic areas: utilities, toll ways, and healthcare. They are part of our thrust into the nation's basic services infrastructure which we will singlemindedly pursue over the long term.

Solid moves highlight our well-considered strategies.

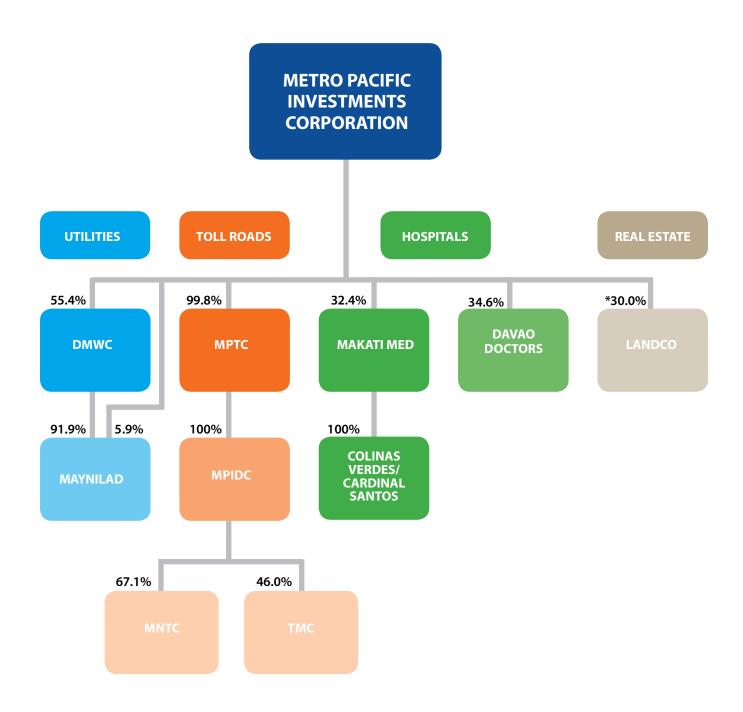
Solid moves underscore our strong thrusts into infrastructure.

And solid moves are all about our transformational vision and mission to help build our nation.

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Corporate Structure



^{*}During the special meeting held on 20th February 2009, shareholders approved disposition of MPIC's 21% shareholdings in favor of AB Holdings upon terms and conditions to be approved by the Board & disclosed to stockholders.

Company Background

VISION AND MISSION

To become one of the Philippines' leading investment and management firms by making significant investments in utilities, infrastructure, and hospitals that will create long-term value for our shareholders and contribute towards nation-building.

CORPORATE PROFILE & HISTORY

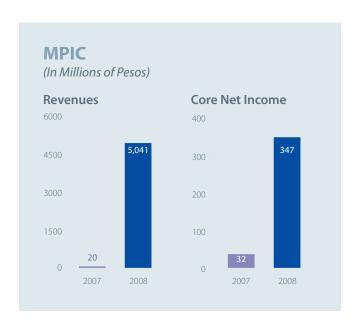
Metro Pacific Investments Corporation ("the Group" or "the Company") was incorporated and registered with the Securities and Exchange Commission (SEC) on March 20, 2006 to serve as a holding company for investments in real estate and infrastructure projects. On December 15, 2006, the Company listed with the Philippine Stock Exchange.

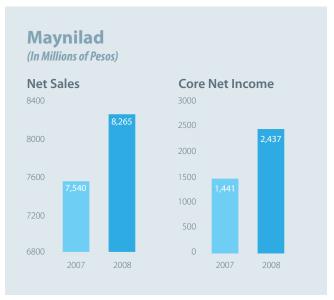
The major shareholder of the Company is Metro Pacific Holdings, Inc. ("MPHI"), which owns 97.95% of the shares of the Company as of March 31, 2009. MPHI is a Philippine corporation whose major stockholders are Enterprise Investment Holdings, Inc. ("EIH") (60%), Intalink B.V. ("Intalink") (26.7%) and First Pacific International Limited ("FPIL") (13.3%). Intalink B.V., FPIL and EIH are affiliated companies of First Pacific Company Limited ("First Pacific").

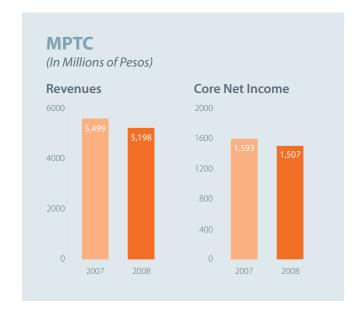
The Group's major subsidiaries and their corresponding dates/years of organization / incorporation / registration with the SEC are as follows:

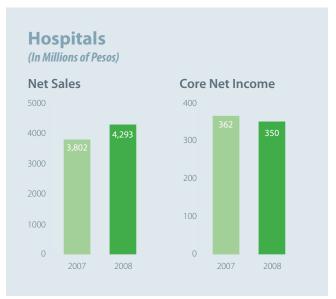
DMCI – MPIC Water Company Metro Pacific Tollways Corporation Landco Pacific Corporation Metro Pacific Corporation 17 November 2006 13 November 2008 14 February 1990 13 October 1986

Financial Highlights









Significant Events

2008

JANUARY

• Full conversion into equity of Pesos 750 million Subordinated Convertible Notes of Medical Doctors Inc. ("MDI") which resulted in a 33 % ownership interest in MDI and consequently, Makati Med.

APRIL

• Established and Incorporated MPIC Foundation with mandate to implement programs design to benefit communities organizations, families, and individuals especially in areas where MPIC companies operate.

MAY

• Signing of Share Purchase Agreements on the 15th of this month with several shareholders of Davao Doctors Hospital, (Clinica Hilario) Inc. to acquire approximately 34% of the Issued Share Capital for Pesos 498 million.

JUNE

- Stockholders approved and ratified the increase in the authorized capital stock of MPIC from Pesos 4.6 Billion to Pesos 12 Billion.
- Began the Equity Accounting of Davao Doctors with a contribution of Pesos 1.4 million for the month.

JULY

- Completed acquisition of the interests of Ashmore Investment Management PLC and First Pacific Company Limited in DMCI-MPIC Water Company, Inc. ("DMWC") that raised MPIC's stake in DMWC to 55.41% and in Maynilad to 50.9% on a fully-diluted basis.
- Signed Interim Operating Agreement with the Roman Catholic Archbishop of Manila to handle the interim operation of Cardinal Santos Medical Center for a period of six months, which subsequently assigned the agreement to Colinas Verdes Hospital Managers Corporation, a wholly-owned subsidiary of MDI.

AUGUST

• Purchased an effective 99.84% ownership interest held by First Philippine Holdings Corporation and Benrpes Holdings Corporation in First Philippine Infrastructure Inc. ("FPII") for 67.1% of the Manila North Tollways Corporation, concession holder of the North Luzon Expressway ("NLEX") and 46% of Tollways Management Corporation, operator of NLEX.

SEPTEMBER

- Agreement reached to provide its 51% subsidiary Landco Pacific Corporation ("Landco") a short-term funding of up to Pesos 500 million to enable Landco to meet its maturing obligations and for its continuing working capital requirements.
- Board approved MPIC's entry into a compromise agreement with the Philippine Port Authority and its Special Bids and Awards Committee for the public bidding of the Manila North Harbor Modernization project.

NOVEMBER

- Shareholders approved increase in authorized capital stock of MPIC from Pesos 12 billion to Pesos 21.6 billion during a special stockholders' meeting.
- Shareholders approved issuance to Metro Pacific Holdings, Inc. ("MPHI") of up to 900 million common shares from its authorized and unissued capital stock to partially fund its acquisition of additional interests in DMWC to the parent company of Maynilad Water Services, Inc.
- Shareholders approved issuance to MPHI of up to 1.5 billion common shares out of the increase in authorized capital stock of MPIC to partially fund the acquisition of 99.84% of the outstanding capital stock of First Philippine Infrastructure, Inc. ("FPII")
- Shareholders approved issuance of up to Pesos 6.75 billion 10-year Fixed and/or Floating Corporate Notes to Primary Institutional Lenders to be secured by a pledge on shares of FPII.
- Shareholders approved potential issuance of up to 1.5 billion convertible preferred shares in favor of third party investors.
- Shareholders approved issuance of up to 3 billion common shares of MPIC through a rights or public offering of shares, subject to favorable market conditions and prevailing circumstances.

DECEMBER

- MPIC and Lyonnais Asia Water Pte. Ltd. ("LAWL") agreed in principle to the issuance by MPIC in favor of LAWL or its affiliates of a total of 791,110,491 shares of common stocks of MPIC by way of private placement with issue/closing date on or before 30 June 2009.
- Agreement to acquire all the rights, title, interests of LAWL in and to the Class B Maynilad shares in line with the company's objective to consolidate and support its utilities and infrastructure interest in Maynilad that will result in 56.8% stake in Maynilad from the anticipated 5.9% direct share from LAWL.



- Board confirmed the proposal to dispose of MPIC's shareholdings in Landco Pacific Corporation upon terms and conditions to be approved by the MPI Board of Directors.
- Board approved on the Amendments of the existing executive Stock Option Plan of MPIC specifically the refreshment of the number of options that may be granted either initially or from time to time.

2009

FEBRUARY

- Held groundbreaking ceremony of Maynilad's US \$27 million new water treatment plant in Muntinlupa with project completion in June 2010, to service areas of Muntinlupa and Alabang.
- Shareholders approved issuance of 791,110,491 new common shares ("New MPI Shares") from the current unissued capital stock of MPI in favor of LAWL Pte. Ltd. ("LAWL") at the price of approximately Pesos 2.57 per share, to fund the acquisition by MPI of additional interests in Maynilad and, following the issuance of such New MPI Shares, the listing of these new shares issued to LAWL and/or its designated nominees in the Philippine Stock Exchange

- Shareholders approved disposition by MPIC of a portion of its shareholdings in Landco, to the extent of 21% in favor of AB Holdings Corporation. MPIC will have a remaining 30% ownership.
- Inaguration of the newly renovated diagnostic building of Makati Medical Center

MARCH

- Colinas Verdes Hospital Managers Corp. entered into a longterm Agreement to manage and operate Cardinal Santos Medical Center for a period of 20 years.
- SEC approved the change in name of First Philippine Infrastructure to Metro Pacific Tollways Corporation ("MPTC").
- Announced plans to acquire 10.17% shares of Meralco from the Beneficial Trust Fund of PLDT.

APRIL

- President Gloria Macapagal-Arroyo led groundbreaking ceremonies of Phase 2, segment 8.1 that links Mindanao Avenue in Quezon City to the North Luzon Expressway as an alternative gateway.
- MPTC changed its ticker name from "CRC" to "TOL" as approved by the Philippine Stock Exchange.





Message from the Chairman

To our fellow shareholders,

tarting three years ago, we took the first steps in transforming Metro Pacific into a major infrastructure company by acquiring, over time, basic infrastructure companies such as water distribution, tollways, and hospitals. This re-invention of your Company simply recognizes the benefits of investing in infrastructure which would provide a stable earnings and cash flow base.

Maynilad, our water services company, is now our single most profitable investment. We took pains to hand-hold its transition from a court-administered rehabilitation regime into a self-sufficient, self-sustaining service network. Toward the end of the year, Maynilad's non-revenue water was reduced by 7% and billed volume increased by 10% thereby completing its operational and financial turnaround. Maynilad reported net income of Pesos 2 billion during the year, up 20% over last year.

Much work however remains to be done at Maynilad, since there is still unserved customer demand in our concession area. But with capex put in place in the amount of Pesos 7.2 billion during the year, service improvements should be realized and higher revenues expected in the coming years. Our strategic partnership with the Consunji Group in Maynilad has accomplished much synergy both in terms of manpower development and technical knowhow.

Makati Medical Center, our lead investment in the health care segment, has completed the first of two phases of its facilities improvement program with the inauguration of a 14-level medical state-of-the-art annex. The second phase involving the renovation of its existing medical building is now well underway and should be completed by early 2010. The capital infusion we made has attracted a broad range of investors and enhanced its credit standing amongst lending institutions. However, with increase in cost of services outpacing the growth in revenue, Makati Med reported net income of Pesos 257 million, compared with Pesos 268 million last year.

The investment we made in Davao Doctors' Hospital, the foremost medical institution in Mindanao, is slowly building brand recognition as a Metro Pacific-managed facility and an integral part of our growing hospital system. For the year, Davao Doctors reported net income of Pesos 128 million compared with Pesos 115 million last year.

During the year we were also fortunate to have been awarded a 20-year operating contract for the Cardinal Santos Memorial Hospital – a 235-bed, tertiary hospital located strategically in Metro Manila.

And to cap a year of transformation, our acquisition of the Manila North Tollways Corporation (MNTC) which operates the North Luzon Expressway (NLEX) represents our thrust in the area of tollway

infrastructure. NLEX is an 83.7-kilometer tollway system that runs from Balintawak, Quezon City to Santa Ines, Tarlac. MNTC reported consolidated net income attributable to parent company of Pesos 784 million for the year.

"We have taken great strides in the past years to shape your Company as the premier infrastructure company in the country. Our continued search for more investment opportunities in infrastructure has again expanded with the recent plans to invest in Meralco, the country's leading power distribution company."

Your Company's presence in the tollways business has been enhanced when the Operations and Management Agreement for the Subic-Clark Toll Expressway (SCTEX) was extended by another year. SCTEX is a 94.7-kilometer system that extends from Subic, Zambales to Tarlac City. MNTC has also expanded its access to the NLEX via the C5 extension and is currently preparing plans to link the Balintawak entry with the Port Area of the City of Manila (Segments 9 and 11).

We have taken great strides in the past years to shape your Company as the premier infrastructure company in the country. Our continued search for more investment opportunities in infrastructure has again expanded with the recent plans to invest in Meralco, the country's leading power distribution company.

No doubt, the past year has been made more difficult with the onset of the global crisis. But times of crises can be times of opportunities. We have staked out strategic segments with our growing portfolio of investments which can be managed competently to produce better profits. We thank our Board of Directors for their guidance and our shareholders for their continued trust and unwavering support.

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Message from the President

To my fellow shareholders,

am pleased to report that in the year just passed, your company has established a strong and stable platform for future growth in the infrastructure, utilities and healthcare sectors. This was accomplished with the acquisition of a 67.1% interest in the North Luzon Expressway ("NLEX") and the addition of two hospitals under our wing: Davao Doctors Hospital and Cardinal Santos Medical Center, the latter through a wholly-owned subsidiary of Makati Medical Center. Additionally, we increased our ownership stake in Maynilad from 41.8% to 56.8%. Finally, after much deliberation your management recommended and obtained shareholder approval to reduce our exposure in the real estate sector by bringing ownership in Landco down to 30% from 51%.

As a consequence of these acquisitions, the company's balance sheet has been transformed, with total consolidated assets increasing to Pesos 93.1 billion from just Pesos 12.1 billion a year ago, and total equity increasing to Pesos 26.8 billion from Pesos 3.1 billion for the same period.

THE FINANCIAL PICTURE

The impact on our earnings has been significant: core net income for 2008 jumped to Pesos 347.0 million compared with

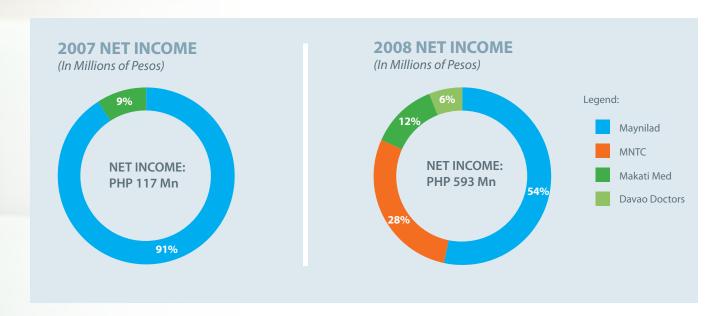
restated core earnings of Pesos 32.3 million the previous year. Core earnings for 2007 have been restated from the previously reported Pesos 194.9 million to reflect the removal of Landco from MPIC's consolidated accounts. With the addition of non-recurring items of Pesos 201.9 million, total net reported income for 2008 is Pesos 548.9 million.

We attribute this strong upswing in our finances to the very solid performance of our three divisions: water utility, toll ways, and healthcare.

Maynilad generated core net income of Pesos 2.4 billion. After taking into account interest expense and fair value amortization adjustments, Maynilad's net contribution to MPIC stood at Pesos 316.7 million. The tollways acquisition in November added Pesos 165.9 million, reflecting one-and-a-half month's attributable earnings. Makati Medical Center contributed Pesos 73.2 million, complemented by Davao Doctor's Pesos 36.6 million representing its earnings contribution from June to December, 2008.

OUR WATER UTILITY: MAYNILAD WATER SERVICES, INC.

Maynilad's core net income of Pesos 2.4 billion is up 69% from Pesos 1.44 billion in 2007. Net of adjustments for forex



Message from the President

"We attribute this strong upswing in our finances to the very solid performance of our three divisions: water utility, toll ways, and hospital."

losses, reported net income is Pesos 2.0 billion, up by 20% from last year. The increase in reported net income is attributable once again to improvements in key drivers of its operations.

The reduction of physical losses is one of the drivers that caused billed volume to increase 10% from 286 mcm to 315 mcm during the year. Another factor is the 8% growth in number of customers from 703,519 to 762,315 connections. This has translated into a significant improvement in non-revenue water, which has dropped 2.2% from 66.0% in 2007 to 63.8% in 2008. These positive results are the early returns from Maynilad's significant capital expenditures, which amounted to Pesos 7.2 billion in 2008 and Pesos 4.9 billion the previous year.

In 2008, we increased our effective interest in Maynilad from 41.8% to 56.8% at a total cost of Pesos 11.3 billion. This was done through the acquisition of an additional 5.4% interest of DMWC from First Pacific Co. Ltd and the Ashmore Group for a total consideration of Pesos 9.3 billion and through the purchase of another 5.9% interest from Lyonnais Asia Water Limited through the issuance of 791 million MPIC shares valued at Pesos 2.0 billion. This enhanced revenue position and leveraged ownership allows MPIC to more effectively drive the business and further advance a customer-focused program.

OUR TOLLWAYS OPERATIONS: METRO PACIFIC TOLLWAYS CORPORATION

Our acquisition of a 67.1% controlling interest in the North Luzon Expressway at a price of Pesos 12.3 billion during the year positions MPIC in this vital sector. Core earnings attributable to the parent company for 2008 full year operations are placed at Pesos 949.8 million. Of this amount, only Pesos 165.9 million is realized by MPIC, since the transfer of ownership closed only in November 13, 2008.

The tollway company's full year performance declined in comparison with the previous year due to lower traffic volumes during the middle part of 2008 brought about by the unprecedented global escalation in fuel costs. However, as oil prices stabilized during the last quarter, traffic on the tollway gradually recovered and has currently surpassed the early-2008 levels.

Construction work has started on Segment 8.1 – a new access point to the tollway at Valenzuela – which will significantly decongest traffic conditions at the Balintawak toll entry by the second quarter of 2010 when it is scheduled to open.

Finally, our O&M contract with the Subic-Clark Toll
Expressway has been extended by the Bases Conversion
Development Authority (BCDA) for another year. Our tollways
management unit is currently in discussions with BCDA to
propose immediate improvements on operations together with
potential approaches towards a long-term O&M arrangement for
this facility.

OUR HOSPITALS:

MAKATI MEDICAL CENTER, CARDINAL SANTOS MEDICAL CENTER & DAVAO DOCTORS' HOSPITAL

Makati Medical Center's new treatment and diagnostic centers in the new annex building, is attracting new customers as well as some of the best-trained health professionals from here and abroad. The new facility, which opened in August, 2008 has reinstated the hospital to the forefront of the country's healthcare institutions.

Nevertheless, operations have not yet normalized due to the renovation work on the older buildings, which have significantly reduced bed capacity by 32%. As a result, Makati Medical Center's reported net income for 2008 is lower by 4% to Pesos 256.9 million from the previous year's Pesos 268.5 million. Core net income likewise declined by 10%, from Pesos 247.0 million in 2007 to Pesos 222.0 million in 2008. MPIC's equitized

"As we continue to seek other key assets in the vibrant sectors of the economy, we remain true to our commitment to continue creating long-term value for our shareholders."

core net income in Makati Medical Center is Pesos 73.2 million representing its 32.4% ownership.

The decline in Makati Medical's financial performance is expected to reverse once revenues from the renovated building normalize to offset the increases in operating expenses from the hiring of new staff, purchases of new equipment, and increases in utility costs. Renewed and increased patronage of the hospital's new facilities are also expected to generate higher revenues in due course.

In June 2008, MPIC acquired 34.6% ownership of Davao Doctors' Hospital, a 250- bed premier health institution in Mindanao which enjoys an excellent reputation for medical service. It has a wholly-owned medical college with a current enrollment of 3,600 students. Davao Doctors' Hospital generated consolidated core net income of Pesos 128.0 million, an 11% increase from Pesos 115.0 million in 2007. The equitized core net income in Davao Doctors' Hospital is Pesos 36.6 million. The hospital is contemplating a modest expansion which will increase bed capacity to 300 and provide more outpatient facilities.

In September 2008, our hospital group assumed interim management of the Cardinal Santos Medical Center (CSMC). For this purpose, a new management company was formed under the auspices of Makati Medical Center - Colinas Verdes Hospital Managers Corp. After completing the six-month interim period, the Roman Catholic Archbishop of Manila awarded Colinas Verdes a long-term lease agreement which allows the company to manage and operate Cardinal Santos Medical Center for a period of twenty (20) years starting 1 March, 2009.

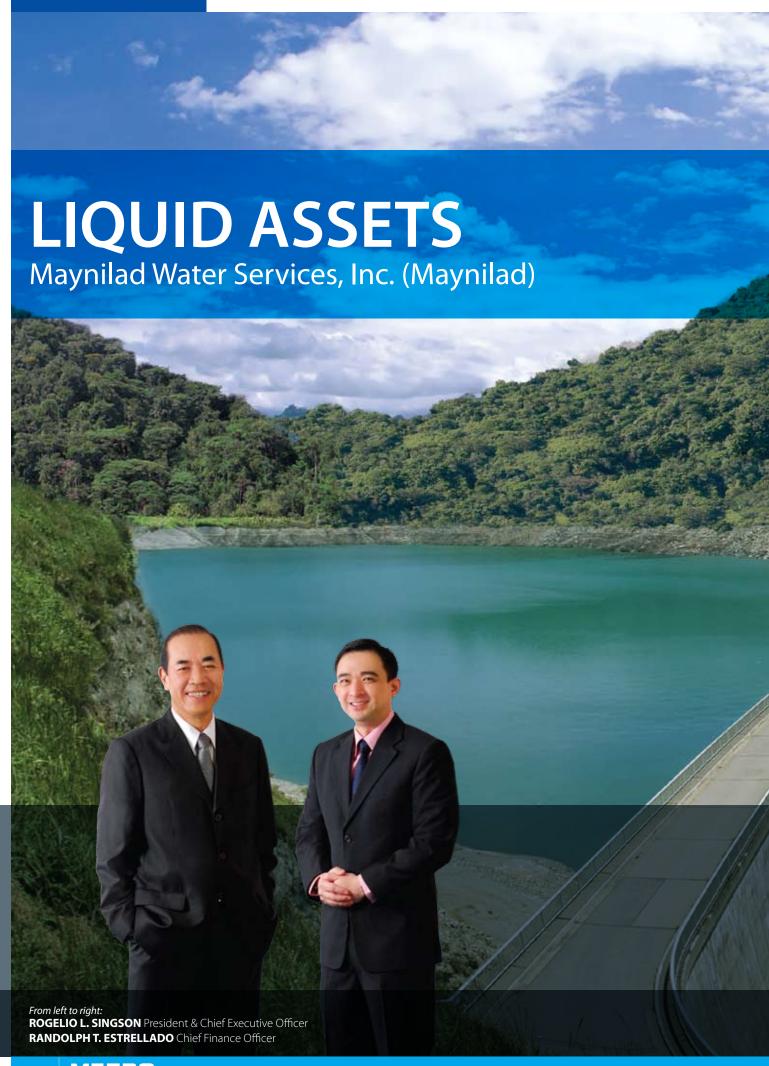
Under the agreement, Colinas Verdes is committed to upgrade CSMC's medical facilities and enhance its range of services in the total amount of Pesos 750 million over the twenty-year period. CSMC is now the 3rd hospital to be integrated into MPIC's growing chain of premiere hospitals.

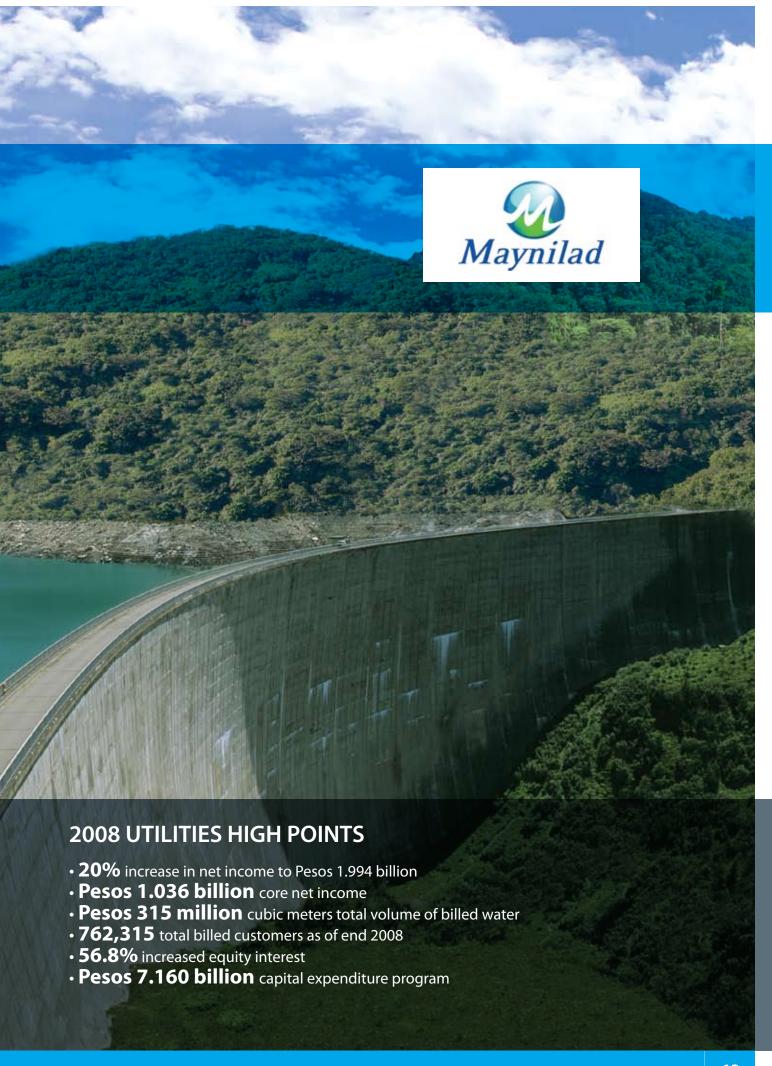
KEEPING FOCUSED AMID OUR BROADENING COMMITMENTS

As we continue to seek other key assets in vibrant sectors of the economy, we remain true to our commitment to continue to create long-term value for our shareholders. Achieving this requires discipline and prudent management. At the same time it requires resolute focus together with a passion for innovation to create efficiencies where previously there were none. Fortunately, our Board of Directors has consistently provided strong support and guidance, and most of all a visionary leadership. For these and more, we extend our sincerest gratitude.

Jen In Spi

Jose Ma. K. Lim
President &
Chief Executive Officer





Maynilad Water Service, Inc. (Maynilad)



2008 marks the consolidation and fruition of the groundbreaking changes implemented in 2007. The joint venture DMCI-MPIC Water Company Inc. contributed over Pesos 1 billion to the corporate coffers as it serviced a broad West Zone concession covering, in part or in full, the cities and municipalities of Caloocan, Malabon, Novaliches, Quezon, Manila, Makati, Paranaque, Pasay, and the greater part of Cavite province.

The profitability of Maynilad was sustained throughout the year with a consistent reduction of system loss as evidenced by non-revenue water improving by 2.2% from 66.0% to 63.8% and a substantial increase in total volume of billed water by 10% in 2008. The completion of primary pipelines, network and coverage expansion, enhanced maintenance of pumping stations and pressure regulating valve systems, and many other similar programs, significantly improved operational efficiencies such that 58% of customers now benefit from 24-hour potable water service, and 67% experience a minimum of 7 psi water pressure.

For the first time, surface water from Angat Dam has been made available to Cavite City, a distance of 95.81 kilometers, the farthest reach of Maynilad's West Zone concession. The unserviced and underserviced areas of Paranaque, Muntinlupa, Bacoor, and Imus, will soon be enjoying round-the-clock water service after years of sourcing it from aquifers, deep wells, and private tankers, and of being preyed upon by profiteering and unscrupulous vendors.

PROJECTS IN THE PIPELINE

With a war chest of over Pesos 7 billion in capex funds, an unprecedented number of network projects were put on

stream, and with pipelaying and other system support projects finally completed, service delivery considerably improved in the targeted areas.

The Hydraulic Areas (HAs) and District Meter Areas (DMAs) too were most instrumental in reducing non-revenue water (NRW) significantly. Each HA covered about 50,000 water service connections, which were further broken down into an estimated 500 to 1500 connections per DMA. These isolation strategies reconfigured the entire West Zone into smaller, more manageable units, where pressure can be better controlled through pressure valves; and leakage, water loss, and illegal connections monitored through systematic network diagnosis with the help of calibrated meters. The reconfiguration of the entire zone network is targeted for completion by year 2012, by which time NRW is expected to be reduced by another 20 percentage points to 40%.

Still another significant project hugely capitalized at US \$ 27 million is the Muntinlupa Water Treatment Plant, which finally broke ground early 2009 and is expected to be completed by June 2010. Featuring the latest technology in water purification using microfiltration and reverse osmosis, it will be instrumental in processing over 300 million liters per day of water coming from the Laguna Lake to service an initial 105,000 homes in the Muntinlupa areas of Alabang, Bayanan, Poblacion, Putatan, Tunasan and New Alabang. Microfiltration is a process of removing contaminants from water in the micron size range, by passage through microporous membrane, while Reverse Osmosis uses osmotic pressure and highly-selective membrane to separate undesirable microorganisms and toxins.



REBUILDING HUMAN CAPITAL ON-STREAM

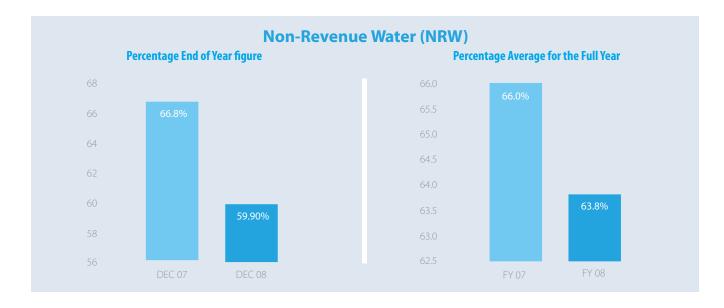
It should be mentioned, in relation to these capex projects, that the partnership of MPIC with DM Consunji Inc. has achieved synergies beyond expectations. DMCI's solid experience in medium-to-large-scale construction and in value engineering has served to optimize the allocated resources. In turn, MPIC's financial savvy and transformational management are turning around Maynilad's culture from its public utility mindset to one that is now customer-oriented.

In line with this, one of the consortium's most important thrusts is to build a professional, strongly-motivated, and highly efficient work force. Training, teambuilding, and other learning and motivational programs have been put in place in order to

equip employees to meet the challenges of a fast changing environment. The demands of much bigger customer base, a larger serviced area, and a more sophisticated operational code have exponentially expanded in the last two years. But there is also now an unwavering commitment among everyone in the organization to become a world class water service company geared to service excellence and to enhancing everyone's quality of life.

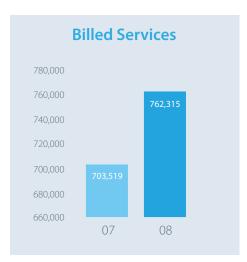
CRYSTAL-CLEAR VISION AND FOCUS

Maynilad's ultimate goal is to be able to provide reliable and potable water at highly socialized prices to all households in its concession area, especially to the deprived and marginalized

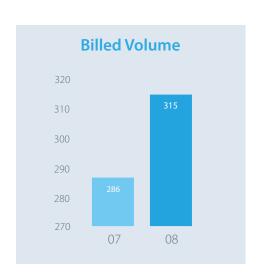


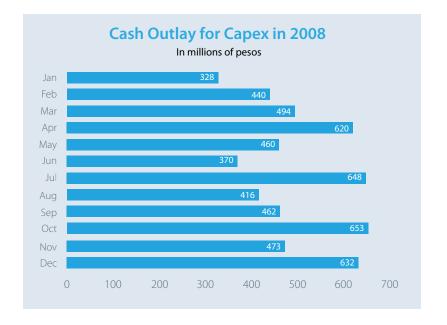
Maynilad Water Service, Inc. (Maynilad)





"Maynilad's ultimate goal is to be able to provide reliable and potable water at highly socialized prices to all households in its concession area, especially to the deprived and marginalized communities who need it the most."







communities who need it the most. Nobody should be deprived of this fundamental life resource, and nobody should be required to pay more than is necessary for such a universal requisite. With the cooperation of MWSS Regulatory Office and in full compliance with the Concession Agreement, Maynilad Capex program now benefit close to 1 million poor residents paying Pesos 95 per month water bill with 25% more households receiving 24-hour supply and higher pressure. This has resulted to substantial savings for those now connected with Maynilad Water for their potable water supply.

The consortium is also committed to catching up on its sewerage and sanitation program to ensure that future generations will have cleaner rivers and waterways. The new Wastewater Treatment Facility in Tondo is the first in this part of the world to pass the Integrated Management System Certification having secured three ISO certification standards – for environmental management, quality management, and safety and security certification. With the much publicized ill-effects of global warming, marine acidification, ecological pollution, and the like, Maynilad is able to contribute in its own small measure to concerted efforts to alleviate them.

Maynilad has come a long way since the DMCI-MPIC consortium took over what was once a moribund organization with a demoralized staff, disordered systems, dissipated assets, and disarrayed financials. The turnaround has been more than dramatic. But it also still has a long way to go. One thing sure, it is solidly positioned for expansion, growth, and profitability; but it is also solidly positioned for service, goodwill, and social responsibility for years to come.

ROGELIO L. SINGSON

President & CEO of Maynilad Water Services, Inc

"As we continue to transform the culture of Maynilad from a public utility to a customeroriented mindset and equip our employees to meet the challenges of a fast changing environment, we will persevere to provide reliable and potable water at highly socialized prices to everyone, most especially to the underprivileged communities who fall



victim to preying water vendors.

Maynilad's two-pronged strategy to dramatically reduce our non-revenue water (NRW) and extend our water services to unserviced and underserviced areas south of Metro Manila and in nearby Cavite will be complemented with an enhanced customer service and delivery system, and a realtime call center.

Our determination to become a world class water service company committed to excellence and enhanced quality of life commits us to care for our environment through our sewerage and sanitation programs to ensure cleaner rivers and waterways for our future generations."

Maynilad Water Service, Inc. (Maynilad)



SERVICE IMPROVEMENT PROGRAMS

In 2008, the company implemented major service improvement projects totaling over Pesos 7 billion. These included programs for reducing non-revenue water (NRW), reselling recovered water, rehabilitating facilities, and developing new water sources.

NRW Management and 3R Program. An integrated program for recovering lost water, reallocating to potential markets, and reselling to underserviced and unserved customers in the West Concession.

Summary of Program Accomplishments	
Kilometers of SDS/TDS pipelines	466
New Water Service Connections (WSC)	58,802
Number of Hydraulic Areas established	14 (3 pre-measured)

Operational Support Programs. To enhance service efficiency and provide new primary pipelines to expansion areas, Maynilad (1) rehabilitated the La Mesa Treatment Plants, its Water Network and Pumping Stations; (2) replaced water meters; (3) constructed and optimized the use of its building, offices and warehouses; (4) replaced preassure valves and (5) developed the necessary Information Technology programs.

Summary of Program Accomplishments	
Kilometers of PDS Pipelines	18
Number of Pumps Station & Reservoir	7
Number of Valves Installed (Butterfly & PRV)	240
Number of DMAs established	116

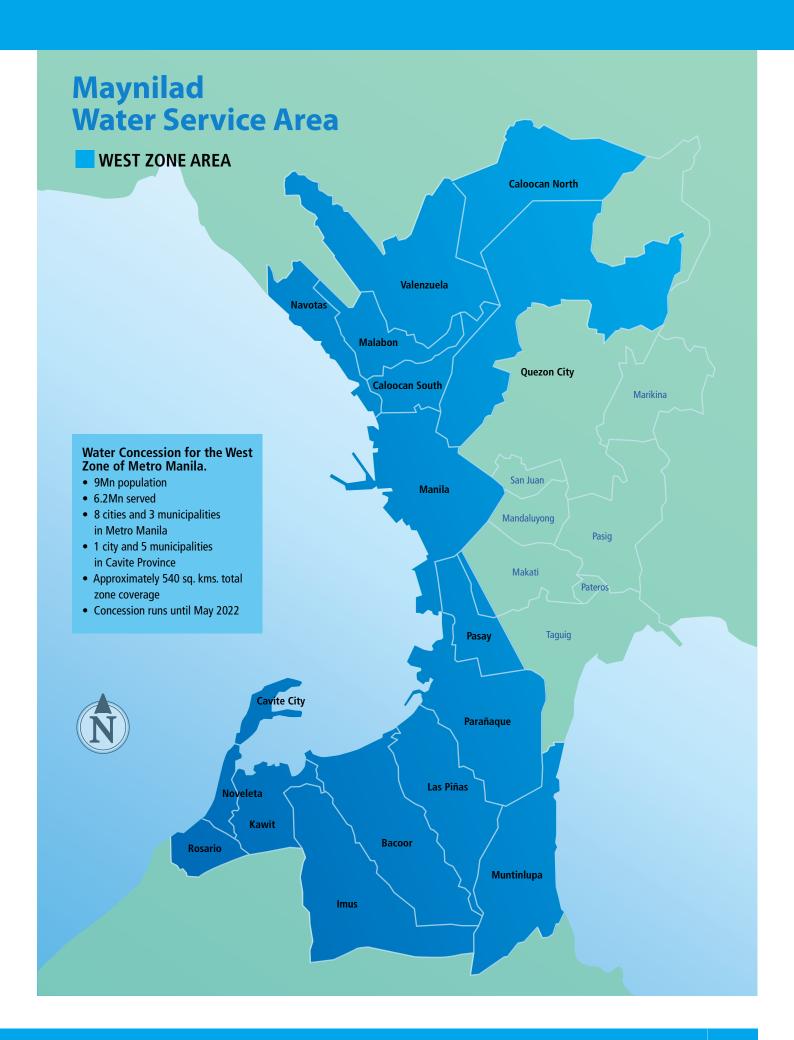
Water Source Development Program. Maynilad is developing alternative water sources for the West Zone. Aside from supporting the water source projects under the Metropolitan Waterworks and Sewerage System and Common Purpose Facilities, the company is also constructing new water treatment plants and distribution lines in the South portion of its concession area. By 2009, a treatment plant will be completed in Muntinlupa to address the water supply requirements of the area.

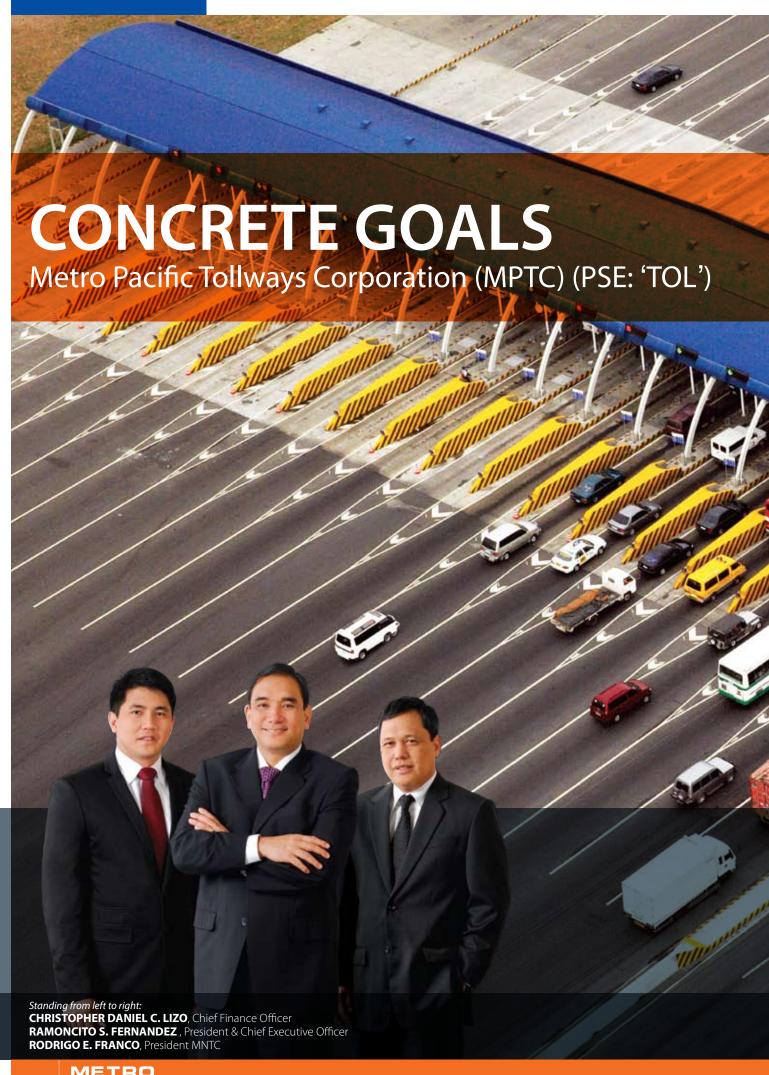
Summary of Program Accomplishments	
Studies Conducted	22
Number of projects ongoing construction	3

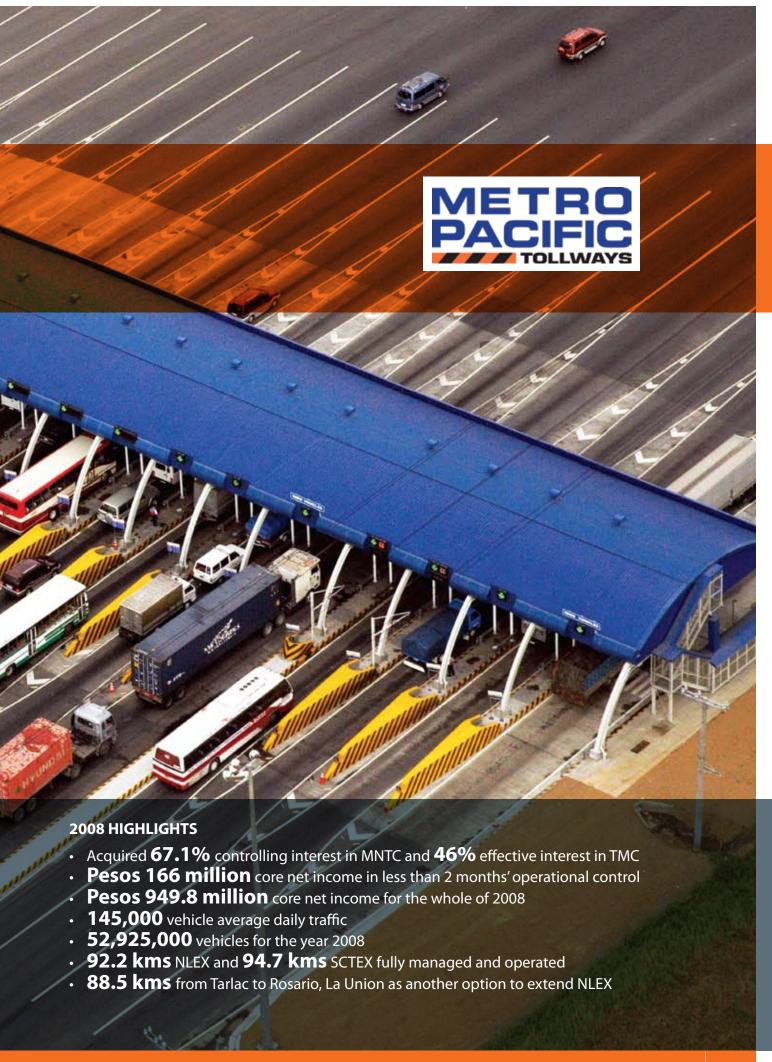
Sewerage and Sanitation Program. This program focuses on the rehabilitation and improvement of Maynilad's sewer network and sanitation facilities, especially in the Central Manila Sewerage System area. Rehabilitation projects for 2008 include the repair of existing sewer lines, improvement of road infrastructure within the treatment facilities, rehabilitation of buildings, and repair of valves and lift stations.

Almost Pesos 64 million of the 2008 capital expenditure (CAPEX) was allocated for this program. An additional Pesos 30 million from the 2007 CAPEX savings was used to fund emergency and unplanned sewerage projects.

Summary of Program Accomplishments		
Studies	6	
Number of projects completed/ongoing construction	12	
New Sewer Service Connections	43	







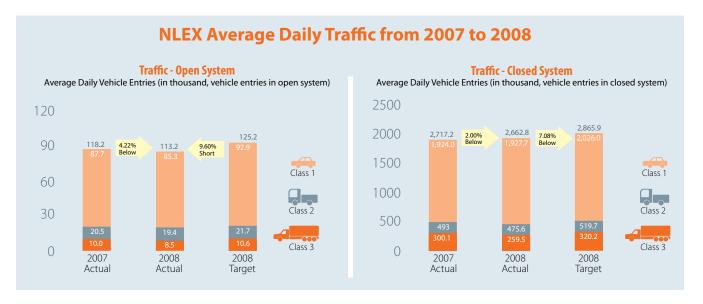
Infrastructure



The North Luzon Expressway ("NLEX") is the main infrastructure backbone that connects Metro Manila to 15 million people in Central and Northern Luzon, especially its key cities of Angeles and San Fernando, Pampanga. It is the transport and travel lifeline of agri-industrial products and services to and from the provinces of Bulacan, Pampanga, and Tarlac, and provides vital access to the two major Freeport zones of Clark, which has a burgeoning international airport, and Subic, which boasts of a leading domestic and international seaport. These two economic zones are now linked via the Subic Clark Tarlac Expressway ("SCTEX"), a 94.7-km direct link between the Subic Bay Free Port and the Clark Economic Zone, further extending the NLEX reach to the other provinces of Bataan and Zambales.

NLEX is a modern tollway system with traffic management and safety measures at par with international standards. It features reliable emergency and roadside services including emergency phone boxes, message signs and 24-hour closed circuit TV monitoring to provide real time traffic information, dedicated electronic lanes for faster transactions for both transponder and swipe and card system.

In August 26, 2008, MPIC signed the sale and purchase agreement with First Philippine Holdings Corporation and Benpres Holdings Corporation in Metro Pacific Tollways Corporation ("MPTC"), formerly First Philippine Infrastructure, Inc., which resulted in its holding 67.1% controlling interest in the Manila North Tollways Corporation ("MNTC") and 46% effective interest in the Tollways Management Corporation ("TMC") for an aggregate consideration





of Pesos 12.3 billion. This transaction was finally completed and implemented in November 13, 2008, with the takeover by MPIC's management of all infrastructure, facilities, and operations of the related companies.

MNTC, in June 1998 was granted a 30-year (not to go beyond 2030) concession period under the Toll Operation Agreement ("STOA") to finance, design, construct, operate, and maintain the toll roads, toll facilities, and other systems generating toll-related income throughout the stretch of the North Luzon Expressway, as well as the 8.5 km. Subic-Tipo Expressway. The concession period was later extended to 31st December 2037 in view of the construction of Segment 8.1.

Additionally, with the acquisition of these rights, MPIC is now part of the consortium that operates and manages SCTEX.

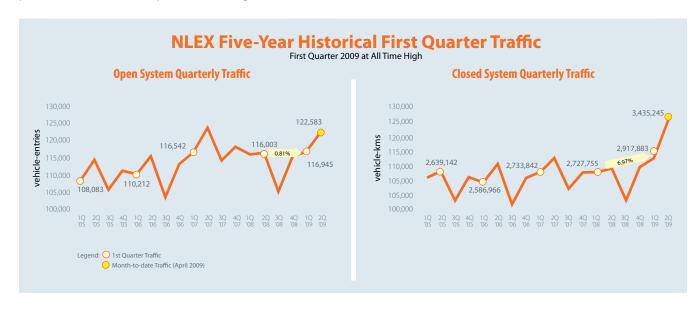
TAKING CHARGE

MPTC management is implementing two (2) core programs to further enhance the group's performance.

CUSTOMER SATISFACTION

Management has embarked on a culture-building exercise to integrate customer satisfaction as a core value. Supplementing these programs are training and development activities for all of its employees including motivational programs like "Pardner Ka, Sikat Ka!".

Customer satisfaction has also been emphasized in its employee performance evaluation.



Infrastructure



RAMONCITO S. FERNANDEZ

President & CEO of Metro Pacific Tollways Corporation

"With our growing role in infrastructure, we are accelerating the expansion of our tollways footprint and leveraging our existing expertise and resources. By providing alternative routes to NLEX, we aim to help decongest traffic in major thoroughfares of Metro Manila especially along the circumferential and radial roads.



We hope to help spur countryside economy and

development through more accessible and driver friendly roads, extend our reach to our customers by introducing innovative products using electronic platforms and create synergies with our sister companies within MPIC, PLDT and Smart.

We have set our sights on becoming the biggest and most efficient toll road management company in the Philippines."

The company is also intensifying its dialogue with its customers starting with "Usapang Truck", a dialogue with truckers on safety & convenience.

It is also accelerating the opening of additional Technical Service Facilities ("TSF") to improve availability of restaurants, convenience stores and comfort rooms for its motorists.

Management is strengthening its consumer marketing orientation with the launch of:

- a) promotional products for frequent users
- b) realtime e-loading of transponders
- c) more affordable easy-trip products
- d) Smart Money paypass using RFID technology

OPERATING EFFICIENCY

MPTC's organization refinements are expected to continuously improve operating efficiency. Operating and capital expenditures review has been strengthened to promote better fiscal discipline.

Review of the revenue collection operating system is underway. Governance has also been strengthened. Synergies are also being expanded with the end view of streamlining processes and improving both external and internal customer service.

Enhancements in the toll collection systems are also underway. Implementation of these enhancements is programmed for the first half of 2009.

Synergies with SCTEX are expected to go to high gear including improvements in traffic management and integration of toll collection systems.





GETTING THE SHOW ON THE ROAD

For the next few years, the thrust of MPTC is to expand exponentially its expressway footprint. It has in its pipeline an ambitious 5-year construction package that will ease traffic in Manila and will stimulate economic exchange in the northern and southern corridor. The road construction projects are being planned and implemented under a public-private partnership (PPP), an arrangement that is increasingly used locally and internationally. The said projects are expected to bring about significant benefits including the creation of 100,000 jobs during the 5-year construction period.

"While we strengthen our core programs on customer satisfaction and operating efficiency, we have also set our sights on becoming the biggest and most efficient toll road management company in the Philippines"

When completed, the road projects are expected to facilitate travel, decongest Metro Manila, prime economic activity to develop Clark, Subic and Calabarzon into vibrant commercial and transportation hubs, and open up employment and business opportunities. The ambitious road construction package reaffirms MPTC's commitment to join the government in delivering critical goods and services like infrastructure, which are vital during times of growth and become even more vital during times of crisis.

The five-project pipeline currently includes -

- NLEX Segment 8.1, which will connect Mindanao Avenue in Quezon City to the North Luzon Expressway (NLEX), cutting travel time from Tandang Sora to Valenzuela from 32 to 8 minutes;
- NLEX Segment 9, which will connect NLEX to MacArthur Highway;
- NLEX Segment 10, which when combined with Segment 9, will reduce travel time from MacArthur Highway to Port Area to only 10 minutes:
- The NLEX-SLEX Skyway Connector which will be built over rail tracks between C-3 in Caloocan and Buendia in Makati, allowing travel between Balintawak and Buendia to be cut down to only 16 minutes; and
- The completion of Stage 2 of the Skyway, through a possible investment in CMMTC. The project will cut travel time between Buendia and Alabang to only 15 minutes.

MPTC intends to fast-track construction of these toll road projects and allow motorists to enjoy substantial savings in travel time, fuel, and vehicle operating costs.

These projects, once completed, will integrate the SCTEX, NLEX and Skyway into a single expressway network. This network will have a total length of 226 kilometers and will bring the Philippines at par with major Asian countries in terms of seamless expressway systems.

Infrastructure

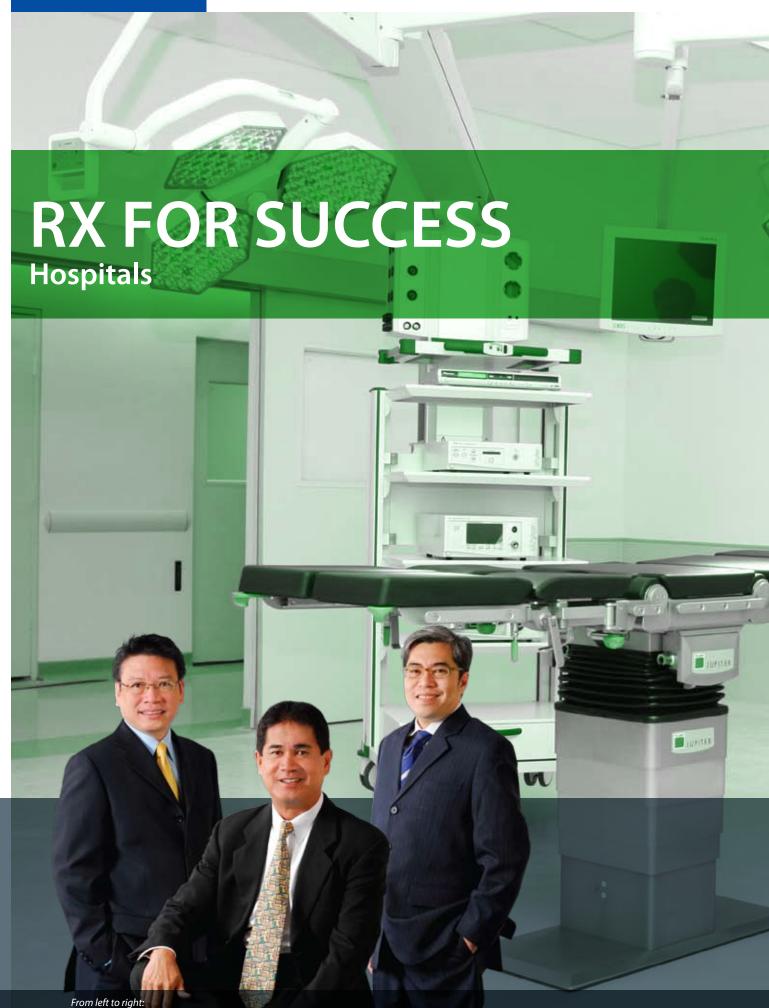


Toll Road Projects

• A 92.2-km four-lane stretch from Balintawak, Quezon City to Sta. Ines • Principal access of Metro Manila to the two major Freeport zones of Clark and Subic • Runs through the agricultural areas of Bulacan and Pampanga towards the cities of San Fernando and Angeles • 15 exits and interchanges **NLEX** • 48 close circuit television (CCTV) cameras strategically position along NLEX • 381 CCTVs positioned inside tollbooths • 27 variable message signs flashing safety reminders and traffic updates • 24-hour traffic patrol for emergency roadside assistance • 100 call boxes to provide customer assistance • A 2.7-km four-lane stretch from Mindanao Avenue to NLEX Valenzuela and will link NLEX to C-5 • Pesos 2.1 billion project cost **NLEX Phase 2** • Completion by April 2010 • 4,200 jobs will be created during construction. • Travel time shortened by half an hour from Edsa North Avenue to NLEX and from C-5 to NLEX. • Segment 9: A 3-km four-lane expressway connecting NLEX to MacArthur Highway in Valenzuela City. • Segment 10: A 5-km four-lane elevated road from **NLEX Phase 2** MacArthur Highway to R10 extending NLEX to Port Area. Segments 9 and 10 • Pesos 10 billion estimated project cost. • Construction targeted to start early 2010. • 28,000 jobs will be created over a two-year period. • Travel time from MacArthur Highway to Port Area is shortened by about one hour. • A 13-km four-lane totally elevated expressway connecting NLEX to SLEX/Skyway from Road C-3 in Caloocan City to Buendia Avenue in Makati. **NLEX-SLEX** • 80% will be built over existing railtracks. • Pesos 16 billion estimated project cost. • 45,000 jobs will be created over a period of two years.

15-20 minutes.

• Travel time from NLEX to SLEX will take approximately



From left to right:

JOSE NOEL C. DE LA PAZ, Director for Business Development Hospital Group

AUGUSTO P. PALISOC, JR., Executive Director Hospital Group

CARLITO B. SOLIMAN, Chief Finance Officer Hospital Group



2008 HIGHLIGHTS FOR THE HOSPITAL GROUP

- 1,000 beds for all 3 tertiary hospitals in Makati, San Juan, and Davao
- 2,314 accredited and credentialed **doctors**, and 1,901 nurses serving an estimated **680,000 patients** in 2008
- 350 teachers educating 4,524 students in 2 Colleges of Nursing in Makati and Davao City
- 3rd and 8th placers in the 2008 Nursing Examinations
- Pesos 5.286 billion Consolidated (Annualized) Revenues
- Pesos 996 million Consolidated (Annualized) EBITDA
- Pesos 426 million Consolidated (Annualized) Net Profit

Hospitals



MEDICAL DOCTORS, INC. MAKATI MEDICAL CENTER

Medical Doctors, Inc. (MDI) owns and operates the Makati Medical Center (MMC), a 420-bed tertiary hospital in Makati City. Founded in 1969, the hospital has regained its reputation as a leader in the Philippine healthcare industry with its roster of highly qualified medical and non-medical personnel coupled with a renewed and reinvigorated management commitment to provide superior health care to the Filipino patient.

With medical, non-medical, allied and professional teams collaborating constructively, the hospital is now on its third year of sustained profitability, resulting in increased investible funds to be plowed back to the hospital to enhance its medical capability, and improve credit ratings translating to a clean bill of health. MMC now boasts of a new building that houses diagnostic services and centers of excellence, all part of an ambitious master plan to provide total patient care in the most conducive environment. Additionally, the new building is only the first step in MMC's vision of a complete hospital in every sense, one that has factored in current and emerging trends in medical treatment, medical technology and delivery. 2009 will be focused primarily on completing the hospital transformation masterplan .

MDI's wholly-owned subsidiary, the Remedios T. Romualdez Memorial School (RTRMS, MMC Nursing School), implemented a new curriculum and forged international affiliations. RTRMS placed 9th in the overall passing rate of schools nationwide with 100 and more examinees; a graduate of 2008 ranked third overall.

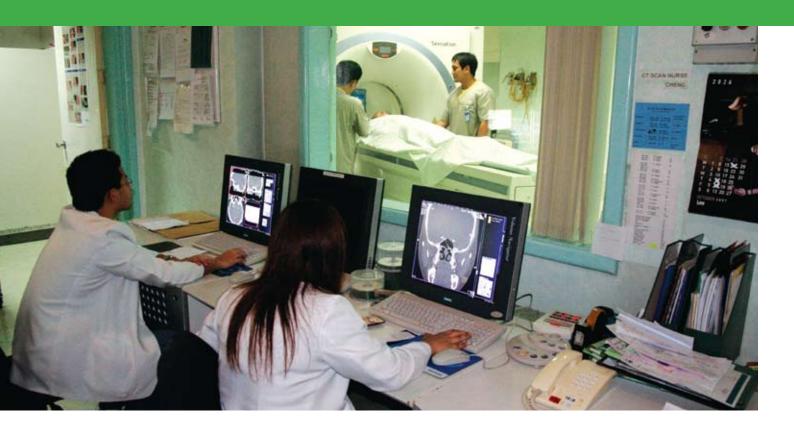
The Computer Imaging Institute, Inc. (CIII), a 60%-owned MDI subsidiary, continues to break new ground with technology complementing the practice of medicine. With its reputation of being the best in the Philippines in terms of medical imaging, even outperforming some of the best in Southeast Asia, CIII is at the forefront of using and upgrading the most technologically-

advanced imaging machines to produce clearer digital images of vital organs for more accurate diagnosis.

Around Pesos 2 billion in capital expenditures have been invested in a Facilities and Improvements Program (FIP), the first phase of which was the construction and equipping of the new annex building which was opened for soft launch in December 2008. More capital expenditures are programmed to fully integrate and upgrade the facilities, equipment, and amenities to the existing structures.

Already, renovation in areas on the fourth and fifth floors of the original building has upgraded the facilities for a new Intensive Care Unit wing and maternity floor which are patient-focused. Hospital access, public areas, patients' rooms and other specialty centers of the hospital will continue to be renovated with the objective of making the hospital appealing to patients, a departure from the traditional interiors that gave a cold, clinical feel. The ultimate design of the Hospital will promote an environment of wellness.

MMC's net revenue expanded by 16.7% from Pesos 2.762 billion in 2007 to Pesos 3.223 billion in 2008. This was no mean feat since bed capacity had been reduced from 582 beds in 2007 to 420 beds in 2008 due to the on-going construction and renovation during the major part of the year. Core net income for the full year amounted to Pesos 222 million as against Pesos 247 million the previous year, down by 10%, the decline being due to investing in the future—specifically in the latest equipment and new staff to support the additional building. Significantly, the core net income attributable to MPIC was up at Pesos 73 million compared with Pesos 11 million in 2007. It was also in 2008 that MPIC increased its shareholding from 7.5% to 32.4%, bringing with it corporate management skills to sustain the hospital's competitiveness in today's medical industry where patients have several choices.



The new building features state-of-the-art medical facilities including 15 all-new operating theaters fitted with digital, integrated and intelligent equipment, birthing rooms, a new maternity and delivery floor, and various other specialty centers.

The new building is also envisaged to be the home of MMC's Centers of Excellence—a multi-disciplinary and integrated approach to patient care. The Aesthetic Center, the Optimal Aging Center, the Cancer Center, the Urogynecology and Incontinence Center welcomed patients in the latter part of 2008.

Specialty units and services such as the Home Care and Hospice Services and the Dermatopathology Unit, the first of its kind in Southeast Asia, have been launched. Prospectively, these facilities will serve not just the domestic health and wellness patients, but also global patients who are looking for affordable but competent medical services. It is MMC's foray into the burgeoning medical tourism industry in Asia Pacific. With excellent doctors, nurses and caregivers in the Philippines, this is a natural fit.

Consistent with the changing trends in the practice of medicine, the new building does not have any in-patient rooms. It houses seven centers of excellence which shifts the focus from fragmentation to integration of medical care. As such, the new building provides essentially out-patient diagnostic services. In-patient rooms will only be available in the original building. The proposed facelift will be both cosmetic and functional ensuring that there is one look, one feel for one hospital complex.

The continuum of the 2008 vision will be the strong emphasis on facilities improvement to ensure that the original MMC building, a landmark in the cityscape, is given a facelift consistent with the new building. Historically, a hospital was viewed as a simple warehouse for the sick; a necessary inconvenience. Makati Med plans to change that image with its new facilities to put patients' minds at ease, eliminating the traditional dread of hospitals.

Another component of the facilities master plan is to find a new permanent location for the RTRMS Nursing School which will provide an environment that is conducive to learning and training. Concurrent with the move will be a change in the name of the Nursing School to MMC College of Nursing.

For MMC to break away from the old paradigm, upgrading of its Information Technology (both medical and non-medical) is crucial. IT in the medical side will be used to provide enhanced diagnostics and patient care. On the non-medical side, it will be used to make the patient experience pleasant, from the moment he calls Makati Med or the moment he walks into the hospital up to the time he leaves. IT will be used as an enabler to deliver competent, reliable, accurate and timely service. Training on patient satisfaction will go hand-in-hand with technology to give it an added dimension of a caring, personal touch.

Telecommunications will also be upgraded to improve accessibility for patients. With recent advances in telecoms and new ways of doing business, there is every expectation to promote not only face-to-face patient encounters but also remote access for their added convenience. A comprehensive service strategy is being formulated which aims to aspire for the highest quality of patient care delivered by competent, caring and compassionate staff, with operational efficiencies as an underpinning, thereby creating a hospitable environment in Makati Medical Center.

2009 will continue to be the year of upgrading the infrastructure in the broadest sense to prepare the way for 2010 when MMC reasserts itself as the leader in total patient healthcare.

Hospitals







CARDINAL SANTOS MEDICAL CENTER COLINAS VERDES HOSPITAL MANAGERS CORP.

Cardinal Santos Medical Center is a 235-bed tertiary hospital in a three-hectare prime property strategically located along Wilson Street in Greenhills West, San Juan City, Metro Manila and easily accessible to residents of the adjacent cities of Mandaluyong, Quezon, and Pasig. It intends to take the lead role in providing the best in diagnostics, round-the-clock caring, and setting the standards by continuously acquiring the latest medical technology in the country

Tracing its beginnings to when it was run by the Maryknoll Sisters, it is owned by the Roman Catholic Archbishop of Manila ("RCAM") who leased it to a private hospital operator since 1988. The previous lease expired in July 2008 and the RCAM signed a six-month Interim Operating Agreement ("IOA") with MPIC to ensure a smooth turn-over of the hospital assets and operations pending the selection of the next long-term operator.

MPIC later assigned its rights under the IOA to Colinas Verdes Hospital Managers Corporation ("CVHMC"), a newly incorporated 100% subsidiary of Medical Doctors Inc., the operator of Makati Medical Center. CVHMC successfully fulfilled its mission of processing the transfer of close to 900 hospital employees from the previous operator, while rebuilding the hospital information and financial reporting systems, stabilizing its working capital situation, thereby ensuring the uninterrupted delivery of hospital services to its clientele.

Further, CVHMC generated monthly financial reports and operating statistics to the RCAM for the benefit of prospective

long-term operators who would be conducting their due diligence review on the hospital. Amidst the operational challenges and constraints during the transition period, CVHMC generated Pesos 399 million in Gross Revenues and Pesos 24 million in Net Income for the period August 15 to December 31, 2008

At the end of the selection process, the RCAM awarded the 20-year operating contract to CVHMC beginning March 1, 2009. Under such contract, CVHMC is obligated to pay rent for the lease of the land, building and existing equipment of CSMC and is committed to invest a minimum of Pesos 750 million in the first ten years, Pesos 250 million of which will be spent within the first three years to repair assets and expand hospital services.

With the medical expertise that CSMC takes pride in and the technology which will be at par with the best hospitals in its league, CVHMC aims to position CSMC as an institution that provides one of the best healthcare services among tertiary hospitals in the country. The improvement of facilities, innovative marketing and the development of new services will be among its top priorities. A pro-active business strategy of reaching out to its adjoining residential communities and various corporate clients, initially in the Greenhills and Ortigas Business Center areas, is now being implemented, designed to enhance its visibility through better interaction and directto-client activities. Another important initiative will be to improve the purchasing facilities of the hospital to a synergistic complementation with Makati Medical Center that should bring about significant benefits to its clientele. Improving the parking facilities will be another major program of this new operator.



DAVAO DOCTORS HOSPITAL (CLINICA HILARIO), INC.

Davao Doctors Hospital is a privately-owned, 250-bed tertiary level and multi-specialty hospital located in the heart of Davao City, one of the metropolitan hubs in Mindanao. Opened in 1969, DDH is today the largest and most modern hospital in Southern Philippines offering state-of-the-art diagnostic, therapeutic and intensive care facilities in a one-stop medical center. It is considered the leader in all medical specialties, including cardiovascular medicine, orthopedics, gastroenterology & endocrinology, neurology and neurosurgery, cancer, ophthalmology, and digestive and liver diseases.

DDH is home to a dozen medical departments, each with an approved Medical Residency Training Program, namely: Anesthesiology, Internal Medicine, OB-Gynecology, Ophthalmology, Pediatrics, Radiology, Surgery, ENT, Dentistry, Nuclear Medicine, Orthopedics and Radiation Oncology. These departments are manned by more than 400 consultants accredited by various US and Philippine Specialty and Subspecialty boards.

DDH has a wholly-owned subsidiary, Davao Doctors
College, Inc. (DDC) which currently offers eleven (11)
baccalaureate degrees spread in three (3) colleges namely:
College of Nursing, College of Allied Health Sciences, and the
College of Arts, Sciences, Business and Education. The College of
Nursing constitutes around 72% of the total student population.
DDC is currently serving 3,630 students who come from Davao
City and the nearby provinces.

In May 2008, MPIC acquired a 34% shareholding in DDH. Consolidated Revenues increased by 3.1% from Pesos 1.05 Billion in 2007 to Pesos 1.1 Billion in 2008. Consolidated EBITDA increased by 7.3% from Pesos 246.7 Million in 2007 to Pesos 264.7 Million in 2008 for an EBITDA margin of 26%. DDH and DDC registered a consolidated Net Profit After Tax of Pesos 128.0 Million in 2008, 11.3% better than the Pesos 115.0 Million posted in 2007. In 2008, both DDH and DDC changed their accounting year ends to December 31.

In 2008, renovations were implemented in several priority areas in the main hospital building, in particular, the patients' rooms in the 2nd and 3rd floors, the Pulmonary Unit, the Cardiac Diagnostic Center, the Telemetry Unit, the Ultrasound Unit, and the Colonoscopy Unit, together with equipment upgrades. New equipment and instruments were acquired for its Operating Rooms along with a new Acute Stroke Unit, a first in Mindanao. It also expanded and improved its kitchen facilities preparing the nutritional and dietary requirements of the hospital.

In 2009, DDH is planning the acquisition of new additional apparatus to support of its extended Ancillary Services, specifically the acquisition of latest technologies in radiotherapy and cancer screening. The Radiology Department will be expanded and the newly-acquired digital mammogram will be commissioned. In the works is the construction of a four-storey steel parking building to alleviate a perennial parking problem, as well as a five-level space to accommodate more doctors' clinics.

DDC, on the other hand, is building a new food court in its current campus, and has plans to build a new 6-storey building for its CASBE programs.

Hospitals

RX FOR SUCCESS

THE METRO PACIFIC HOSPITAL GROUP

MPIC's involvement in the hospital sector started in 2005 when our Chairman Mr. Manuel V. Pangilinan was invited to become a Director and eventually Chairman of the Board of Medical Doctors, Inc. ("MDI"), owner and operator of the 580-bed Makati Medical Center, which was then in severe financial difficulty. Under our Chairman's leadership, MDI pursued a turnaround strategy that involved the construction of a new 13-storey building to expand out-patient services, the restructuring of its loans, and the fund-raising that enabled to do both. MPIC provided most of the funds required by MDI. From a consolidated net profit of only Pesos 15 million in 2005, MDI reported consolidated net profits of Pesos 223 million in 2006, Pesos 268 million in 2007, and Pesos 257 million in 2008. This exciting turnaround provided the motivation for MPIC's desire to build the first nationwide chain of hospitals in the Philippines.

We are pleased to report that, in 2008, MPIC was able to further its hospital thrusts with 2 projects during the year.

- In May 2008, MPIC acquired a 34% shareholding in the 250-bed Davao Doctors Hospital (Clinica Hilario), Inc., the largest private tertiary hospital in Mindanao. Unlike the investment in MDI (where MPIC provided cash to the company for new shares), MPIC acquired existing shares from a group of selling shareholders. MPIC also nominated the new DDH President in November 2008, and a new Chief Financial Officer in March of 2009.
- Three (3) months later, in August 2008, MPIC entered into an Interim Operating Agreement with the Roman Catholic Archbishop of Manila to become the interim operator of Cardinal Santos Medical Center (CSMC), another major 235-bed Metro Manila hospital located in San Juan City. MPIC subsequently assigned this Interim Operating Agreement to Colinas Verdes Hospital Management Corporation (CVHMC), a wholly-owned subsidiary formed by MDI specifically to operate CSMC. After a successful interim operations, on February 27, 2009, CVHMC was appointed long-term operator of CSMC for 20 years.

AUGUSTO P. PALISOC, JR.

President & Chief Executive Officer MPIC Hospital Group

"We are excited to build the first nationwide chain of hospitals in the Philippines, a country known worldwide for its top-rate doctors, nurses, and overall quality of care. Admittedly, we are now still at a very early stage—having invested in only 3 hospitals. We will continue to search for more quality hospitals that will form part of this nationwide network. For each hospital we invest in,



our first priority is always to introduce key ingredients - strategy, management, capital—that will make each individual hospital approximate its full potential. After this, we will pursue synergies —group purchasing, shared services, complementary centers of excellence, intergroup referrals, optimum equipment planning, telemedicine, nationwide branding—available to such a group of hospitals. With this, we hope we can contribute to the betterment of healthcare in our country."

Moving forward, we will continue in our efforts to introduce improvements in the management and operations of each of these hospitals that we are involved in. At the same time, we will continue in our search for suitable hospitals to invest in and become part of the Metro Pacific hospital group, in pursuit of our goal of becoming the largest operator of hospitals in the Philippines. As the hospital group grows, we will likewise increase our efforts to create and realize synergies that could be obtained from such. By doing so, we hope to build a profitable and sustainable hospital business, and also contribute to the enhancement of the delivery of healthcare services to Filipinos all over the country.



LANDCOReal Estate



MPIC's participation in property developer Landco Pacific Corporation has helped position the latter at the vanguard of the industry, especially with the booming properties markets of the new millennium after recovering from the slump brought about by the Asian Financial Crisis of 1997. But now, as the current global financial problem deepens, brought about by the US subprime fiasco of 2008, the local real estate cycle turns to bust again in possibly one of much longer term.

Following a strategic review of the Company's businesses, and its focus on infrastructure, MPIC decided to divest part of its interest in Landco. The growing divergence of Landco business from the core strategic assets of MPIC necessitated the move to further consolidate its position in the identified primary investment areas of utilities, tollways, and healthcare. In an agreement entered into on September 9, 2008 between MPIC and the minority shareholder of Landco, MPIC expressed its intention to sell its interest in Landco to a minority shareholder.

Landco is primarily engaged in all aspects of real estate business and has a separate reportable operating segment. As of December 31, 2008, negotiations for the sale are in progress and management expects that the sale to be completed in 2009. On this basis, the assets and liabilities of Landco, including that of its subsidiaries and associates, indirectly held by MPIC

through Landco and MPC, were classified as of December 31, 2008 as "Assets of disposal group classified as held for sale" and "Liabilities directly associated with assets classified as held for sale" in the consolidated balance sheets. The results of Landco's operations for all the periods presented until discontinuance have been presented in the consolidated statement of income as "Income (loss) from discontinued operations, net of tax."

Landco holds investments in subsidiaries and associates engaged in all aspects of real estate business which include: real estate consultancy encompassing project management and business planning services; dealing in and disposing of all kinds of real estate projects involving commercial, industrial, urban, residential or other kinds of real property; construction, management, operation and leasing tenements of the Company or other persons; and acting as real estate broker on a commission basis.





Board of Directors

MANUEL V. PANGILINAN

Chairman

Our Chairman, Manuel V. Pangilinan, founded First Pacific in 1981 and served as its Managing Director until 1999. He was appointed as Executive Chairman until June 2003, when he was named CEO and Managing Director. Within the First Pacific Group, he holds the positions of President Commissioner of P.T. Indofood Sukses Makmur Tbk, the largest food company in Indonesia.

He was named Chairman of Philippine Long Distance
Telephone Company (PLDT), the country's dominant telecom
company after serving as its President and CEO until February
2004. He also serves as Chairman of Maynilad Water Services, Inc.,
Metro Pacific Tollways Corporation, Medical Doctors, Inc., Metro
Pacific Investments Corporation, Landco Pacific Corporation,
Pilipino Telephone Corporation, and Smart Communications, Inc.,
the largest mobile phone operator in the Philippines.

Outside the First Pacific Group, Mr. Pangilinan is also Chairman of the Board of Trustees of Ateneo de Manila University and Chairman of the Board of Trustees of San Beda College. He was Chairman of the Hong Kong Bayanihan Trust, a non-stock, non-profit foundation which provides vocational, social and cultural activities for Hong Kong's foreign domestic helpers and served as a member of the Board of Overseers of the Wharton School, University of Pennyslvania. Mr. Pangilinan is Chairman of the Philippine Business for Social Progress (PBSP), a social action organization made up of the country's largest corporations, Vice Chairman of the Foundation for Crime Prevention, a private sector group organized to assist the government with crime prevention, a member of the Board of Trustees of Caritas Manila and Radio Veritas-Global Broadcasting Systems, Inc., a former Commissioner of the Pasig River Rehabilitation Commission, and a former Governor of the Philippine Stock Exchange. He received his Master's degree in Business Administration from Wharton School of Finance and Commerce, University of Pennsylvania, Philadelphia.

JOSE MA. K. LIM

President & Chief Executive Officer

Our President & Chief Executive Officer, Jose Ma. K. Lim joined Fort Bonifacio Development Corporation (FBDC) in 1995 as Treasury Vice President and was eventually appointed as its Chief Finance Officer. With the divestment in FBDC, Mr. Lim assumed the position of Group Vice President and Chief Finance Officer of FBDC's then parent company, Metro Pacific Corporation, from 2001 to 2003. He was appointed President and CEO of MPC in June 2003 where he continues to serve as Director to this day.

In 2006, Metro Pacific Investments Corporation (MPIC) was established and Mr. Lim was appointed as President and CEO and he continues to serve as such to date. He is also currently a Director in the following MPIC subsidiary and/or affiliate companies: Metro Pacific Tollways Corporation, Manila North Tollways Corporation, Tollways Management Corporation, Maynilad Water Services, Inc., Medical Doctors, Inc. (owner and operator of the Makati Medical Center), Davao Doctors Hospital (Clinica Hilario) Inc., Landco Inc. and Costa de Madera. Mr. Lim likewise serves as President of Metro Strategic Infrastructure Holdings, Inc. which holds a minority ownership interest in Citra

Metro Manila Tollways Corp. (Skyway) where he also continues to serve as a Director.

He is active in the Management Association of the Philippines and has served as Vice-Chair of the Corporate Governance Committee since 2007. Mr. Lim graduated from the Ateneo de Manila University, with a Bachelor of Arts degree in Philosophy. He received his MBA degree in 1978 from the Asian Institute of Management.

AUGUSTO P. PALISOC, JR.

Executive Director

Augusto P. Palisoc, Jr. has been with the First Pacific group of companies for over 25 years. He is currently an Executive Director of Metro Pacific Investments Corporation (MPIC), and is a Director of Medical Doctors, Inc. (owner and operator of the Makati Medical Center), Remedios T. Romualdez Memorial School, Inc., Davao Doctors Hospital (Clinica Hilario) Inc., Davao Doctors College, Inc., Colinas Verdes Hospital Managers Corporation (operator of the Cardinal Santos Medical Center), Landco Pacific Corporation, and Pacific Plaza Towers Condominium Corporation. Prior to joining MPIC, he was the Executive Vice President of Berli Jucker Public Company Limited in Thailand from 1998 to 2001. Mr. Palisoc served as President and CEO of Steniel Manufacturing Corporation in the Philippines from 1997 to 1998. He has held various positions within First Pacific as Group Vice President for Corporate Development of First Pacific Company Limited in Hong Kong, and Group Managing Director of FP Marketing (Malaysia) Sdn. Bhd. in Malaysia. Before he joined First Pacific in 1983, he was Vice President of Monte Real Investors, Inc. in the Philippines. Mr. Palisoc earned his Bachelor of Arts Degree, Major in Economics (with Honors) from De La Salle University, and his Master's in Business Management (MBM) Degree from the Asian Institute of Management.

ALFRED A. XEREZ-BURGOS, JR. Director

Afred A. Xerez-Burgos, Jr. assumed the position of President and CEO and Chairman of the Executive Committee of Landco Pacific Corporation in 1990 after previously working with major property companies for nearly 20 years. He is President of the Muntinlupa Development Foundation and Club Punta Fuego, Inc., Chairman of Forest Lake Development Corporation and Director of the Red Cross Philippines, Rizal Chapter. Mr. Burgos graduated with Distinction, Master in Business Management, from the Asian Institute of Management in 1971.

ANTONIO A. PICAZO

Independent Director

Antonio A. Picazo is currently the Managing Partner of Picazo Buyco Tan Fider & Santos Law Offices. He serves as a Director and/or Corporate Secretary of several large Philippine corporations, including Metro Pacific Investments Corporation, a position he has held since 2006. Mr. Picazo obtained his Bachelor of Laws degree from the University of the Philippines. He passed the 1964 Philippine Bar Examinations with the 5th highest rating. In 1967, he obtained a Master of Laws degree, Major in Taxation from the University of Pennsylvania. He is currently also a member

of the Board of the PGH Medical Foundation and of the Haribon Foundation, as well as the Market Governance Board of the Philippine Dealing and Exchange Corporation (PDEX).

AMADO R. SANTIAGO III

Director

Amado R. Santiago is the Managing Partner of the Santiago & Santiago Law Offices and is engaged in the general practice of law. He specializes in corporate litigation, which includes corporate rehabilitation proceedings under the Securities and Exchange Commission (SEC) Rules on Corporate Recovery and the Interim Rules of Procedure on Corporate Rehabilitation. He is also engaged in the practice of taxation law. Mr. Santiago graduated from the Ateneo de Manila School of Law in 1992 and passed the Philippine Bar Examinations given in the same year.

EDWARD S. GO

Independent Director

Edward S. Go retired in 2003 as Chairman & CEO of United Coconut Planters Bank (UCPB). Currently, he serves as Chairman of the Board of Hyundai Asia Resources, Inc. and of ASA Philippine Foundation. He is an Independent Director of Metro Pacific Investments Corporation, Metro Pacific Corporation, Pilipino Telephone Corporation and Filipino Fund Inc. He is also a director of AB Capital and Investment Corporation, Metro Pacific Tollways Corporation, Vicsal Investment Corporation and Laperal Builders, Inc. He has over 40 years of management experience in banking and finance, starting as Executive Trainee with Citibank N.A. and became President of Philippine Bank of Communications in 1974 and Chairman and Chief Executive Officer of Chinabank in 1985. Mr. Go is also Chairman of the Audit Committee of MPIC, PILTEL and AB Capital and Investment Corporation. He obtained his Bachelor of Arts Degree, magna cum laude, and did postgraduate studies at the Ateneo de Manila University, where he currently serves as member of the Board of Trustees.

ARTEMIO V. PANGANIBAN

Independent Director

A consistent scholar, Chief Justice Panganiban obtained his Associate in Arts "With Highest Honors" and later his Bachelor of Laws with "Cum Laude" and "Most Outstanding Student" honors. He founded and headed the National Union of Students of the Philippines. He is also the recipient of several honorary doctoral degrees and placed sixth among 4,200 candidates who took the 1960 bar examinations.

In 1995, he was appointed Justice of the Supreme Court, and in 2005, Chief Justice of the Philippines. On his retirement on December 7, 2006, his colleagues acclaimed him unanimously as the "Renaissance Jurist of the 21st Century." Aside from being a prodigious decision writer, he also authored eleven books while serving on the highest court of the land. His judicial philosophy is "Liberty and Prosperity Under the Rule of Law." A much soughtafter independent director and adviser of business firms, he also writes a column in the Philippine Daily Inquirer. Prior to entering public service, Chief Justice Panganiban was a prominent practicing lawyer, law professor, business entrepreneur, civic leader and Catholic lay worker. He was the only Filipino appointed

by the late Pope John Paul II to be a member of the Vatican-based Pontifical Council for the Laity for the 1996-2001 term.

ALBERT F. DEL ROSARIO

Director

The former Ambassador of the Republic of the Philippines to the United States of America from October 2001 to August 2006 earned his Bachelor's Degree in Economics at New York University. He is currently Chairman of Gotuaco Del Rosario Insurance Brokers, Inc., BusinessWorld Publishing Corporation, Makati Foundation for Education, Stratbase, Inc. and is President of Philippine Telecommunications Investment Corporation. Ambassador del Rosario serves as Commissioner or Director in numerous companies and non-profit organizations including First Pacific Company, PT Indofood Sukses Makmur Tbk, Philippine Long Distance Telephone Company, Infrontier (Philippines), Inc., Metro Pacific Investments Corporation, Metro Pacific Tollways Corporation, Asia Traders Insurance Corporation, Landco Pacific Corporation, MediaQuest Holdings, Inc., Philippine Cancer Society and is a member of the Board of Trustees or Governors of the Management Association of the Philippines, International Graduate University, Washington, DC, and Asia Society's International Council. He also headed the development of Pacific Plaza Towers, Metro Pacific Corporation's signature project in Fort Bonifacio's Global City.

In September 2004, Ambassador del Rosario was conferred the Order of Sikatuna, Rank of Datu, by H.E. President Gloria Macapagal-Arroyo for his outstanding efforts in promoting foreign relations. He is, moreover, a recipient of the EDSA II Presidential Heroes Award in recognition of his work in fostering Philippine democracy and the Philippine Army Award from H.E. President Corazon Aquino for his accomplishments as Chairman of the Makati Foundation for Education. He was elevated to the Xavier Hall of Fame in New York City in 2006.

ERIC O. RECTO

Independent Director

Eric O. Recto, Filipino, was elected as an Independent Director of the Company in June 2007. He is the President of Petron Corporation and concurrently is also President of ISM Communications Corporation and the CEO of Eastern Telecommunications Philippines, Inc. He is Vice Chairman of the Board of PhilWeb Corporation and Alphaland Corporation. He also serves as Independent Director of Philippine National Bank, the Energy Development Corporation, and Philex Mining Corporation. His other directorships include PetroEnergy Corporation. He was Undersecretary of the Department of Finance handling the International Finance Group and the Privatization Office from 2002 to 2005. He had also previously served as CFO of Alaska Milk Corporation and Belle Corporation. Mr. Recto obtained his undergraduate degree in Industrial Engineering from the University of the Philippines and has an MBA from the Johnson School of Cornell University.



EDWARD A. TORTORICI

Executive Advisor

Born in the United States, Edward A. Tortorici has served in a variety of senior and executive management positions, including Corporate Vice President for Crocker Bank and Managing Director positions at Olivetti Corporation of America and Fairchild Semiconductor Corporation.

Mr. Tortorici subsequently founded EA Edwards Associates, an international management and consulting firm specializing in strategy formulation and productivity improvement with offices in USA, Europe and Middle East.

In 1987, Mr. Tortorici joined First Pacific as an Executive Director for strategic planning and corporate restructuring, and launched the Group's entry into the telecommunications and technology sectors. Presently, he oversees corporate strategy for First Pacific and guides the Group's strategic planning and corporate development activities. Mr. Tortorici serves as a Commissioner of PT Indofood Sukses Makmur Tbk which is based in Indonesia; a Director of Metro Pacific Corporation, Maynilad Water Services, Inc. and Landco Pacific Corporation, and an Executive Advisor of Metro Pacific Investments Corporation's companies located in the Philippines. He also serves as a Trustee of the Asia Society and the Metropolitan Museum of Manila.

ANDREW G. SHEPHERD Chief Finance Officer -MPIC

Andrew G. Shepherd joined MPIC in May of 2008 as Chief Financial Officer to oversee all aspects of MPIC's finances. Mr. Shepherd's appointment has strengthened MPIC's management team as the Company prepares for a new period of growth and investments. His background in mergers and acquisitions, investor relations and as a senior financial and commercial professional with in-depth cross cultural experience gained during 16 years in the Middle/Far East provides a strategic perspective to the business.

Prior to joining MPIC, Mr. Shepherd was the Group Chief Financial Officer of the Shaheen Business and Investment Group (Shaheen), a family-owned Middle East-based conglomerate with business interests in automotive, manufacturing, food processing, real estate and infrastructure. While at Shaheen, Mr. Shepherd managed the expansion of the company into new countries and ventures, as well as establishing a new strategy and financial vision for the Group. Mr. Shepherd also served 12 years with the Jardine Matheson Group of Companies in senior executive positions in Hongkong, Tokyo and Manila. Mr. Shepherd holds a BSC degree with Honors from the University of Edinburgh and is a Fellow of Chartered Certified Accounts.

JOSE NOEL C. DE LA PAZ

Director for Business Development Hospital Group

As MPIC's Director for Corporate Development, Jose Noel C. de la Paz joined MPIC in 2007 to be responsible for the acquisition and investment initiatives of the company, with particular focus on the healthcare sector, beginning with the identification of projects, preliminary evaluation, due diligence, investment structuring, negotiations and execution, up to participation in management. In 2008, he was part of the interim operating management of Cardinal Santos Medical Center, as well as a board member of Davao Doctors College. He has over 20 years of investment banking experience, arranging debt and equity financings and rendering financial advisory services. He was the Philippine Deputy Country Head for New Yorkbased Bankers Trust Company that originated and lead managed global bond offerings and bank loan syndications, and worked on advisory engagements for major project financings in the country.

CARLITO B. SOLIMAN Chief Finance Officer Hospital Group

Carlito B. Soliman is MPIC's Chief Financial Officer of the Hospital Group. He has over 25 years experience in finance, controllership, audit and administration. Prior to joining MPIC in October 2008, he was the VP for Finance and Administration of Makati Medical Center for 4 years. He also had held key management positions in various companies of diverse business interests namely, consumer and industrial trading, financial institutions and with PricewaterhouseCoopers - Manila, where he gained 8 years of extensive external audit exposure. He holds a Bachelor of Science degree in Business Administration from the University of the East and is a Certified Public Accountant.

ANA BESS G. PINGOL Deputy Chief Executive Officer-MPIC

Prior to joining MPIC as Deputy CFO and VP Treasurer, Ana Bess G. Pingol was the Commercial Director/Country Manager of Tetra Pak Philippines where she was responsible for driving the overall Philippine Operation. While taking care of the Tetra Pak Philippine operation, she also held the position of Cluster Key Account Manager in South and South East Asia for Nestle. She had served in various finance positions of senior responsibility such as VP Treasury & Special Project Fort Bonifacio Development Corporation, CFO of Rockwell Land Corporation, and Comptroller & Treasurer of Shangri-La Properties. Ms. Pingol is a member of Financial Executive of the Philippines and has a Masters Degree from the Ateneo Graduate School of Business in which she is concurrently a faculty member. She obtained her Bachelor of Science in Business Administration in Accounting, Honors Program, cum laude, from the University of the East.

MELODY M. DEL ROSARIO Assistant Vice-President Media & Corporate Communication

As the Assistant Vice President for Media and Corporate Communications, Melody M. del Rosario oversees the implementation and execution of the communication and investor relations programs of the company to media, analysts, business regulators and shareholders. She also handles MPIC's advertising, corporate events and sponsorship, including the activities and affairs of the MPIC Foundation. Ms. Del Rosario has been with the Metro Pacific Group since 1993, and has over 16 years of experience in the field of public and media relations, corporate communications and corporate social responsibility. Ms. del Rosario is also the Corporate Information Officer of MPIC and Metro Pacific Tollways Corporation for the Philippine Stock

JOY L. FERNANDEZ Comptroller

Joy L. Fernandez joined MPIC in July 2008 as Comptroller bringing with her 10 years of combined experience in different aspects of accounting and auditing in various industries. Prior to moving to MPIC, she worked with GMA Network, Inc. as head of financial and management reporting team where she introduced improvements to observed lead time in reporting, among others.

DENIS G. LUCINDO

Assistant Vice-President Business Development

Denis G. Lucindo is tasked as custodian of the Group's mining strategy in the Philippines, which includes evaluating potential investments and managing the negotiations with prospective investments, acquisitions, and partners. Prior to joining MPIC, he led the conceptualization, creation, and launch of the Addict Mobile brand for Smart Communications, and was Associate Publisher and subsequently Editor-in-Chief of Entrepreneur Magazine under Summit Media.

Corporate Governance

The Manual on Corporate Governance of MPIC is what may be called the Board of Directors' covenant with shareholders to govern the company according to standards of sound management and oversight, coherent and consistent with relevant laws and regulatory rules applicable to the business. The goal of good corporate governance is always to generate and aggregate value for its shareholders, and also to motivate and inspire top management as well as its rank and file.

MECHANISMS FOR COMPLIANCE

The four standing committees, created and maintained by the Board of Directors to ensure adherence to the Manual, have delivered on their mandate with fidelity and transparency.

- The Audit Committee has gone through all the Company's transactions with attention to detail and an eye for their broad strategic implications;
- The Nomination Committee has mustered as members of the Board, men of unquestionable character, sound judgment, and business acumen; most especially the independent directors who are able to provide an objective and disinterested view of the Company's operations;
- The Remuneration and Compensation Committee has ably balanced the need to reward competence, and performance and attain targeted profitability levels.
- The Corporate Governance Compliance Committee, through its senior manager with the rank of vice-president, has ensured that all members of the organization have a full understanding of the standards set by the Manual.

BOARD COMMITTEES

Audit & Risk Management

Edward S. Go - Chairman Eric O. Recto - Independent Director Augusto T. Palisoc, Jr.

Compensation Committee

Manuel V. Pangilinan - Chairman Jose Ma. K. Lim

Edward S. Go - Independent Director

Nomination Committee

Albert F. del Rosario - Chairman

Jose Ma. K. Lim

Edward S. Go - Independent Director

Corporate Governance Committee

Chief Justice Artemio V. Panganiban – Chairman and Independent Director Ambassador Albert V. del Rosario Antonio A. Picazo

PERFORMANCE BENCHMARKS

A total of 17 Board of Directors' meetings were held in 2008, seven (7) of which were regular monthly meetings, and ten (10) of which were special meetings to take up matters of urgency and importance. All the meetings were held with a quorum, and the

necessary minutes properly recorded attendance as well as matters of discussion and approval. The Board Committees convened and discharged their respective functions in keeping with the Manual of Corporate Governance.

The Chairman of the Board and the President regularly appraised the Board of Directors of plans, objectives, and strategies, as well as of new developments and contingencies that arose. Adequate data and specifics were supplied as a matter of course or in response to specific requests within reasonable time. The Board as a whole has seen to it that the Company is able to discharge its obligations to its shareholders, to its employees, and to the government regulatory bodies.

DOCUMENTATIONS AND CERTIFICATIONS

On the 23rd of January 2008, as has always been the practice, a certification was issued to the SEC and the PSE that the Company has fulfilled its corporate obligations, with all the necessary documentations as required by law. All its public transactions are a matter of public record, published in periodicals, or kept in public notaries.

Minutes of the Board meetings and meetings of its Audit, Compensation and Remuneration, Nomination and Corporate Governance Committees are diligently kept by the Company Secretary. Minutes are open for review at any time upon reasonable notice by any Director.

Draft versions of minutes of Board and Committees' meetings were furnished each member for their comments and final versions were provided for their records within a reasonable time after every meeting. The finalized minutes recorded details on matters deliberated upon by the Board and the Committees, decisions arrived at and resolutions adopted, including any concern of any Board member, or any dissenting view expressed.

RISK MANAGEMENT

Risk is inherent in any business, which can come from the economic environment, the competitive milieu, the internal operations, and many other factors that, taken together can affect corporate performance. The task of the Board of Directors and the management teams is to assess these risks, in the light of the inherent strengths and weaknesses of the business, and of extrinsic threats and opportunities; and then to formulate business strategies and tactics that could overcome the expected weaknesses and threats, or that would take advantage of identified strengths and opportunities.

MACRO AND MICRO VIEW

In the operations of MPIC's existing companies and partnerships, their respective management teams are required to prepare long-term, medium-term, and annual strategic plans after studied assessments of their markets and operations, and to submit such plans for review, addition, amendment, and approval by the Board,



including the specifics of its operational, marketing, and financial targets and parameters. In turn, on a regular basis, such plans are reviewed against actual performance, and revised and refocused if need be, should unanticipated contingencies arise.

Necessarily, risk assessments should be informed by due diligence. Additionally, possible worst-case scenarios should be realistically factored into the equation and adequately prepared for, such that immediate changes and timely adjustments on the objectives, strategies, and action could be readily adopted, and damage control limitations when needed could be resorted to. All these are intended to minimize, if not altogether mitigate the eventualities that are anticipated and identified.

BUILT-IN MECHANISMS FOR HANDLING RISKS

However, there is much about business futures that cannot be predicted. Here is where operational know-how and experiential wisdom come in, and where a management team, already renowned for its turnaround expertise, is a great help. Here is also where established policies and tried-and-tested systems and procedures are of much value. Here too is where collective synergies of the conglomerate can be brought into play.

But the company is always open to new, untested, creative and innovative ideas. In many instances, these ideas allow to take it on risks and probabilities at the edge of its present capacities. This too is part of a carefully managed risk policy, for when all is said and done, above average success is only possible when one is willing to take a carefully analyzed risk. Suffice it to say that much of the Company's success today comes from its capacity to renew and reinvent itself every once so often.

BATTING AVERAGE OF MPIC

In 2008, the Company has been largely successful in properly and adequately estimating the risks in the companies it already is operating as well as the companies it acquired. The capex programs it has implemented both for the water utility and healthcare operations have already began to yield expected returns. The well-considered purchase of the tollways has brought many more opportunities in its wake. And finally, the post yearend prospect that presented itself in electrical distribution, was then taken advantage of, which only goes to show that the Company is able to balance reasonable risks and substantive gains.

MPIC, given its principles of governance, and given its sense of fiduciary responsibility, will never take on risks that are foolhardy and imprudent. The sooner a business becomes to some extent unviable, or unreasonably risky, and the Company is more than ready to divest when called for, or take on losses when needed, in trying to overcome the perils.

AUDIT COMMITTEE REPORT FOR 2008

Further to our compliance with applicable corporate governance laws and rules, our audit committee confirmed in its report for 2008 that:

- Each voting member of the audit committee is an independent director as determined by the board of directors;
- In the performance of their oversight responsibilities, the audit committee has reviewed and discussed our audited financial statements as at and for the year ended December 31, 2008 with management, which has the primary responsibility for the financial statements, and with SGV & Co., our independent auditor, who is responsible for expressing an opinion on the conformity of our audited financial statements with generally accepted accounting principles;
- The audit committee has discussed with SGV & Co. the matters required to be discussed by the Statement on Auditing Standards No. 61 (Communication with Audit Committees) as modified or supplemented;
- The audit committee has received written disclosures and the letter from SGV & Co required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees) and has discussed with SGV & Co. its independence from the MPIC Group and the MPIC Group's management;
- The audit committee likewise discussed with our internal audit group and SGV & Co. the overall scope and plans for their respective audits. The audit committee also met with our internal audit group and representatives of SGV & Co. to discuss the results of their examinations, their evaluations of our internal controls and the overall quality of our financial reporting;
- Based on the reviews and discussions referred to above, in reliance on management and SGV & Co. and subject to the limitations of the audit committee's role, the audit committee recommended to our board of directors and our board has approved, the inclusion of our financial statements as at and for the year ended December 31, 2008 in our Annual Report to the Stockholders and to the Philippine SEC on Form 17-A and Form 20-F, respectively; and
- Based on a review of SGV & Co.'s performance and qualifications, including consideration of management's recommendation, the audit committee approved the appointment of SGV & Co. as our independent auditor.



Corporate Social Responsibility

t is almost a redundancy to say that MPIC is practicing Corporate Social Responsibility in as much as its strategic thrust is already focused on helping build the nation by operating and upgrading its basic services infrastructure such as utilities, toll roads, and healthcare. Not too many companies have taken on such public service-oriented responsibilities at such a scale and with such a commitment. After all, its water utility company benefits more than 6,200,000 people. Its toll roads service more than 150,000 vehicles, both public and private, on a daily basis. And its healthcare institutions now provide the best medical and clinical services in Luzon and in Mindanao.

THE MANO AMIGO PROJECT

MPIC is taking on even more social responsibility, not only as a corporate entity, but with the voluntary and individual participation of its staff. The first such endeavor is the Mano Amiga Project wherein the employees of the Company raised a substantial amount which was matched by MPIC to support less than a handful of students for one year to take care of their tuition fees. Additionally, donations in kind such as bags, T-shirts, school supplies, and equipment were also solicited.

But more than just the material was the moral support, personally rendered by President Jose Ma. K. Lim and Chief Financial Officer Andrew Shepherd, when they spent half a day with the kids-scholars. The MPIC Volunteers in turn served as youth mentors during weekend activities, wherein they summarized the week's lessons as a creative way to reinforce and complement classroom learning. The deserving but indigent students can now look forward to a promising future, thanks to a Company that helped and to officers and staff that cared. Although the Mano Amigo Project was conducted on an experimental basis, it is now being institutionalized to become part of the company's program on a much larger scale.

THE NEW MPIC FOUNDATION

The Board of Directors, being very much pleased with this initial project, established a foundation on March 25, 2008 and incorporated on April 25, 2006, with the mandate to implement

programs designed to benefit communities, organizations, families and individuals, especially in the areas in which the MPIC companies operate. The programs will involve, apart from scholarship programs, poverty alleviation, community infrastructure such waters systems, roads, community centers, and training centers, environment-related projects, as well as policy research and advocacy.

The specific objectives of the foundation are as follows:

- To formulate, initiate, undertake, promote, sponsor, assist, support and/or finance projects, programs and activities for the improvement of civic consciousness, livelihood, community welfare, social education and nation-building in the Philippines.
- To conduct, undertake, sponsor, publish and/or disseminate scientific and/or technical research and development studies for the social and economic upliftment and improvement of the living conditions and quality of life of the Filipinos.
- To finance research grants and the creation of professional chairs for the above purposes and, generally for the conduct of researches, investigations and studies on scientific, technological, economic, financial and social problems.
- To foster educational opportunities by granting scholarships to deserving students or giving grants to educational institutions for the establishment of student grants and loan funds.
- To initiate, undertake, support, sponsor and/or finance disaster relief rehabilitation and support programs, projects and activities.

STATEMENT OF PRINCIPLES

MPIC believes that Corporate Social Responsibility is consistent with its faith and values, not to mention with its business orientation. It also believes that it has obligations not only to its stakeholders, but also to society as a whole. Such a belief is very much operational in the way its businesses are being run, and also in the way its businesses relate to their respective communities. The mutuality of benefits that ensues from such a symbiotic relationship is inestimable.

FINANCIAL STATEMENTS

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The Year Ended 2008 Compared to the Year Ended 2007

Adoption of New Standards and Interpretations

Our accounting policies are consistent with those followed in the preparation of the Company's most recent annual consolidated financial statements, except for the changes in accounting policies and the adoption of the new and amended Philippine Accounting Standards (PAS) and Philippine Interpretations of the International Financial Reporting Interpretations Committee (IFRIC), which became effective on January 1, 2008. Our adoption of these amendments to standards and new interpretations, except for Philippine Interpretation IFRIC 12, did not have any effect on the financial performance or position of the Company.

2008 Compared to 2007

Revenue and Other Income

Metro Pacific Investments Corporation generated consolidated revenues and other income of Php11.54 billion in 2008, Php7.77 billion or 176% higher from Php4.17 billion in 2007. Water and sewerage services and construction revenue contributed 72% of the total consolidated revenue and other income.

Consolidation of water and sewerage services revenue of Php4.33 billion and construction revenue of Php4.16 billion was brought about by increased interests in DMWC. Previously in 2007, DMWC results were accounted for as investments in a joint venture. Total revenues from Maynilad operations for the year increased by 12.0% compared to last year. Water services accounted for 74% of, while sewer services contributed 17% to, the total revenues. Water and sewerage services combined grew 13.0%, reflecting the impact of the 10.0% growth in billed volume and the 2.6% inflationary increase in approved tariffs.

For the full year 2008, MWSI billed 314.6 MCM, an increase of 10.0% versus the 286.0 MCM billed in the same period last year. Supply grew by 3.5% to 869.1 MCM as a result of successful negotiations with the National Water Resource Board (NWRB) to increase the intake of water from Angat closer to MWSI's rated capacity. With billed volume continuing to grow faster than supply, NRW year-to-date improved to 63.8% from 66.0% in the same period last year. Billed services grew 8.4% to 762,315 accounts, with the higher volume growth indicating a slight improvement in consumption per connection.

Toll revenues, though, represent only 1.5 months' share in the revenues of MPTC from the time of acquisition on November 13, 2008 and contributed Php715.08 million in the consolidated revenue and other income of MPIC. If the combination had taken place at the beginning of the year, revenues from continuing operations would have been Php5.20 billion.

Share in net earnings of associates amounting to Php400.33 million was a result of increased interest in MDI to 32.4% brought about by the conversion of remaining convertible notes on January 18, 2008. The acquisition of 34% interest in Davao Doctors Hospital (Clinica Hilario) Inc. on May 15, 2008 also contributed to the increase in total revenues and other income. Increase in consolidated revenue and other income has been tempered by the drop in other income to Php1.66 billion in 2008 from Php2.21 billion in 2007 due to the gain on debt settlement and mark to market gain on derivative amounting to Php1.05 billion and Php1.07 billion, respectively, in 2007.

Cost and other expenses

Consolidated cost and other expenses grew, albeit slower than revenue and other income growth by 144% to Php10.73 billion from Php4.33 billion in 2007. This was broadly in line with the consolidation of DMCI-MPIC Water Company and Metro Pacific Tollways Corporation. Cost of services and construction costs accounted for 60% of the total consolidated cost and other expenses.

General and administrative expenses on a consolidated basis grew 740% from Php158.70 million in 2007 to Php1,327.57 million in 2008. Increase can be attributed to increased personnel costs, taxes and licenses, professional fees, outside services, communication, light and water.

Consolidated interest expense decreased by 67% from Php3.53 billion to Php1.16 billion as a result of settlement of Dollar Loans of the Parent Company in 2008.

Income from discontinued operations

Landco

Following a strategic review of the Company's businesses, and its focus on infrastructure, MPIC decided to divest part of its interest in Landco. In an agreement entered on September 9, 2008 between MPIC and the minority shareholder, MPIC expressed its intention to sell its interest in Landco to the minority shareholder. Landco is primarily engaged in all aspects of real estate business and is a separate reportable operating segment. As of December 31, 2008, negotiations for the sale are still in progress but expected to be completed in 2009. On the basis of the foregoing, the results of Landco's operations for all the periods presented until discontinuance have been presented in the consolidated statement of income as "Income (loss) from discontinued operations, net of tax."

Nenaco

On December 20, 2006, MPC's Board of Directors approved the sale of its 83.96% interest, equivalent to 2,531,843,830 common shares, in Negros Navigation Company (Nenaco) to Negros Holdings and Management Corporation, a company owned by the management of Nenaco.

The results of operations of Nenaco have been presented in the 2006 consolidated statement of income as "Income (loss) from discontinued operations, net of tax."

On May 6, 2008, MPC's Board of Directors approved the disposition of the remaining 15.3% interest in Nenaco. On May 26, 2008, the said investment, with carrying value of Php122.3 million, was sold for Php173.6 million, resulting to a gain on sale of investment amounting to Php51.3 million (see Note 33).

Key performance indicators of the Company and its significant subsidiaries

Metro Pacific Investments Corporation

(In million pesos, except ratios)	2008	2007
Revenue	11,539	4,174
Net Income Attributable to Equity Holders	549	(110)
Total Assets	93,102	12,139
Long Term Debt	32,206	4,347
Stockholders' Equity	26,789	3,070
Current Ratio ¹	1.01	0.67
Debt to Equity Ratio ²	1.20	1.42

Maynilad Water Services Inc.

(In million pesos, except ratios)	2008	2007*
Revenue	8,245	7,377
Net Income Attributable to Equity Holders	801	-
Total Assets	34,752	24,458
Total Debt	33,851	27,700
Stockholders' Equity	937	(3,241)
Current Ratio1		
Debt to Equity Ratio ²		

¹ Current Assets/Current Liabilities

The primary objective of the Company's capital management is to ensure that it maintains a strong balance sheet and healthy operational ratios in order to support its business and maximize shareholder value. The Company monitors capital on the basis of debt to equity calculated as total liabilities over equity.

² Total Debt/Total Stockholders' Equity (Total Debt includes short-term debt, long term debt, current portion of long term debt)

^{*}The restatement of previous year's audited financial statements to reflect the impact of IFRIC 12 resulted in Maynilad's (a) total assets decreasing by Php3.1 billion, (b) total liabilities increasing by Php4.1 billion and (c) retained earnings decreasing by Php7.2 billion as of December 31, 2007.

FINANCIAL REVIEW

Consolidated Financial Position

Consolidated assets as of 31 December 2008 increased to Php93.10 billion from the year-end 2007 re-stated level of Php12.14 billion, higher by Php80.96 billion. The causes of significant changes in the financial statements are:

- 1. Cash and Cash equivalents 3,196% increase from Php248 million to Php8, 174 million Increase in cash and cash equivalent was due to first time line by line consolidation of DMWC and its subsidiary, Maynilad, as well as the newly acquired MPTC. Also, increase in Cash and cash equivalent was due to the amount, Php5,575 million (such amount being the proceeds from debt issuance intended to fund future capital expenditures of Maynilad) being lodged in the short term investments account under cash equivalent.
- 2. Receivables -39% decrease from Php2,643 million to Php1,609 million Receivables in 2008 mainly include trade receivable of Php1,956 from customers arising from provision of water and sewerage services, whereas in 2007, receivables included receivables related to the Company's real estate business in Landco which, along with other accounts, was included as part of "Assets of disposal group classified as held for sale".
- 3. Inventories increase from Php0 to Php84 million Inventories consist mainly of spare parts, transformers and supplies of MNTC amounting to Php50 million and Maynilad totaling Php34 million.
- 4. Real estate for sale 93% decrease from Php1,868 million to Php127 million Real estate for sale in 2008 represents mainly condominium units and other real estate asset for sale of MPC, while in 2007, it included consolidated real estate asset accounts of Landco which as per note 6 of the AFS was included as part of "Assets of disposal group classified as held for sale".
- 5. Due from related parties 68% increase from Php219 million to Php32million Due from related parties represents inter-company advances made within the Group. Acquisition of MPTC during the year expanded inter-company transactions. Please refer to Notes 25 and 40 of the attached AFS for details.
- 6. Other Current Assets –85% increase from Php508 million to Php806 million Other assets mainly consist of a sinking fund set aside to cover semi-annual interest payments of certain loan advances to contractors and consultants which pertain to downpayments made by the Company on its various construction contracts which, in turn, account for 58% and 21%, respectively, of the total other current assets account.
- 7. Assets of disposal group classified as held for sale increase to Php6,320 million Assets of disposal group classified as held for sale relate to assets of Landco classified as held for sale as at December 31, 2008 following the agreement between MPIC and the minority shareholder for MPIC to divest its interest in Landco in favor of such minority shareholder.
- 8. Investments in associates 308% increase from Php583 million to Php2,378 million Increase in investments in associates can be attributed to the increase of MPIC's interest in MDI from 7.5% in 2007 to 33.4% after the full conversion of the convertible notes to common shares of MDI, as well as the acquisition by MPIC of a 34.6% interest in DDH on May 15, 2008.
- Investments in a joint venture decrease from Php4,466 million to Php0
 Following increase in MPIC's interest in DMWC, which resulted in MPIC's
 acquisition of control of DMWC, the account has been eliminated and a line
 by line consolidation of DMWC and its subsidiary, Maynilad, has been done
 with MPIC.
- 10. Investments in bonds increase from Php0 to Php101 million Represents financial assets classified as HTM investments of MPTC.
- Goodwill increase from Php0 to Php12, 586 million Consolidated Goodwill of Php12,686 million comprises (a) goodwill amounting to Php5,783 million from acquisition of MPTC, (b) goodwill amounting to Php5,513 million

- from acquisition of additional 5% of the voting shares of DMWC taking its ownership to 55.41%, and (c) goodwill of Php1,290 million from the acquisition of a 5.8% interest held by LAWL in Maynilad in exchange for 7.7% interest in MPIC
- 12. Due from related parties increase from Php0 million to Php323 million Due from related parties represents long term inter-company advances made within the Group. Please refer to Notes 25 and 40 of the attached AFS for details.
- 13. Available for sale financial assets non current decrease from Php154 million to Php0 Decrease due to deconsolidation of Landco this year.
- Service concession assets increase from Php0 to Php56,664 million Concession assets consist of concession assets of MPTC and DMWC amounting to Php16,846 million and Php39,818 million, respectively.
- 15. Property and equipment 148% increase from Php259 million to Php643 million Increase in property and equipment represents consolidation of property and equipment of subsidiaries. Consolidation of subsidiaries' property and equipment was capped by related property and equipment assets which were classified under discontinued operations.
- 16. Investment in properties decrease from Php43 million to Php0 Decrease in investment in properties was due to reclassification of assets held for sale as at December 31, 2008 following the agreement of MPIC with the minority shareholder for MPIC to divest its interest in Landco in favor of the minority shareholder.
- 17. Long-term receivables decrease from Php723 million to Php0 Decrease in long-term receivables was due to the reclassification of assets as held for sale as at December 31, 2008 following the agreement of MPIC with the minority shareholder for MPIC to divest interest in Landco in favor of the minority shareholder.
- 18. Derivative assets increase from Php0 million to Php53 million Derivative assets represent currency swap transactions entered into by MNTC to hedge its foreign exchange and interest rate exposure of derived US Dollar denominated loans.
- 19. Deferred tax assets 193% increase from Php210 million to Php616 million Increase in deferred tax assets was due to related DTA on accrued retirement costs and on other accrued expenses and service concession assets which account for 46% and 38% of the total Deferred Tax Assets.
- 20. Other non current assets 1333% increase from Php112 million to Php1,611 million Mainly input taxes amounting to Php1,497 million or 93% of the total other non current assets.
- 21. Notes payable decrease from Php635 million to Php0 Decrease in notes payable is partly due to settlement of unsecured notes payable during the year amounting to Php344 million. The remaining balance of notes payable is presented as part of "Liabilities directly associated with the assets classified as held for sale" in the consolidated balance sheet.
- 22. Accounts payable and other current liabilities 116% increase from Php2,973 million to Php6,432 million Consolidated Accounts payable and other current liabilities consist mainly of accrued expenses covering salaries, wages and benefits and contracted services (34%), accrued construction costs relating to MWSS projects (30%) and trade payables (19%)
- 23. Unearned toll revenues increase from Php0 to Php19 million Increase is due to consolidation of MPTC.
- 24. Provisions 10% increase from Php461 million to Php507 million Increase is due to inclusion of MPTC's provision for the year whereas previously, provision only consists of MPC's provisions.
- 25. Current portion of concession fees payable increase from Php0 to Php975 million Increase is due to first-time consolidation of DMCI-MPIC this year.



- 26. Current portion of long term debt 78% decrease from Php3,938 million to Php851 million Increase is mainly due to deconsolidation of Landco account,
- Current portion of other long term liabilities increase from Php0 to Php1,214
 million Increase is due to consolidation of DMCI-MPIC, which mainly consists
 of accrued interest to MWSS.
- 28. Liabilities directly associated with assets classified as held for sale increase from Php0 to Php5,040 million Increase is due to Landco being classified as held for sale this year
- 29. Due to related parties 907% increase from Php280 million to Php2,824 million Due to related parties mainly consists of advances from MPHI to the Company amounting to Php2,327 million, to partially finance MPIC's purchase of MPTC common shares and to extend working capital funding to Landco. Other due to related parties items consist of construction contracts with TMC and DMCI which account for 9% and 6% of the total due to related parties' account.
- 30. Long term debt 7566% increase from Php409 million to Php 31,354 million Increase in consolidated long term debt is due to consolidation of long term loans of DMWC and its subsidiary, Maynilad, amounting to Php16,456 million and MPTC and its subsidiary, MNTC, amounting to Php8,975 million, and acquisition of new long term loan at the MPIC parent level amounting to Php6,750 as of December 31, 2008. Landco related long term debt amounting to Php1, 273 million was reclassified to Liabilities of disposal group held for sale.
- 31. Concession fees payable increase to Php6,621 million Concession fees payable relate to concession fees payable by Maynilad which are denominated in various currencies and payable monthly as per an amortization table up to the end of the concession period and which are non interest bearing.
- 32. Accrued retirement 498% increase from cost Php43 million to Php258 million Consolidated accrued retirement costs represent funded and noncontributory retirement plan covering all regular employees. The benefits provided in the plan are based on the years of credited service and compensation of employees.
- 33. Deferred credits increase to Php4,065 million Deferred Credits consist mainly of Maynilad deferred credits arising from the Special Transitory Mechanism (STM), Foreign Currency Differential Adjustments (FCDA) and deferred credits relating to IFRIC adjustments.
- 34. Deferred tax liabilities 872% increase from Php325 million to Php3,159 million. The Php264.3 million increase mainly came from a deferred tax liability set up on unrealized foreign exchange gains in the Parent Company
- 35. Other long term liabilities increase to Php2,791 million Increase in Other long-term liabilities is mainly due to consolidation of (a) contingent liabilities of Php2,639.1 million that were recognized pursuant to acquisition of MPTC and increased interest in DMWC and its subsidiary, Maynilad; (b) customers' guaranty deposits paid by customers for water line connection of Php417.1 million; and (c) accrued interest payable to MWSS amounting to Php904.1 million.
- 36. Capital stock 423% increase from Php1,342 million to Php7,027 million Increase in capital stock represents the original subscription of MPIC's majority shareholders amounting to Php3,792 million and the conversion of a loan from MPHI to equity amounting to Php1,893 million.
- 37. Additional paid in capital Php5,753 million Relates to the increase in capital stock as per above.
- Deposit on subscription increase to Php6,807 million Deposit for future stock subscription represents subscriptions from MPHI and LAWL amounting to Php4,478 million and Php2,029 million, respectively.

39. Other reserves – decrease to Php329 million from Php2,322 million Other reserves consist mainly of the effect of MPIC's acquisition of MPC shares amounting to Php690 million reduced by day 1 loss in the conversion of convertible note from MPHI in the amount of Php286 million.

2007 Compared to 2006

Revenue and Other Income

Metro Pacific Investments Corporation generated consolidated revenues and other income of Php4.17 billion in 2007, Php3.2 billion or 308% higher from Php1.02 billion in 2006. Share in net earnings of a joint venture and other income contributed 90% of the total consolidated revenue and other income. Foreign exchange gain of Php376 million contributed 9% of the total consolidated revenue and other income.

Share in net earnings of Maynilad under the joint venture in DMWC, for the first time since acquisition of equity interest, amounted to Php1.53 billion. The contribution mainly came from the negative goodwill recognized by DMWC from the acquisition of Maynilad offset by financing and transaction expenses and from the results of operations of Maynilad.

Other income increased to Php2.21 billion and this is mainly due to gain on debt settlement and mark to market gain on derivative. Gain on debt settlement of Php1.05 billion corresponds to the net effect of the exchange of the Peso loans against the Dollar Loans (Please refer to note 23 of the AFS for details) after considering the waiver of portion of the option representing the difference of the gain on extinguishment of the Dollar Loan of Php2.945 million and the loss on recognition of Peso Loan of Php1,891.0 million. Mark to market gain on derivative amounted to Php1.07 billion as of December 31, 2007.

Cost and Expenses

Consolidated cost and expenses grew, albeit slower than revenue and other income growth by 185% to Php4.33 billion from Php1,515 million in 2007. Interest expense and other expenses accounted for 95% of the total consolidated cost and expenses. Interest expense which represents accretion of financial instruments amounted to Php3,527 million while other expenses amounted to Php618 million. Other expenses included provisions on MPC's remaining investments in Costa De Madera (CDM) and other assets and the loss on derivatives on the Dollar Loans of the Parent Company. The provisions reflect the unlikelihood that the remaining phases of the project will be completed. As a result, the remaining undeveloped portion of the project is now reflected at raw land values. As MPC no longer considers CDM as core investment and does not plan to contribute further capital to secure its development, it has given up board and management control of CDM to its minority partner and no longer consolidates its performance in its accounts.

Losses from Discontinued Operations

<u>Nenaco</u>

On December 20, 2006, MPC sold 83.65% of its shareholdings in its shipping subsidiary, Negros Navigation Company (Nenaco). As a result, total assets and liabilities, as well as income and expenses of Nenaco are presented under "Discontinued Operations" for the consolidated financial statements as of December 31, 2006. Nenaco's result of operations in 2007 is no longer reflected in the Company's financial statements. On May 6, 2008, MPC's Board of Directors approved to dispose of MPC's remaining 15.3% interest in Nenaco. On May 26, 2008, the said investment, with carrying value of Php122.3 million was sold for Php173.6 million, resulting in a gain on sale of investment amounting to Php51.3 million.

Net loss

Net loss attributable to the holders of the Parent Company amounted to Php110 million in 2007 compared with a net loss of Php686 million in 2006. Improvement in net loss for the year is attributed mainly to the result of Landco and share in earnings of associates DMWC and MDI. In contrast, 2006 was burdened by provisions made to more accurately reflect the asset values of MPC.

FINANCIAL REVIEW

Consolidated Financial Position

Consolidated assets as of 31 December 2007 increased by 24% to Php12.42 billion from the year-end 2006 re-stated level of Php10.00 billion.

The causes of significant increases/decreases in the asset accounts are:

- Receivables 179% increase Php1.69 billion increase is in line with the significantly higher revenues in Landco, specifically in their residential and condominium projects. Contributing to the increase was the subscription of the Parent Company to the Convertible Notes issued by MDI which had a balance of Php630.0 million as of end 2007.
- 2. Due from related parties 12% increase Php23.2 million increase represents inter-company advances made within the Group.
- 3. *Investment in a joint venture 62% increase Php1.81 billion increase* reflects the accumulated net earnings of DMWC as of the end of 2007.
- 4. Property and equipment 14% increase Php31.1 million increase represents mostly equipment additions for the year, net of depreciation for the year.
- 5. Long-term receivables 105% increase Php375.6 million increase is in line with higher sales in Landco. Trade receivables have mostly 5-year profiles.
- Other non-current assets 279% increase Php82.8 million increase mainly from increase in a revolving project maintenance fund and investment properties in Landco.
- Real estate for sale 7% decrease Php137.4 million decrease due to strong sales in Landco's residential resort communities. Please refer to Note 9 of the attached 2007 AFS for other movements of the Company's real estate for sale
- Other current assets 87% decrease Php1.40 billion decrease is substantially due to the release of the Php1.47 billion pledged deposit of the Parent Company. Proceeds from the release deposit were used to settle shareholder advances
- 9. Deferred tax asset- 17% decrease Php36.4 million decrease mainly from the adjustment on the difference in gross profit on real estate for sale in relation to the financial and tax reporting bases. These adjustments are all related to landco
- 10. Accounts payable and other current liabilities 11% increase Php282.9 million increase is mainly attributable to the increase in accounts payables to contractors of Landco.
- Provisions 7% increase Php28.2 million increase mainly came from full provision made on MPC's remaining Bonifacio Land Shares ("BLC"). These shares secured certain warranties extended by MPC.
- 12. Current portion of long-term debt 1,365% increase Php3.67 billion increase is mainly due to the Peso Notes incurred by the Parent Company to fund its investment in DMWC and MDI.
- 13. Long-term debts net of current portion 70% increase Php28.2 million increase reflects the higher loan borrowings of Landco. These loans have a long-term maturity profile (5 years) consistent with the maturity profile of the customer receivables used to secure the same borrowings.
- Accrued retirement cost 134% increase Php24.7 million increase reflects the increased provisions during the year.

- Deferred tax liabilities 456% increase Php264.3 million increase mainly came from deferred tax liability set up on unrealized foreign exchange gains in the Parent Company
- Capital stock 12% increase Php144.0 million increase is from the exercise
 of the Parent Company warrants issued in 2006 and exercised in December
 2007
- Equity component of convertible notes Php1.90 billion increase Php1.90 billion increase represents the equity component of the Peso Notes issued by the Parent Company.
- 18. Notes payable 68% decrease Php1.35 billion decrease is substantially caused by the repayment of the Parent Company loans to a bank.
- Due to related parties 81% decrease Php2.74 billion decrease mainly came from the repayment of Parent Company advances to MPHI. The advances were used to fund the DMWC acquisition of MDI.
- Deficit 12% decrease Php167.9 million decrease in deficit reflects the 2007 consolidated net income of MPIC.

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of Metro Pacific Investments Corporation and Subsidiaries (the Company) is responsible for all information and representations contained in the consolidated financial statements as of December 31, 2008 and 2007 and each of the three years in the period ended 31 December 2008. The consolidated financial statements have been prepared in conformity with generally accepted accounting principles in the Philippines and reflect amounts that are based on the best estimates and informed judgment of management with an appropriate consideration to materiality.

In this regard, management maintains a system of accounting and reporting which provides for the necessary internal controls to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition and liabilities are recognized. The management likewise discloses to the Company's Audit committee and to its external auditor: (i) all significant deficiencies in the design or operation of internal controls that could adversely affect its ability to record, process, and report financial data; (ii) material weakness in the internal controls; and (iii) any fraud that involves management or other employees who exercise significant roles in internal controls.

The Board of Directors reviews the consolidated financial statements before such statements are approved and submitted to the stockholders of the company.

SyCip Gorres Velayo & Co., the independent auditors appointed by the stockholders, has examined the consolidated financial statements of the Company in accordance with generally accepted auditing standards in the Philippines and has expressed its opinion on the fairness of presentation upon completion of such examination, in its report to the Stockholders and the Board of Directors.

Signed under oath by the following:

Manuel V. Pangilinan

Jose Ma. K. Lim

INDEPENDENT AUDITORS' REPORT



The Stockholders and the Board of Directors Metro Pacific Investments Corporation 10th Floor, MGO Building Legaspi corner Dela Rosa Streets Legaspi Village, Makati City SyCip Gorres Velayo & Co.

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BOA/PRC Reg. No. 0001 SEC Accreditation No. 0012-FR-1

We have audited the accompanying financial statements of Metro Pacific Investments Corporation and Subsidiaries, which comprise the consolidated balance sheets as at December 31, 2008 and 2007, and the consolidated statements of income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2008, and a summary of significant accounting policies and other explanatory notes. We did not audit the 2008, 2007 and 2006 financial statements of certain subsidiaries of Landco Pacific Corporation (a 51.0%-owned subsidiary), which statements show total assets of ₱755.1 million and ₱687.6 million as of December 31, 2008 and 2007, respectively, and total revenues of ₱136.9 million, ₱169.8 million and ₱80.7 million for the years ended December 31, 2008, 2007 and 2006, respectively, of the consolidated totals (included under assets of disposal group classified as held for sale in the 2008 consolidated balance sheet and under discontinued operation in the 2008, 2007 and 2006 consolidated statements of income). We did not also audit the 2008 financial statements of certain associates, the investments of which are carried under the equity method. The carrying values of such investments amounted to ₱1,681.4 million and the Company's share in net earnings amounted to ₱383.9 million as of and for year ended December 31, 2008. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the said subsidiaries and associates, is based solely on the reports of the other auditors.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Philippine Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained and the reports of the other auditors are sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, based on our audits and the reports of the other auditors, the consolidated financial statements present fairly, in all material respects, the financial position of Metro Pacific Investments Corporation and Subsidiaries as of December 31, 2008 and 2007, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2008, in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

Maryaith C. Miguel Marydith C. Miguel

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CPA Certificate No. 65556 SEC Accreditation No. 0087-AR-1

Tax Identification No. 102-092-270 PTR No. 1566445, January 5, 2009, Makati City

March 17, 2009

	Decem	
	2000	(As restated
ASSETS	2008	Note 2
Current Assets		
Cash and cash equivalents (Notes 7 and 40)	₱8,174,181	₱248,08
Short-term deposits (Notes 7 and 40)	570,240	0.440.74
Receivables - net (Notes 8 and 40) nventories - at cost	1,608,882	2,642,71
Real estate for sale (Note 9)	84,404 127,473	1.867.55
Due from related parties (Notes 25 and 40)	32,088	218,97
wailable-for-sale financial assets (Notes 10 and 40)	402,964	402,96
Other current assets (Note 11)	805,942	209,11
Assets of disposal group classified as held for sale (Note 6)	11,806,174 6,320,351	5,589,40
Total Current Assets	18,126,525	5,589,40
Noncurrent Assets		
nvestments in :		
Associates - at equity (Note 12)	2,378,273	582,92
Joint venture (Notes 4 and 13)	-	4,466,45
Bonds (Note 40) Goodwill (Note 4)	100,600	
oodwiii (Note 4) Due from related parties (Notes 25 and 40)	12,586,426 322,666	
vailable-for-sale financial assets (Notes 10 and 40)	-	154,02
ervice concession assets - net (Note 14)	56,664,010	
roperty and equipment - net (Note 15)	642,597	258,90
envestment properties - net (Note 16)	-	42,60
ong-term receivables (Notes 17 and 40) Perivative assets (Note 40)	53.042	722,70
Deferred tax assets (Note 34)	615,905	210,08
Other noncurrent assets (Note 18)	1,611,461	112,49
Total Noncurrent Assets	74,974,980	6,550,19
	P 93,101,505	₱12,139,59
IABILITIES AND EOUITY		
urrent Liabilities		
Notes payable (Notes 19 and 40)	₽_	₱635,108
accounts payable and other current liabilities (Notes 20 and 40)	6,432,172	2,973,138
Inearned toll revenues	19,344	4.00
ncome tax payable Due to related parties (Notes 25 and 40)	1,084 2,823,555	4,020 280,498
rovisions (Notes 21 and 40)	506,599	461,47
furrent portion of:	300,522	101/17
Service concession fees payable (Notes 22 and 40)	974,521	-
Long-term debts (Notes 23 and 40)	851,880	3,938,212
Other long-term liabilities (Notes 24 and 40)	1,214,301 12,823,456	8,292,458
iabilities directly associated with assets classified as held for sale (Note 6)	5,040,003	0,292,430
Total Current Liabilities	17,863,459	8,292,458
loncurrent Liabilities		
ong-term debts - net of current portion (Notes 23 and 40)	31,354,226	409,02
Perivative liabilities (Note 40)	29,861	
ervice concession fees payable (Notes 22 and 40) ccrued retirement costs (Note 31)	6,620,698 257,550	43,12
rovisions (Notes 21 and 40)	170,275	43,12
eferred credits (Note 2)	4,065,339	
eferred tax liabilities (Note 34)	3,159,785	324,92
ther long-term liabilities (Notes 24 and 40)	2,791,438	777.07
Total Noncurrent Liabilities	48,449,172	777,07
otal liabilities	66,312,631	9,069,53.
quity (Note 26)		
apital stock	7,027,727	1,342,91
dditional paid-in capital	5,753,809	
Peposit on subscriptions	6,807,293	2.224.04
	329,053 16,881	2,321,94
	16,881	(1 560 10)
eserve of disposal group classified as held for sale (Note 6)		
eserve of disposal group classified as held for sale (Note 6) Deficit	(1,011,252)	
Reserve of disposal group classified as held for sale (Note 6) Deficit Total equity attributable to equity holders of Parent Company		2,104,676
Other reserves leserve of disposal group classified as held for sale (Note 6) Deficit Total equity attributable to equity holders of Parent Company Minority interests (Note 27) Total Equity	(1,011,252) 18,923,511	(1,560,190 2,104,676 965,388 3,070,064

See accompanying Notes to Consolidated Financial Statements.

Metro Pacific Investments Corporation and Subsidiaries CONSOLIDATED STATEMENTS OF INCOME (Amounts in Thousands)

		Years Ended Decembe	er 31
		2007	2006
		(As restated -	(As restated -
	2008	Notes 2 and 6)	Note 6)
REVENUE AND OTHER INCOME			
Water and sewerage services revenue	₱4,326,071	₽_	₽-
Construction revenue	4,158,922	'_	'_
Foll fees	715,079	_	_
Revenue from sale of real estate	713,073	20,357	661,595
nterest income (Note 32)	278,833	34,493	92,012
Share in net earnings of associates - net (Note 12)	400,657	3 4,4 33	92,012
Share in net earnings of a joint venture (Note 12)	400,037		_
	=	1,529,349	1 427
Foreign exchange gains - net	1 650 277	376,447	1,427
Other income (Note 33)	1,659,277	2,213,013	267,616
	11,538,839	4,173,659	1,022,650
COSTS AND EXPENSES			
Construction cost	(4,092,059)	_	-
Costs of services (Note 28)	(2,371,015)	_	-
Cost of real estate sold	_	(19,395)	(433,193
General and administrative expenses (Note 29)	(1,327,572)	(158,702)	(195,693
Interest expense (Note 32)	(1,161,430)	(3,527,245)	(70,825
Share in net losses of associates - net (Note 12)	-	(7,726)	(8,883
Share in net losses of a joint venture (Note 13)	(256,723)	=	(62,894
Foreign exchange losses - net	(499,943)	_	_
Other expenses (Note 33)	(869,616)	(617,698)	(744,294
	(10,578,358)	(4,330,766)	(1,515,782
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAX	960,481	(157,107)	(493,132)
DROVICION FOR (PENEFET FROM) INCOME TAY (Nate 2.4)			
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 34) Current	7.420	2.040	26.740
	7,420	2,940	26,748
Deferred	(70,498)	146,887	30,619
	(63,078)	149,827	57,367
INCOME (LOSS) FROM CONTINUING OPERATIONS AFTER INCOME TAX	1,023,559	(306,934)	(550,499
INCOME (LOSS) FROM DISCONTINUED OPERATIONS, NET OF TAX (Note 6)	42,056	431,236	(150,816
NET INCOME (LOSS)	₱1,065,615	₱124,302	(P 701,315
Net income (loss) attributable to:			
Equity holders of Parent Company from:			
Continuing operations (Note 5)	₱556,026	(P 412,056)	(P 567,745
Discontinued operations (Note 5)	(7,088)	301,684	(130,034
(1000)	548,938	(110,372)	(697,779
Minority interests (Note 27)	516,677	234,674	(3,536
willowly interests (Note 27)	₱1,065,615	₱124,302	(P 701,315
	, ,	,	
EARNINGS (LOSS) PER SHARE (Note 35) Basic Earnings Per Share, Attributable to Equity Holders of Parent Company			
Income (loss) from continuing operations	₱0.160	(₱0.329)	(₱0.604
Income (loss) from discontinued operations	(0.002)	0.241	(0.138
meente (1033) nom discontinued operations	₱0.158	(₱0.088)	(₱0.742
Diluted Farning Day Share Attributable to Equity Heldow of Dayant Carrant			
Diluted Earning Per Share, Attributable to Equity Holders of Parent Company Income (loss) from continuing operations	₱0.106	(₱0.329)	(₱0.604
Income (loss) from discontinued operations	(0.002)	0.109	(0.138)
coc (1000),orri diocorrinaca operationo	(3.002)	0.107	(₱0.742)

See accompanying Notes to Consolidated Financial Statements.

Metro Pacific Investments Corporation and Subsidiaries CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Amounts in Thousands)

			Attributab	Attributable to Equity Holders of Parent Company	ders of Parent Co	ompany				
I					Reserve of Disposal					
	Capital	Additional Paid-in	Depositor for Future Stock	Other	Group	Loss on Capital			Minority	
	Stock	Capital	Subscription	Reserves	as Held for	Transaction			Interest	Total
	(Note 26)	(Note 26)	(Note 26)	(Note 26)	Sale (Note 6)	(Note 2)	Deficit	Total	(Note 27)	Equity
At December 31, 2007, as previously reported	₱1,342,918	-	-	₱2,321,948	d	(P 11,836)	(₱1,270,095)	₱2,382,935	P965,388	₱3,348,323
Change in accounting policy (Note 2):										
Adoption of IFRIC 12, Service Concession										
Arrangements"	ı	ı	ı	ı	ı	1	(278,259)	(278,259)	ı	(278,259)
Acquisition of minority interests	ı	1	ı	1	1	11,836	(11,836)	ı	ı	ı
At December 31, 2007, as restated	1,342,918	1	1	2,321,948	1	1	(1,560,190)	2,104,676	965,388	3,070,064
Issuance of shares during the year	5,684,809	3,850,185	6,807,293	1	1	1	1	16,342,287	1	16,342,287
Other reserves:										
Fair value changes on cash flow hedges										
(Note 40)	I	1	ı	23,882	1	1	ı	23,882	ı	23,882
Revaluation increment (Note 4)	ı	1	1	(66)(66)	1	1	ı	(66)(66)	ı	(86)(66)
Equity component of a financial										
instrument (Note 23)	1	1,903,624	1	(1,903,624)	1	1	1	1	1	I
	ı	1,903,624	1	(1,978,835)	1	1	ı	(75,211)	1	(75,211)
Minority interests arising from business										
combinations during the year	ı	1	I	1	1	1	ı	ı	7,886,327	7,886,327
Acquisition of minority	ı	1	1	1	1	1	ı	1	(863,141)	(863,141)
Dividends paid to minority interests	ı	1	ı	1	1	1	ı	ı	(181,134)	(181, 134)
Expense for the year recognized										
directly in equity	ı	ı	1	(14,060)	16,881	ı	ı	2,821	(458,754)	(455,933)
Net income during the year	1	I	1	1	1	1	548,938	548,938	516,677	1,065,615
Total income and expense for the year	1	ı	1	(14,060)	16,881	1	548,938	551,759	57,923	609,682
At December 31, 2008	₱7,027,727	₱5,753,809	₱6,807,293	₱329,053	₱16,881	d	(₱1,011,252)	₱18,923,511	₱7,865,363	₱26,788,874
See accompanying Notes to Consolidated Financial Statements	ements.									

Metro Pacific Investments Corporation and Subsidiaries CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (Amounts in Thousands)

			, terribatable to Equity Holders of Halerite Collibarity		it collipariy			
		- :	(Loss on			:	
		Capital	Other	Capital			Minority	
		Stock	Reserves	Transaction			Interest	Total
		(Notes 26)	(Notes 26)	(Notes 2)	Deficit	Total	(Notes 27)	Equity
At December 31, 2006, as previously reported		₱1,198,952	₱704,858	(P11,836)	(P1,437,982)	₱453,992	₱751,980	₱1,205,972
Change in accounting policy – acquisition of								
minority interests (Note 2)		I	ı	11,836	(11,836)	1	ı	I
At December 31, 2006, as restated		1,198,952	704,858	1	(1,449,818)	453,992	751,980	1,205,972
Issuance of shares during the year		143,966	1	1	1	143,966	ı	143,966
Other reserves (Note 23):								
Equity component of a financial instrument		I	1,903,624	I	I	1,903,624	ı	1,903,624
Day 1 loss		1	(286,122)	1	I	(286,122)	1	(286,122)
		-	1,617,502	I	1	1,617,502	ı	1,617,502
Dividends paid to minority interests		ı	ı	1	ı	1	(11,760)	(11,760)
Total expense for the year recognized directly in equity		ı	(412)	ı	1	(412)	(9)206)	(9,918)
Net income (loss) during the year		ı	1	ı	(110,372)	(110,372)	234,674	124,302
Total income and expense for the year		I	(412)	ı	(110,372)	(110,784)	225,168	114,384
At December 31, 2007		₱1342918	₱2,321,948	₽	(₱1.560.190)	₱2,104,676	₱965,388	P3.070.064
	-		Attributable to Eqi	Attributable to Equity Holders of Parent Company	nt Company			
	Capital	Additional		H				H
	STOCK	Pald-In	Otner	Ireasury			MIINORITY	lotal
	(Note 26)	Capital	Keserves	Stock	Dehcit	lotal	Interest	Equity
At December 31, 2005	P19,055,974	₱9,690,384	P21,153	(P1,033,000)	(P27,544,879)	₱189,632	P565,940	P755,572
Effect of recapitalization	(18,103,174)	(9,690,384)	1	1,033,000	26,760,558	1	ı	1
	952,800	1	21,153	1	(784,321)	189,632	565,940	755,572
Issuance of shares during the year	968,820	1	1	1	1	968,820	1	968,820
Effect of MPIC acquisition of								
Metro Pacific Corporation (MPC) shares:								
MPC shares disposed in exchange for MPIC shares	(920,518)	I	982'069	ı	1	(230,132)	ı	(230,132)
MPIC shares in exchange for MPC shares	230,132	I	I	ı	I	230,132	ı	230,132
Remaining MPC shares not exchanged to MPIC shares	(32,282)	I	1	ı	32,282	I	ı	ı
	(722,668)	ı	986'069	1	32,282	1	1	1
Additional contribution of minority interests during the year	1	ı	ı	1	ı	1	207,017	207,017
Total expense for the year recognized directly in equity	I	I	(6,681)	ı	I	(6,681)	(17,441)	(24,122)
Net loss during the year	1	1	I	1	(602,779)	(697,779)	(3,536)	(701,315)
Total expense for the year	_	_	(6,681)	_	(622'269)	(704,460)	(20,977)	(725,437)
At December 31, 2006	₱1,198,952	<u>_</u>	₱704,858	<u></u>	(P1,449,818)	P453,992	₱751,980	₱1,205,972

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in Thousands)

		Years Ended Decembe	r 31
		2007	2006
		(As restated -	(As restated -
	2008	Notes 2 and 6)	Note 6)
CASH FLOWS FROM OPERATING ACTIVITIES			
Income (loss) from continuing operations before income tax	₱960,481	(P 157,107)	(P 493,132)
Income (loss) from discontinuing operations before income tax (Note 6)	52,023	599,902	(161,171)
income (1033) from discontinued operations before income tax (Note 0)	1,012,504	442,795	(654,303)
Adjustments for:	1/012/301	112,755	(03 1,303)
Interest expense (Notes 6 and 32)	1,297,978	3,593,849	332,761
Amortization of service concession assets (Note 14)	1,286,456		, =
Gain on dilution of minority interests (Note 33)	(757,591)		-
Interest income (Notes 6 and 32)	(501,183)	(316,629)	(240,888)
Unrealized foreign exchange gain (loss) - net	499,943	(376,447)	(1,427)
Provision for decline in value of assets (Notes 5 and 33)	482,396	200,854	798,867
Reversal of provision for decline in value of assets (Note 33)	(262,461)	(3,261)	(6,131)
Share in net losses (earnings) of associates - net (Note 12)	(409,019)	8,475	403
Share in net losses (earnings) in a joint venture (Note 13)	256,723	(1,529,349)	62.894
Provision for ESOP (Note 33)	183,440	(1,323,313)	02,051
Gain on debt settlement - net (Note 33)	(173,025)	(1,053,943)	(7,573)
Depreciation and amortization (Note 6)	120,472	35,784	211,103
Gain on sale of investment	(51,333)	33,70-	211,105
Fair value changes of derivatives (Note 33)	(38,625)	(1,065,713)	
Deferred toll revenue realized	(26,910)	(1,005,715)	
Other provisions (Note 33)	35,830	- 85,232	52,697
Gain on sale of available-for-sale financial assets	(4,644)	(13,058)	(5,545)
	* * * *	(13,036)	(3,343)
Loss (gain) on sale of property and equipment (Notes 6 and 33)	(72)		_
Day 1 loss (Note 33) Loss on dilution	_	305,056	11.036
	_	(60.220)	11,836
Reversal of accruals (Note 33)		(60,239)	(257,887)
Operating income before working capital changes	2,950,879	253,425	296,807
Decrease (increase) in:	(707.504)	(1.500.000)	102 641
Receivables	(707,581)	(1,509,060)	182,641
Inventories	(57,427)	-	-
Real estate for sale	280,404	74,895	158
Due from related parties	503,803	3,211	(129,825)
Other current assets	321,102	1,407,004	(1,368,222)
Increase (decrease) in:			
Accounts payable and other current liabilities	84,180	303,551	440,578)
Provisions	48,538	(7,700)	(79,939)
Net cash generated from (used for) operations	3,423,898	525,326	(1,538,958)
Unearned toll revenue	23,603	=	=
Income tax paid	(16,769)	(350,234)	(67,064)
Interest received	501,183	9,232	76,201
Net cash provided by (used in) operating activities	3,931,915	184,324	(1,529,821)

(Forward)

Metro Pacific Investments Corporation and Subsidiaries CONSOLIDATED STATEMENTS OF CASH FLOWS (Amounts in Thousands)

		Years Ended Decembe	
		2007	2006
		(As restated -	(As restated -
	2008	Notes 2 and 6)	Note 6)
CASH FLOWS FROM INVESTING ACTIVITIES			
Dividend receive from an associate	₱55,200	₽_	₽_
Decrease (increase) in:	1 33,200	ı	'
Investment properties	32,479	=	=
Long-term receivables	52,175	(275,576)	_
Available-for-sale financial assets	(31,356)	42,805	258,963
Other noncurrent assets	72,108	(81,861)	77,486
Proceeds from disposal/sale of:	72,100	(01,001)	77,100
Property and equipment	20,234	13.775	11.723
Investments in associates	173,627	15,775	8,750
Acquisitions of:	173,027		0,750
Investments in associates (Note 12)	(1,327,104)	(123,114)	
		(123,114)	_
Investment in subsidiary, net of cash acquired (Note 4)	(10,002,901)	=	=
Minority interests (Note 4)	(7,575,700)	-	(2,000,507)
Investment in a joint venture	(244.651)	(72.122)	(2,999,597)
Property and equipment (Note 14)	(244,651)	(72,133)	(51,932)
Investment properties (Note 16)	(2.026.766)	_	(6,786)
Service concession assets Net cash used in investing activities	(2,926,766) (21,754,830)	 (496,104)	(2,701,393)
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase (decrease) in:			
Due to related parties	(6,915,631)	(2,535,843)	2,007,837
Concession fees payable	116,928	-	-
Deferred credits	4,065,339	=	=
Other long-term liabilities	(8,432,450)	=	=
Proceeds from (payments of):			
Long-term debt - net	28,555,253	2,753,189	83,652
Deposit for future stock subscription	6,807,293	-	-
Other long-term liabilities	_	_	30,154
Issuance of capital stock	3,791,525	143,966	968,820
Transaction costs of issue shares	(77,911)	_	-
Notes payable - net	(210,814)	(15,526)	1,248,849
Dividends paid to minority interest	(181,134)	(11,760)	=
Interest paid	(1,004,240)	(7,104)	(69,649)
Net cash provided by financing activities	26,514,158	326,922	4,269,663
EFFECT OF CHANGE IN EXCHANGE RATES IN CASH AND CASH EQUIVALENTS	(17,593)	(2,223)	_
NET INCREASE IN CASH AND CASH EQUIVALENTS	8,673,650	12,919	38,449
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	248,081	235,162	196,713
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 7)	₱8,921,731	₱248,081	₱235,162

See accompanying Notes to Consolidated Financial Statements.

Metro Pacific Investments Corporation and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in Thousands)

1. Corporate Information

Metro Pacific Investments Corporation (the Parent Company or MPIC) was incorporated in the Philippines and registered with the Securities and Exchange Commission (SEC) on March 20, 2006 as an investment holding company.

The Parent Company is 97.26% owned by Metro Pacific Holdings, Inc. (MPHI). MPHI is a Philippine corporation whose stockholders are Enterprise Investment Holdings, Inc. (EIH) (60.0%), Intalink B.V. (26.7%) and First Pacific International Limited (13.3%). First Pacific Company Limited (FPC), a company incorporated in Bermuda and listed in Hong Kong, through its subsidiaries, hold a direct 40% equity interest in EIH and investment financing, and 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 FPC group companies in Hong Kong. On such basis, FPC is referred as the ultimate parent company of EIH and the Parent Company.

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

The accompanying consolidated financial statements as of December 31, 2008 and 2007 and for each of the three years in the period ended December 31, 2008 were approved and authorized for issue by the Board of Directors (BOD) on March 17, 2009.

2. Summary of Significant Accounting Policies

Basis of Preparation

The consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments and available-for-sale (AFS) financial assets that have been measured at fair value. The consolidated financial statements are presented in Philippine peso, which is MPIC and Subsidiaries' (the Company) functional and presentation currency, and all values are rounded to the nearest thousands (000), except when otherwise indicated.

Statement of Compliance

The consolidated financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

<u>Accounting Policies</u>

The accounting policies adopted are consistent with those of the previous financial year, except for the voluntary change in accounting policy discussed below and the adoption of an amended Philippine Accounting Standards (PAS) and new Philippine Interpretations of the International Financial Reporting Interpretations Committee (IFRIC) during the year.

Voluntary Change in Accounting Policy. During the year, the Company changed the accounting policy for acquisition of minority interests from entity concept method to parent entity extension method to align with the policy of the Company's ultimate parent company.

Under entity concept method, the excess of consideration over the net book value of minority interest acquired is accounted for as an equity transaction. Under the parent entity extension method, the excess of consideration over the net book value minority interest acquired is recognized as goodwill. In an acquisition without consideration involved, the difference between the share of the minority interest in the net assets at book values before and after the acquisition under the parent entity extension method, is recognized either as goodwill recognized in the consolidated balance sheet or gain recognized in the consolidated statement of income. Both of these methods of accounting for the difference between the excess of the consideration over the net book value of minority interest acquired are acceptable under PFRS.

In June 2006, Roxaco Land Corporation [Roxaco, a minority shareholder in Fuego Development Corporation (FDC), a subsidiary of Landco Pacific Corporation (Landco)] contributed various lots in FDC with an aggregate value of ₱129.2 million in exchange for 24,000,000 FDC shares at par value of ₱1 per share resulting to an increased in Roxaco ownership interest in FDC from 30% to 48.0% and dilution by Landco from 70.0% to 52.0%. This transaction resulted to a loss which was recorded as "Loss on capital transaction" under equity account in the 2006 consolidated balance sheet of Landco. The share of MPIC on this loss on capital transaction amounted to ₱11.8 million.

The voluntary change in accounting policy resulted to the transfer of the P11.8 million loss on capital transaction charged to equity in 2006 to loss on dilution (included under "Loss on capital transaction" account) in the consolidated statement of income of the same year. This also increased the net loss in 2006 and the deficit as of December 31, 2006 by the same amount.

Adoption of New Accounting Standards. The Company has adopted the following Philippine Interpretations which became effective on January 1, 2008, and an amendment to an existing standard that became effective beginning July 1, 2008. Except for Philippine Interpretation IFRIC 12, "Service Concession Arrangements", the adoption of these changes in PFRS did not have any significant effect on the financial performance or position of the Company.

- Philippine Interpretation IFRIC 11, "PFRS 2 Group and Treasury Share Transactions" This interpretation requires arrangements whereby an employee is granted rights to an entity's equity instruments to be accounted for as an equity-settled scheme by the entity even if (a) the entity chooses or is required to buy those equity instruments (e.g., treasury shares) from another party, or (b) the shareholder(s) of the entity provide the equity instruments needed. It also provides guidance on how subsidiaries, in their separate financial statements, account for such schemes when their employees receive rights to the equity instruments of the parent.
- Philippine Interpretation IFRIC 12 This interpretation outlines an approach to account for public-to-private service concession arrangements whereby: (a) grantor controls or regulates what service the Company must provide with the infrastructure, to whom it must provide them, and at what price; and (b) the grantor controls, through ownership, beneficial entitlement or otherwise, any significant residual interest in the infrastructure at the end of the term of the arrangement. Infrastructure used in a public-to-private service concession arrangement for its entire useful life (whole-of-life asset) is within the scope of this Interpretation if the conditions in (a) are met.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

This interpretation applies to both (a) infrastructure that the Company constructs or acquires from a third party for the purpose of the service arrangement; and (b) existing infrastructure to which the grantor gives the Company access for the purpose of the service arrangement.

This interpretation provides that the operator should not account for the infrastructure as property, plant and equipment, but recognize a financial asset and/or intangible asset. A financial asset is recognized to the extent that the operator has a contractual right to receive cash from the grantor or has a guarantee from the grantor. An intangible asset is recognized to the extent that the entity has a right to charge the public for use of the asset.

The Company adopted this interpretation effective January 1, 2008, as it applies to the infrastructures and other assets constructed or acquired by Maynilad Water Services, Inc. [Maynilad, a subsidiary through DMCI-MPIC Water Company, Inc. (DMWC)].

The financial impact of the Company's adoption of this interpretation resulted in: (i) a reclassification of certain of assets from property, plant and equipment to service concession assets, which also resulted to changes in depreciation and amortization expense; (ii) recognition of construction revenue, costs and margins; and (iii) recognition of foreign exchange differences arising from the retranslation of foreign currency denominated concession fees payable and loans as deferred credits or charges given the existence of an automatic recovery (or foreign currency differential adjustment) mechanism in accordance with the rate rebasing requirements set out in the concession agreement entered into between Metropolitan Water and Sewerage Services (MWSS) and Maynilad.

In 2007, the Company accounts for its investment in DMWC under equity method of accounting. The adoption of this interpretation decreased the investment in joint venture as of December 31, 2007 and the 2007 share in net earnings from a joint venture by \$\mathbb{P}\$278.3 million (see Note 13). This also decreased the net loss and correspondingly increased the deficit in 2007 by the same amount.

First Philippine Infrastructure, Inc. (FPII), a 99.8% subsidiary acquired on November 13, 2008 (see Note 4), early adopted this interpretation in 2007.

- Philippine Interpretation IFRIC 14 "PAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction" This interpretation provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognized as an asset under PAS 19, "Employee Benefits", and how the pension asset or liability may be effected when there is a statutory or contractual or minimum funding requirement.
- Amendments to PAS 39, "Financial Instruments: Recognition and Measurement", and PFRS 7, "Financial Instruments: Disclosures-Reclassification of Financial Assets" The amendments to PAS 39 permit an entity to: (1) reclassify non-derivative financial assets (other than those designated at fair value through profit or loss by the entity upon initial recognition) out of the fair value through profit or loss category if the financial asset is no longer held for the purpose of selling or repurchasing it in the near term in particular circumstances; and (2) transfer from the available-for-sale category to the loans and receivables category a financial asset that would have met the definition of loans and receivables (if the financial asset had not been designated as available-for-sale), if the entity has the intention and ability to hold that financial asset for the foreseeable future. Entities are not permitted to reclassify financial assets in accordance with the amendments before July 1, 2008. Any reclassification of a financial asset made in periods beginning on or after November 15, 2008 will take effect only from the date the reclassification is made.

Future Changes in Accounting Policies. The Company did not early adopt the following standards and Philippine Interpretations that have been approved but are not yet effective as of December 31, 2008:

- PAS 1, "Presentation of Financial Statements (Revised)" (effective for annual periods beginning on or after January 1, 2009) The revision introduces new disclosures to aggregate information in the financial statements on the basis of shared characteristics. It requires the following presentations: (a) all changes in equity arising from transactions with owners are to be presented separately from non-owner changes in equity, (b) income and expenses are to be presented in one statement (a consolidated statement of comprehensive income), separately from owner changes in equity, (c) components of other comprehensive income to be displayed in the consolidated statement of comprehensive income and (d) total comprehensive income to be presented in the consolidated financial statements.
- PAS 23, "Borrowing Costs" (effective for annual period beginning on or after January 1, 2009) The standard has been revised to require capitalization of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.
- PAS 27, "Consolidated and Separate Financial Statements (Revised)" (effective for annual periods beginning on or after July 1, 2009) The revision requires that change in the ownership interest of a subsidiary that does not result in loss of control will be accounted for as an equity transaction. Where change in ownership of interest results in the loss of control of a subsidiary, any retained interest will be remeasured to fair value and will impact the gain or loss recognized on disposal. Moreover, any losses incurred by a subsidiary will be allocated between the controlling and non-controlling interests, even if the losses exceed the non-controlling equity investment in the subsidiary. Excess losses will no longer be shown as part of its own equity.
- Amendments to PAS 32, "Financial Instruments: Presentation" and PAS 1 "Presentation of Financial Statements Puttable Financial Instruments and Obligations Arising on Liquidation" (effective for annual periods beginning January 1, 2009) These amendments specify, among others, that puttable financial instruments will be classified as equity if they have all of the following specified features: (a) The instrument entitles the holder to require the entity to repurchase or redeem the instrument (either on an ongoing basis or on liquidation) for a pro rata share of the entity's net assets; (b) The instrument is in the most subordinate class of instruments, with no priority over other claims to the assets of the entity on liquidation; (c) All instruments in the subordinate class have identical features; (d) The instrument does not include any contractual obligation to pay cash or financial assets other than the holder's right to a pro rata share of the entity's net assets; and (e) The total expected cash flows attributable to the instrument over its life are based substantially on the profit or loss, a change in recognized net assets, or a change in the fair value of the recognized and unrecognized net assets of the entity over the life of the instrument.
- Amendment to PAS 39, "Financial Instruments: Recognition and Measurement Eligible Hedged Items" (effective for annual periods beginning on or after July 1, 2009)
 — This amendment addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations.
 The amendment also clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as hedged item.

- Amendments to PFRS 2, "Share-based Payment Vesting Condition and Cancellations" The standard has been revised to clarify the definition of a vesting condition and prescribes the treatment for an award that is effectively cancelled. It defines a vesting condition as a condition that includes an explicit or implicit requirement to provide services. It further requires non-vesting conditions to be treated in a similar fashion to market conditions. Failure to satisfy a non-vesting condition that is within the control of either the entity or the counterparty is accounted for as cancellation. However, failure to satisfy a non-vesting condition that is beyond the control of either party does not give rise to a cancellation.
- PFRS 3, "Business Combinations (Revised)" (effective for annual periods beginning on or after July 1, 2009) The revision introduces a number of changes in the accounting for business combinations occurring after effectivity date that will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs, and future reported results.
- PFRS 8, "Operating Segments" (effective for annual periods beginning on or after January 1, 2009) This PFRS adopts a full management approach to reporting segment information. The information reported would be that which management uses internally for evaluating the performance of operating segments and allocating resources to those segments. Such information may be different from that reported in the consolidated balance sheet and consolidated statement of income and companies will need to provide explanations and reconciliations of the differences. PFRS 8 will replace PAS 14, "Segment Reporting."
- Philippine Interpretation IFRIC 13, "Customer Loyalty Programmes" (effective for annual periods beginning on or after July 1, 2008) This interpretation addresses accounting by entities that grant loyalty award credits (such as "points" or travel miles) to customers who buy goods or services. Specifically, the interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credits and realized in income over the period that the award credits are redeemed or expired.
- Philippine Interpretation IFRIC 15, "Agreement for the Construction of Real Estate" (effective for annual periods beginning on or after January 1, 2012) This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. This interpretation also requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11, "Construction Contracts", or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis, will also be accounted for based on stage of completion.
- Philippine Interpretation IFRIC 16, "Hedges of a Net Investment in a Foreign Operation" (effective for annual periods beginning on or after October 1, 2008) This interpretation provides guidance on the accounting for a hedge of a net investment. As such, it provides guidance on identifying the foreign currency risks that qualify for hedge accounting in the hedge of a net investment, where within the group the hedging instruments can be held in the hedge of a net investment and how an entity should determine the amount of foreign currency gain or loss, relating to both the net investment and the hedging instrument, to be recycled on disposal of the net investment.

Except for the adoption of the revised PAS 1 which may require the inclusion of the statement of comprehensive income in the consolidated financial statements, Philippine Interpretation of IFRIC 15 for which will require the discontinuance of percentage of completion method of recognizing revenues, PFRS 3 and PAS 27, the effect of which are still being assessed and PFRS 8 which requires reporting of segment results using management presentation approach, the Company expects that adoption of these standards and interpretations will have no significant impact on the financial position or performance of the Company upon adoption.

Improvements to PFRS and PAS

In 2008, there are amendments to certain standards, primarily with a view of removing inconsistencies and clarifying wordings. There are separate transitional provisions for each standard. These amendments will be effective for annual periods beginning on or after January 1, 2009 except for the Amendment to PFRS 5, "Non-current Assets Held for Sale and Discontinued Operations," which will be effective for annual periods beginning on or after July 1, 2009. The Company did not early adopt the following amendments and is in the process of assessing the impact to the consolidated financial statements.

- PFRS 5 When a subsidiary is held for sale, all of its assets and liabilities shall be classified as held for sale under PFRS 5, even when the entity will retain a non-controlling interest in the subsidiary after the sale.
- PFRS 7 This improvement removes the reference to "total interest income" as a component of finance costs.
- PAS 1 Assets and liabilities classified as held for trading in accordance with PAS 39 are not automatically classified as current in the consolidated balance sheet.
- PAS 8, "Accounting Policies, Changes in Accounting Estimates and Errors" This improvement clarifies that only implementation guidance that is an integral part of a PFRS is mandatory when selecting accounting policies.
- PAS 10, "Events after the Reporting Period" This improvement clarifies that dividends declared after the end of the reporting period are not obligations.
- PAS 16, "Property, Plant and Equipment" This improvement replaces the term "net selling price" with "fair value less costs to sell" to be consistent with PFRS 5 and PAS 36, "Impairment of Assets." Furthermore, the items of property, plant and equipment held for rental that are routinely sold in the ordinary course of business after rental, are transferred to inventory when rental ceases and they are held for sale. Proceeds of such sale are subsequently shown as revenue. Cash payments to manufacture or acquire property, plant and equipment and cash receipts from the rents and subsequent sales of such assets are shown as cash flows from operating activities.
- PAS 18, "Revenue" This interpretation replaces the term "direct costs" with "transaction costs" as defined in PAS 39.
- PAS 19 This improvement revises the definition of "past service costs" to include reductions in benefits related to past services ("negative past service costs") and to exclude reductions in benefits related to future services that arise from plan amendments. Amendments to plans that result in a reduction in benefits related to future services are accounted for as a curtailment. It revises the definition of "return on plan assets" to exclude plan administration costs if they have already been included in the actuarial assumptions used to measure the defined benefit obligation. It also revises the definition of "short-term" and "other long-term" employee benefits to focus on the point in time at which the liability is due to be settled. This amendment also deletes the reference to the recognition of contingent liabilities to ensure consistency with PAS 37, "Provisions, Contingent Liabilities and Contingent Assets." PAS 37 does not allow for the recognition of contingent liabilities.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

- PAS 20, "Accounting for Government Grants and Disclosures of Government Assistance" Loans granted with no or low interest rates will not be exempt from the requirement to impute interest. Interest is to be imputed on loans granted with below-market interest rates, thereby being consistent with PAS 39. The difference between the amount received and the discounted amount is accounted for as a government grant. Also, it revises various terms used to be consistent with other PERS
- PAS 23, "Borrowing Costs" This improvement revises the definition of borrowing costs to consolidate the types of items that are considered components of borrowing costs into one the interest expense calculated using effective interest rate method and interest expense calculated in accordance with PAS 39.
- PAS 27 Under this improvement, when a parent entity accounts for a subsidiary at fair value in accordance with PAS 39 in its separate financial statements, the treatment continues until the subsidiary is subsequently classified as held for sale.
- PAS 28, "Investments in Associates" This amendment requires that if an associate is accounted for at fair value in accordance with PAS 39 (as it exempt from the requirements of PAS 28), only the requirement of PAS 28 to disclose the nature and extent of any significant restrictions on the ability of the associate to transfer funds to the entity in the form of cash or repayment of loans applies. An investment in an associate is a single asset for the purpose of conducting the impairment test including any reversal of impairment. Therefore, any impairment is not separately allocated to the goodwill included in the investment balance. Any impairment is reversed if the recoverable amount of the associate increases.
- PAS 29, "Financial Reporting in Hyperinflationary Economies" This improvement revises the reference to the exception to measure assets and liabilities at historical cost, such that it notes property, plant and equipment as being an example, rather than implying that it is a definitive list. Also, it revises various terms used to be consistent with other PFRS.
- PAS 31, "Interests in Joint Ventures" If a joint venture is accounted for at fair value, in accordance with PAS 39 (as it is exempt from the requirements of PAS 31), only the requirements of PAS 31 to disclose the commitments of the venturer and the joint venture, as well as summary financial information about the assets, liabilities, income and expenses will apply.
- PAS 34, "Interim Financial Reporting" This improvement clarifies that the disclosure of earnings per share is mandatory in the interim financial reports if an entity is within the scope of PAS 33, "Earnings per Share."
- PAS 36 When discounted cash flows are used to estimate "fair value less costs to sell," the same disclosure is required as when discounted cash flows are used to estimate "value in use."
- PAS 38, "Intangible Assets" Expenditure on advertising and promotional activities is recognized as expense when the entity either has the right to access the goods or has received the services. Advertising and promotional activities now specifically include mail order catalogues. This amendment also deletes references to there being rarely, if ever, persuasive evidence to support an amortization method for finite life intangible assets that results in a lower amount of accumulated amortization under the straight-line method, thereby effectively allowing the use of the units of production method.
- PAS 39, "Financial Instruments: Recognition and Measurement" This amendment clarifies that changes in circumstances relating to derivatives specifically derivatives designated or redesignated as hedging instruments after initial recognition are not reclassifications. Thus, a derivative may be either removed from, or included in, the "fair value through profit or loss" classification after initial recognition. Similarly, when financial assets are reclassified as a result of an insurance company changing its accounting policy in accordance with paragraph 45 of PFRS 4, "Insurance Contracts," this is a change in circumstance, not a reclassification. The revision also removes the reference in PAS 39 to a "segment" when determining whether an instrument qualifies as a hedge.
- PAS 40, "Investment Property" This improvement revises the scope (and the scope of PAS 16) such that a property that is being constructed or developed for future use as an investment property is classified as investment property. If an entity is unable to determine the fair value of an investment property under construction, but expects to be able to determine its fair value on completion, the investment under construction will be measured at cost until such time as fair value can be determined or construction is complete. Also, it revises the conditions for a voluntary change in accounting policy to be consistent with PAS 8 and clarifies that the carrying amount of investment property held under lease is the valuation obtained increased by any recognized liability.
- PAS 41, "Agriculture" This improvement removes the reference to the use of a pre-tax discount rate to determine fair value, thereby allowing use of either a pre-tax or post-tax discount rate depending on the valuation methodology used. It also removes the prohibition to take into account cash flows resulting from any additional transformations when estimating fair value. Rather, cash flows that are expected to be generated in the "most relevant market" are taken into account. Also, it replaces the term "point-of-sale costs" with "costs to sell."

Basis of Consolidation

The consolidated financial statements of the Company include the accounts of the Parent Company and the following subsidiaries as of December 31:

				Ownership Interest
Name of Subsidiary	Place of Incorporation	Principal Activity	2008	2007
MPIC				
Operating Subsidiaries				
FPII and Subsidiaries ^(a)	Philippines	Investment holding	99.84	-
Metro Pacific Corporation (MPC) and Subsidiaries	Philippines	Investment holding and Real estate	96.60	96.60
DMWC and Subsidiary ^(b)	Philippines	Investment holding	55.41	=
Landco and Subsidiaries ^(c)	Philippines	Real estate	51.00	51.00
(Forward)				

				ership erest
lame of Subsidiary	Place of Incorporation	Principal Activity	2008	200
ubsidiaries of MPIC and their respective ownership interest (on their respective subsidia	ries:		
PII and Subsidiaries				
Operating Subsidiaries				
first Philippine Infrastructure Development, Corporation (FPIDC)	Philippines	Investment holding	100.00	-
Manila North Tollways Corporation (MNTC) ^(d)	Philippines	Tollway operations	67.10	=
Pormant subsidiary				
uzon Tollways Corporation (LTC) ^(d)	Philippines	Tollway operations	100.00	
APC and Subsidiaries				
Operating Subsidiaries				
irst Pacific Bancshares Philippines, Inc.	Philippines	Investment holding	100.00	100.0
Metro Pacific Management Services, Inc.	Philippines	Management consultancy	100.00	100.0
irst Pacific Realty Partners Corporation	Philippines	Investment holding	50.67	50.6
Oormant Subsidiaries				
Metro Capital Corporation	Cayman Islands	Investment holding	100.00	100.0
Metro Pacific Capital Ltd.	Cayman Islands	Investment holding	100.00	100.0
acific Plaza Towers Management Services, Inc.	Philippines	Management services	100.00	100.0
hilippine International Paper Corporation	Philippines	Investment holding	100.00	100.0
ollux Realty Development Corporation	Philippines	Investment holding	100.00	100.0
lptime Limited	Cayman Islands	Investment holding	100.00	100.0
Metro Asia Link Holdings, Inc.	Philippines	Investment holding	60.59	60.5
DMWC and Subsidiary	01:11:	W	04.40	
Naynilad Naynilad	Philippines	Water and sewerage services	94.12	
andco and Subsidiaries				
Operating Subsidiaries				
andco Corporate Center, Inc.	Philippines	Real estate developer	100.00	100.0
orest Lake Development, Inc. (FLDI)	Philippines	Real estate developer	100.00	100.0
andco Sales Corporation	Philippines	Real estate broker	100.00	100.0
eisure Farms Tagaytay, Inc.	Philippines	Agricultural, forestry and	100.00	100.0
ambopark Ventures, Inc ^(e)	Philippines	landscape manager Real estate landowner	100.00 100.00	100.0 100.0
L Memorial Parks, Inc.	Philippines	Real estate developer	70.00	70.0
DC ^(f)	Philippines	Real estate developer	70.00	52.0
tonecrest Homes Development, Inc.	Philippines	Real estate developer	70.00	70.0
andco Leisure Development, Inc.	Philippines	Real estate developer	65.00	65.0
uego Land Corporation	Philippines	Real estate developer	60.00	60.0
orest Lake Land Corporation	Philippines	Real estate landowner	60.00	60.0
PD Landco Property Services, Inc.	Philippines	Management consultancy	60.00	60.0
ucena Land Corporation	Philippines	Real estate developer	56.00	56.0
ormant Subsidiaries				
andco Property Holdings Corp.	Philippines	Real estate	100.00	100.0
andco Manpower Services, Inc.	Philippines	Real estate	100.00	100.0
andco Urdaneta Development Corporation	Philippines	Investment holding	79.00	79.0
andco NE Development Corporation	Philippines	Investment holding	70.00	70.0
ompanies jointly owned by MPC and Landco:				
Netro Tagaytay Land Co., Inc. (MTLCI) ^(g)	Philippines	Real estate	100.00	100.0
ucena Commercial Land Corporation (LCLC) ^(g)	Philippines	Real estate	100.00	100.0
ricena commerciai rand corboration (rcrc).				
irst Cebupacific Land Company, Inc. (FCPLCI) ^(h) andco Pacific Centers, Inc. (LPCI) ^(h)	Philippines Philippines	Real estate landowner Real estate developer	100.00 100.00	100.0 100.0

⁽a) Acquired and became a subsidiary on November 13, 2008 (see Note 4).

⁽b) Obtained control and became a subsidiary on July 17, 2008 and previously accounted as investment in joint venture at 50% (see Notes 4 and 13).

 ⁽c) Classified as held for sale as of December 31, 2008 (see Note 6).
 (d) Subsidiary of FPII through FPIDC.

⁽e) A wholly-owned subsidiary of FLDI.

⁽f) During 2008, with the approval of the increase in authorized capital stock of FDC, the additional subscriptions of Landco were issued with the applicable number of shares resulting to issuance in the ownership interest of Landco to 70% from 52%.

MPC and Landco owning 66%-34% for MTLCI and 65%-35% for LCLC, respectively.

MPC and Landco owning 38%-62% for FCPLCI and 35%-65% for LPCI, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FPII and Subsidiaries

FPII's main activity is the holding of shares of FPIDC whose main activity likewise is the holding of shares of MNTC, LTC and Tollways Management Corporation (TMC).

FPIDC established MNTC jointly with Philippine National Construction Corporation (PNCC) for the sole purpose of implementing the rehabilitation of the North Luzon Expressway (NLE) and the installation of appropriate collection system therein referred to as the "North Luzon Tollway Project" or the "Project" (see Note 14). The Project consists of three phases as follows:

Rehabilitation and expansion of approximately 84 kilometers (km) of the existing NLE and an 8.8-km stretch of a Greenfield expressway Construction of the northern parts of the 17-km circumferential road C-5 which connects the current C-5 expressway to the NLE Phase II Construction of the 57-km Subic arm of the NLE to SBMA and the 5.85-km road from McArthur to Letre Phase III

The construction of Phase I was substantially completed in January 2005 and tollway operations commenced on February 10, 2005 following the issuance of the Toll Regulatory Board (TRB) of the Toll Operation Permit on January 7, 2005.

As of December 31, 2008, Segment 8.1, a portion of Phase 2, which is a 2.7 km-road designed to link Mindanao Avenue to the NLE, is in the contract bidding stage. The remaining portion of Phase 2 and Phase 3 of the Project have not yet been started.

In addition, MNTC is also the assignee of all the rights, interests and privileges over Segment 7, known as the Tipo Road which connects Tipo in Hermosa, Bataan to Subic.

TMC, pursuant to the Operation and Maintenance Agreement (O&M) between MNTC and TMC, is tasked for the operation and maintenance of both, the Project and Segment 7.

DMWC and Subsidiary

DMWC's main activity is the holding of shares of Maynilad.

Maynilad holds the exclusive concession granted by the MWSS, on behalf of the Philippine Government, to provide water and sewerage services in the area of West Metro Manila (see Note 14).

Landco and Subsidiaries

Landco and subsidiaries are primarily engaged in all aspects of real estate business and projects involving commercial, residential, leisure as well as real estate consultancy encompassing project management and business planning services. It also is engaged to leasing tenements.

Subsidiaries are fully consolidated from the date the Company obtains control and continue to be consolidated until the date that such control ceases or transferred out of the Company.

When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative translation differences and goodwill, if any, is recognized in the consolidated statement of income.

The financial statements of the subsidiaries are prepared for the same reporting period as the Parent Company using consistent accounting policies for like transactions and other events in similar circumstances. All intra-company balances and transactions, including income, expenses dividends and unrealized gains and losses arising from intra-company transactions are eliminated in full.

Business Combination

Business combinations are accounted for using the purchase method of accounting except for commonly controlled transactions for which pooling of interests method is used. For purchase method of accounting, the cost of acquisition is the aggregate of the fair values of assets given, liabilities incurred or assumed at the date of exchange, and equity instruments issued by the acquirer, in exchange for control over the net assets of the acquired company, plus any directly attributable costs. The identifiable assets (including previously unrecognized intangible assets), liabilities and contingent liabilities (excluding future restructuring) that satisfy certain recognition criteria have to be measured initially at their fair values at acquisition date, irrespective of the extent of any minority interest.

Acquisition of Minority Interests in a Subsidiary

Acquisition of minority interests is accounted for using the parent entity extension method, whereby the difference between the consideration and the net book value of the share in the net assets acquired is recognized as goodwill. When the consideration is less than the net assets acquired, the difference is considered a gain in the consolidated statement of income. In an acquisition without consideration involved, the difference between the share of the minority interests in the net assets at book values before and after the acquisition is recognized either as goodwill or a gain from acquisition of minority interests.

Minority Interests

Minority interests represent the portion of profit or loss and the net assets not held by the Parent Company and are presented separately in the consolidated statement of income and within equity in the consolidated balance sheet, separately from total equity attributable to equity holders of the Parent Company. Any losses applicable to a minority shareholder of a consolidated subsidiary in excess of the minority shareholder's equity in the subsidiary are charged against the minority interests to the extent that the minority shareholder has binding obligation to, and is able to, make good of the losses.

Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of business combination over the Company's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. If the cost of acquisition is less than the fair value of the net assets of the acquiree, the difference is recognized directly in the consolidated statement of income.

If the initial accounting for business combination can be determined only provisionally by the end of the period by which the combination is effected because either the fair values to be assigned to the acquiree's identifiable assets, liabilities or contingent liabilities or the cost of the combination can be determined only provisionally, the

Company accounts the combination using provisional values. Adjustments to those provisional values as a result of completing the initial accounting are made within 12 months from the acquisition date. The carrying amount of an identifiable asset, liability or contingent liability that is recognized as a result of completing the initial accounting is calculated as if its fair value at the acquisition date had been recognized from that date and goodwill or any gain recognized is adjusted from the acquisition date by an amount equal to the adjustment to the fair value at the acquisition date of the identifiable asset, liability or contingent liability being recognized or adjusted.

Where a business combination agreement provides for an adjustment to the consideration of the combination contingent on future events or achieving specified earnings level in future periods, we recognize the estimated amount of that adjustment as part of cost of the combination and a liability at the acquisition date if the adjustment is probable and can be measured reliably (within 12 months from the date of acquisition). Otherwise, such adjustment is not recognized until it becomes probable and can be measured reliably in the subsequent period. Where future events do not occur or the estimate needs to be revised, the cost of the business combination initially recognized shall be adjusted accordingly. Future changes in estimates are treated as an adjustment to the cost of the combination with an adjustment to the recorded liability and goodwill.

Following initial recognition, goodwill is measured at cost less any accumulated impairment loss. Goodwill is reviewed for impairment annually or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether our other assets or liabilities are assigned to those units or groups of units. Each unit or group of units to which the goodwill is allocated: (1) represents our lowest level at which the goodwill is monitored for internal management purposes; and (2) is not larger than a segment based on either our primary or secondary reporting format determined in accordance with PAS 14.

Where goodwill forms part of a cash-generating unit, or group of cash-generating units, and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Noncurrent Assets Held for Sale and Discontinued Operations

Non-current assets and disposal groups classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

In the consolidated statement of income of the reporting period, and of the comparable period of the previous year, income and expenses from discontinued operations are reported separately from normal income and expenses down to the level of profit after taxes, even when the Company retains a non-controlling interest in the subsidiary after the sale. The resulting profit or loss (after taxes) is reported separately in the consolidated statement of income. Property and equipment and intangible assets once classified as held for sale are not depreciated and/or amortized.

Cash and Cash Equivalents

Cash includes cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less and that are subject to an insignificant risk of change in value.

Financial Instruments

The Company recognizes a financial asset or a financial liability in the consolidated balance sheet when it becomes a party to the contractual provisions of the instrument. All regular way purchases and sales of financial assets are recognized on the settlement date. Regular way purchases and sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial instruments are recognized initially at fair value, which is the fair value of the consideration given (in case of an asset) or received (in case of a liability). The fair value of the consideration given or received is determined by reference to the transaction price or other market prices. If such market prices are not reliably determinable, the fair value of the consideration is estimated as the sum of all future cash payments or receipts, discounted using the prevailing market interest rates for similar instruments with similar maturities. The initial measurement of; financial instruments, except for financial instruments at fair value through profit or loss (FVPL), includes transaction costs.

The classification depends on the purpose for which the instruments were acquired and whether they are quoted in an active market. Management determines the classification of its instruments at initial recognition and, where allowed and appropriate, re-evaluates such classification at each financial year-end.

The Company classifies its financial instruments in the following categories: financial assets at FVPL, held-to-maturity (HTM) investments, loans and receivables, AFS financial assets, financial liabilities at FVPL and other financial liabilities.

Classification of Financial Instruments Between Debt and Equity

A financial instrument is classified as debt if it provides for a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Company; or
- · satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

If the Company does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.

<u>Determination of Fair Value</u>

The fair value of financial instruments traded in active markets at the balance sheet date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. When current bid and asking prices are not available, the price of the most recent transaction is used since it provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

transaction. For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, options pricing models, and other relevant valuation models

Day 1 Profit

Where the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Company recognizes the difference between the transaction price and fair value (a Day 1 profit) in the consolidated statement of income unless it qualifies for recognition as some other type of asset. In cases where the data is not observable, the difference between the transaction price and model value is only recognized in the consolidated statement of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Company determines the appropriate method of recognizing the Day 1 profit amount.

Financial Assets

Financial Assets at FVPL. Financial assets at FVPL include financial assets held for trading and financial assets designated upon initial recognition at FVPL. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments or a financial guarantee contract. Gains or losses on investments held for trading are recognized in the consolidated statement of income. Interests earned on holding financial assets at FVPL are recognized in the consolidated statement of income when the right of payment has been established.

Financial assets may be designated at initial recognition at FVPL if the following criteria are met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the financial assets or recognizing gains or losses on them on a different basis; or
- the assets are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Assets and liabilities classified under this category are carried at fair value in the consolidated balance sheet, with any gains or losses being recognized in the consolidated statement of income.

The Company accounts for its derivative transactions (including embedded derivatives) under this category with fair value changes being reported directly in the consolidated statement of income, except when the derivative is treated as an effective accounting hedge, in which case the fair value change is either reported in the consolidated statement of income with the corresponding adjustment from the hedged transaction (fair value hedge) or deferred in equity (cash flow hedge) presented as "Fair value changes on cash flow hedges" under "Other reserve" account.

As of December 31, 2008, the Company has outstanding cross currency swaps classified either as financial assets and financial liabilities at FVPL or derivatives accounted for as accounting hedges. The Company entered into cross currency swap transactions to hedge its foreign exchange and interest rate exposure on its U.S. Dollar-denominated loans. There are no other financial assets or financial liabilities classified as financial assets and financial liabilities at FVPL as of December 31, 2007.

Loans and Receivables. Loans and receivables are nonderivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as financial assets at FVPL, HTM investments or AFS financial assets. After initial measurement, loans and receivables are subsequently measured at amortized cost using the effective interest method, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate. The amortization is included as part of interest income in the consolidated statement of income. Losses arising from impairment are recognized in the consolidated statement of income. Loans and receivables are included in current assets if maturity is within 12 months after the balance sheet date, otherwise these are classified as noncurrent assets.

Loans and receivables include cash and cash equivalents, receivables, due from related parties, sinking fund and miscellaneous deposits.

HTM Investments. HTM investments are quoted nonderivative financial assets with fixed or determinable payments and fixed maturities for which the Company's management has the positive intention and ability to hold to maturity. When the Company sells other than an insignificant amount of HTM investments, the entire category would be tainted and reclassified as AFS financial assets. After initial measurement, these investments are subsequently measured at amortized cost using the effective interest method, less impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortization is included as part of interest income in the consolidated statement of income. Gains and losses are recognized in the consolidated statement of income when the HTM investments are derecognized and impaired, as well as through the amortization process. The losses arising from impairment of such investments and the effects of restatement on foreign currency-denominated HTM investments are also recognized in the consolidated statement of income.

HTM investments consist of investment in fixed rate retail treasury bonds of the Republic of the Philippines.

AFS Financial Assets. AFS financial assets are non-derivative financial assets that are designated as such or not classified in any of the other categories. They are purchased and held indefinitely and may be sold in response to liquidity requirements or changes in market conditions.

After initial measurement, AFS financial assets are subsequently measured at fair value. The unrealized gains and losses arising from the fair valuation of AFS financial assets are excluded, net of tax, from the consolidated statement of income and are reported as "Change in fair value of AFS financial assets" in the equity section of the consolidated balance sheet. The effective yield component of AFS debt securities, as well as the impact of restatement on foreign currency-denominated AFS debt securities, is reported in the consolidated statement of income. AFS financial assets are classified as noncurrent assets unless these will be disposed within 12 months after the balance sheet date in which case, AFS financial assets are classified as current.

When an AFS financial asset is disposed of, the cumulative gain or loss previously recognized in equity is recognized in the consolidated statement of income. When the Company holds more than one investment in the same security, these are deemed to be disposed of on a first-in, first-out basis. The losses arising from impairment of such financial assets are also recognized in the consolidated statement of income. Interest earned on holding AFS financial assets are reported as interest income using the effective interest rate. Dividends earned on holding AFS financial assets are recognized in the consolidated statement of income when the right of payment has been established

This category includes investments in shares of Bonifacio Land Corporation (BLC) and club shares.

Financial Liabilities

Financial Liabilities at FVPL. Financial liabilities are classified in this category if these result from trading activities or derivative transactions that are not accounted for as accounting hedges, or when the Company elects to designate a financial liability under this category.

As of December 31, 2008, the Company has certain derivative instruments accounted for as accounting hedges.

Other Financial Liabilities. This category pertains to financial liabilities that are not held for trading or not designated at FVPL upon the inception of the liability. These include liabilities arising from operations and borrowings.

Issued financial instruments or their components, which are not classified as financial liabilities at FVPL are classified as other financial liabilities, where the substance of the contractual arrangement results in the Company having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue. After initial measurement, other financial liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the effective interest rate. Any effects of restatement of foreign currency-denominated liabilities are recognized in the consolidated statement of income

Other financial liabilities are recognized initially at fair value and are subsequently carried at amortized cost, taking into account the impact of applying the effective interest method of amortization (or accretion) for any related premium, discount and any directly attributable transaction costs.

All of the Company's financial liabilities are classified as other financial liabilities which includes the following, among others:

a. Interest Bearing Loans and Borrowings

All loans and borrowings are initially recognized at fair value of the consideration received less directly attributable transaction costs (referred to as "debt issue costs"). Debt issue costs are amortized over the life of the debt instrument using the effective interest method.

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method.

Gains and losses are recognized in the consolidated statement of income when the liabilities are derecognized, as well as through the amortization process.

b. Financial Guarantee Contracts

Financial guarantee contracts issued by the Company are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognized initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the balance sheet date and the amount recognized less cumulative amortization.

Offsetting of Financial Instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated balance sheet if and only if, there is a currently enforceable right to offset the recognized amounts and there is intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented at gross amounts in the consolidated balance sheet.

Impairment of Financial Assets

The Company assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

Assets Carried at Amortized Cost. The Company first assesses whether objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on loans and receivables and HTM carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the consolidated statement of income. The assets together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Company. If a write-off is later recovered any amount formerly charged is credited to the consolidated statement of income.

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If, in a subsequent year, the amount of the impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the consolidated statement of income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

Assets Carried at Cost. If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

AFS Financial Assets. For AFS financial assets, the Company assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired.

In the case of equity investments classified as AFS, this would include a significant or prolonged decline in the fair value of the investments below their cost. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the consolidated statement of income - is removed from equity and recognized in the consolidated statement of income. Impairment losses on equity investments are not reversed through the consolidated statement of income. Increases in fair value after impairment are recognized directly in equity.

In the case of debt instruments classified as AFS financial assets, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued based on the rate of interest used to discount future cash flows for the purpose of measuring impairment loss. If, in subsequent year, the fair value of a debt instrument increased and the increase can be objectively related to an event occurring after the impairment loss was recognized in the consolidated statement of income, the impairment loss is reversed through the consolidated statement of income.

Derecognition of Financial Instruments

Financial Asset. A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- · the Company's rights to receive cash flows from the asset have expired;
- the Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Company has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Company's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Financial Liabilities. A financial liability is derecognized when the obligation under the liability is discharged, cancelled or has expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability. The recognition of a new liability and the difference in the respective carrying amounts is recognized in the consolidated statement of income.

Derivatives and Hedge Accounting

Freestanding and separated embedded derivatives are classified as financial assets or financial liabilities at FVPL unless they are designated as effective hedging instruments. Derivative instruments are initially recognized at fair value on the date in which a derivative transaction is entered into or bifurcated, and are subsequently re-measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Consequently, gains and losses from changes in fair value of these derivatives are recognized immediately in the consolidated statement of income.

For the purpose of hedge accounting, hedges are classified primarily either as: (a) a hedge of the fair value of an asset, liability or a firm commitment (fair value hedge); or (b) a hedge of the exposure to variability in cash flows attributable to an asset or liability or a forecasted transaction (cash flow hedge); or (c) hedge of a net investment in a foreign operation. The Company has designated certain derivatives as cash flow hedges.

At the inception of a hedge relationship, the Company formally designates and documents the hedge relationship to which the Company wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

In cash flow hedges, changes in the fair value of a hedging instrument that qualifies as a highly effective cash flow hedge are included in equity, net of related deferred tax, presented as "Fair value changes on cash flow hedges" under "Other reserve" account in the consolidated balance sheet. The ineffective portion is immediately recognized in the consolidated statement of income.

If the hedged cash flow results in the recognition of an asset or a liability, gains and losses initially recognized in equity are transferred from equity to net income in the same period or periods during which the hedged forecasted transaction or recognized asset or liability affect the consolidated statement of income.

When the hedge ceases to be highly effective, hedge accounting is discontinued prospectively. In this case, the cumulative gain or loss on the hedging instrument that has been reported directly in equity is retained in equity until the forecasted transaction occurs. When the forecasted transaction is no longer expected to occur, any net cumulative gain or loss previously reported in equity is charged against the consolidated statement of income.

For derivatives that are not designated as effective accounting hedges, any gains or losses arising from changes in fair value of derivatives are recognized directly in the consolidated statement of income.

Embedded Derivatives. An embedded derivative is separated from the host contract and accounted for as derivative if all the following conditions are met:

- · the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristic of the host contract;
- · a separate instrument with the same terms as the embedded derivative would meet the definition of the derivative; and
- the hybrid or combined instrument is not recognized at fair value through profit or loss.

Embedded derivatives that are bifurcated from the host contracts are accounted for as financial assets or financial liabilities at FVPL. Changes in fair values are recognized in the consolidated statement of income. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The Company assesses whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. The Company determines whether a modification to cash flows is significant by considering the extent to which the expected future cash flows associated with the embedded derivative, the host contract or both have changed and whether the change is significant relative to the previously expected cash flows on the contract.

<u>Current Versus Non-current Classification of Derivatives</u>

Derivative instruments that are not designated and considered as effective hedging instrument are classified as current or non-current or separated into a current and noncurrent portion based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows).

- Where the Company will hold a derivative as an economic hedge (and does not apply hedge accounting), for period beyond 12 months after the balance sheet date, the derivative is classified as non-current (or separated into current and non-current portions) consistent with the classification of the underlying item.
- Embedded derivatives that are not closely related to the host contract are classified consistent with the cash flows of the host contract.

Derivative instruments that are designated as, and are considered effective hedging instruments, are classified consistent with the classification of the underlying hedged item. The derivative instrument is separated into a current portion and noncurrent portion only if a reliable allocation can be made.

Inventories

Inventories, which consist of transponders, magnetic cards, materials and supplies are valued at the lower of cost and net realizable value (NRV). Cost includes purchase price and import duties, and is determined using a first-in, first-out method. For transponders and magnetic cards, NRV is the estimated selling price in the ordinary course of business less estimated costs necessary to make the sale. Net realizable value for materials and supplies is the current replacement cost.

Real Estate for Sale

Real estate for sale is carried at the lower of cost and NRV. Cost includes the acquisition cost of the land plus all costs directly attributable to the acquisition for projects where the Company is the landowner, and includes actual development costs incurred up to balance sheet date for projects where the Company is both the landowner and developer. Where the Company is only a developer, the cost of real estate for sale pertains only to the actual development costs. NRV is the selling price in the ordinary course of business less costs to complete and sell.

Condominium units for sale represent the cost of condominium units not yet sold or leased. Cost includes the cost of land plus actual development costs incurred up to the balance sheet date. When a condominium unit is leased, the carrying amount of the unit is transferred to "Investment properties" account in the consolidated balance sheet.

Investments in Associates

Investments in associates, where the Company has the ability to exercise significant influence since date of acquisition, are accounted for using the equity method. The existence and effect of potential voting rights that are currently exercisable or convertible, including potential voting rights held by other companies, are considered when assessing whether a company has significant influence. If the conversion or the potential voting rights results to significant influence, equity accounting is applied from the date on which the investee becomes an associate.

Under the equity method, investments are carried in the consolidated balance sheet at cost plus post-acquisition changes in the Company's share in net assets of investees, less any dividends declared and impairment loss. The consolidated statement of income reflects the Company's share in the results of operations of the associates. Where there has been a change recognized directly in equity of the associate, the Company recognizes its share of any changes and discloses this, in the consolidated statement of changes in equity. Unrealized gains arising from transactions with associates are eliminated to the extent of the Company's interests in the associates, against the respective investment account. When potential voting rights exist, the investor's share of profit or loss of the investee and of changes in the investee's equity is determined on the basis of present ownership interests and does not reflect the possible exercise or conversion of potential voting rights.

When the Company's share in the losses of associates equals or exceeds the carrying amount of an investment, the Company provides for additional losses to the extent that the Company incurred obligations or made payments on behalf of the associate to satisfy the obligations of the associate that the Company has guaranteed or otherwise committed.

After the application of the equity method, the Company determines whether it is necessary to recognize an additional impairment loss on the Company's investments in associates. The Company determines at each balance sheet date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Company calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount in the consolidated statement of income.

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Except for Davao Doctors Hospital, Inc. (DDH), the financial statements of all other associates are prepared for the same reporting period as the financial statements of the Parent Company. The reporting dates of the Parent Company and DDH are different, therefore, for purposes of applying the equity method, DDH prepared consolidated financial statements as of September 30, 2008. As allowed by PAS 28, the reporting dates of the Company and that of the associate shall be no more than three (3) months. Where necessary, adjustments are made to bring the accounting policies in line with those of the Company.

Interest in a Joint Venture

The Company recognizes its interest in a joint venture using the equity method. Under the equity method, such interest is stated at cost plus post-acquisition changes in the Company's proportionate share in the net assets of the joint venture, less any impairment in value. The consolidated statement of income reflects the Company's proportionate share of the results of operation of the joint venture from the date of incorporation of the joint venture.

The financial statements of the joint venture are prepared for the same reporting period as the consolidated financial statements. Adjustments are made to bring the accounting policies in line with those of the Company and to eliminate share of unrealized gains and losses arising from intra-company transactions. The joint venture is carried at equity method until the date on which we cease to have joint control over the joint venture.

Service Concession Arrangements

The Company accounts for its service concession arrangements under the intangible asset model as it receives the right (license) to charge users of public service.

In addition, the Company recognizes and measures revenue in accordance with PAS 11 and PAS 18 for the services it performs.

When the Company provides construction or upgrade services, the consideration received or receivable by the Company is recognized at its fair value.

The Company also recognizes any contractual obligations in relation to the concession agreements in accordance with PAS 37.

Service Concession Assets. The service concession assets are recognized initially at the fair value of the construction services. Following initial recognition, the service concession assets are carried at cost less accumulated amortization and any impairment losses.

Service concession assets are amortized using the straight-line method over the term of the service concession. The amortization period and method for an intangible asset with a finite useful life is reviewed at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the service concession asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense is recognized under the "Cost of services" account in the consolidated statement of income.

The service concession assets will be derecognized upon turnover of the asset to the Grantor. There will be no gains or loss upon derecognition as the service concession assets which is expected to be fully depreciated by then, will be handed over to the Grantor with no consideration.

Property and equipment

Property and equipment, except land, are carried at cost, excluding day-to-day servicing, less accumulated depreciation and any impairment loss. The initial cost of property and equipment comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the property and equipment to its working condition and location for its intended use. Such cost includes the cost of replacing part of such property and equipment when that cost incurred meets the recognition criteria. Land is stated at cost less any impairment loss.

The asset's residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at each financial year-end.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated statement of income in the year the asset is derecognized.

Construction in progress is stated at cost less any impairment in value. This includes cost of construction, plant and equipment and other direct costs. Construction in progress is not depreciated until such time that the relevant assets are completed and available for its intended use.

Investment Properties

Investment properties are measured initially at cost, including transaction costs subsequent to initial recognition. Depreciable investment properties are carried at cost, less accumulated depreciation and any impairment loss. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred, if the recognition criteria are met, and excludes the costs of day-to-day servicing of investment properties.

Investment properties are derecognized when either they have been disposed of or when the investment properties are permanently withdrawn from use and no future economic benefit is expected from its disposal. Gain or loss on the retirement or disposal of an investment property is recognized in the consolidated statement of income in the year of retirement or disposal.

Transfers are made to investment properties when, and only when, there is a change in use, evidenced by ending of owner-occupation, commencement of an operating lease to another party or ending of construction or development. Transfers are made from investment properties when, and only when, there is a change in use, evidenced by commencement of owner-occupation or commencement of development with a view to sale.

Software Cost

Software cost (included as part of "Other noncurrent assets" account in the consolidated balance sheet) include the cost of software purchased from a third party, and other direct costs incurred in the software configuration and interface, coding and installation to hardware, including parallel processing, and data conversion. Software cost is amortized on a straight-line basis over the estimated useful life of five years. The carrying cost is reviewed for impairment on an annual basis.

Impairment of Non-financial Assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognized in the consolidated statement of income in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statement of income unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal, the depreciation (in case of investment properties and property and equipment) and amortization (in case of service concession assets and software cost) charges are adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Customers' Guaranty Deposits

Customers' guaranty deposits (included as part of "Other noncurrent liabilities" in the consolidated balance sheet) are initially measured at fair value. After initial recognition, these deposits are subsequently measured at amortized cost using the effective interest rate method. The discount is amortized over the remaining concession period using the effective interest rate method.

Borrowing Costs

Borrowing costs are capitalized if they are directly attributable to the acquisition, construction or production of a qualifying asset. Capitalization of borrowing costs commences when the activities necessary to prepare the asset for intended use are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalized until the asset is available for their intended use. If the resulting carrying amount of the asset exceeds its recoverable amount, an impairment loss is recognized. Borrowing costs include interest charges and other costs incurred in connection with the borrowing of funds, as well as exchange differences arising from foreign currency borrowings used to finance these projects, to the extent that they are regarded as an adjustment to interest costs.

All other borrowing costs are expensed as incurred.

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

Business Segments

The Company's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products.

Segment Assets and Liabilities. Segment assets include all operating assets used by a segment and consist principally of operating cash, receivables, real estate for sale, property and equipment and concession assets, net of allowances and provision. Segment liabilities include all operating liabilities and consist principally of accounts payable and other liabilities. Segment assets and liabilities do not include deferred income taxes, investments and advances, and borrowings.

Inter-segment Transactions. Segment revenue, segment expenses and segment performance include transfers among business segments. The transfers, if any, are accounted for at competitive market prices charged to unaffiliated customers for similar products. Such transfers are eliminated in consolidation.

Revenue and Cost Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The following specific criteria must also be met before revenue is recognized:

Water and sewerage services revenue. Revenues from water and sewerage services are recognized upon supply of water to the customers. Billings to customers consist of water charges, environmental and sewerage charges.

Toll fees. Revenue from toll fees is recognized upon sale of toll tickets. Toll fees received in advance, through transponders or magnetic cards, is recognized as income upon the holders' availment of the toll road services, net of sales discounts. The unused portion of toll fees received in advance is reflected as "Unearned toll revenues" account in the consolidated balance sheet.

Construction revenue. Revenue is recognized by reference to the stage of completion of the contract activity at the balance sheet date. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately.

Revenue from sale of real estate. Real estate revenue and cost from the sale of completed projects are accounted for using the full accrual method. On the other hand, the percentage of completion method is used to recognize income from sales of projects where the Company has material obligations under the sales contract to complete the project after the property is sold. Under this method, revenue and cost is recognized as the related obligations are fulfilled, measured principally on the basis of the ratio of the actual costs incurred to date over the estimated total costs of the project.

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If none of the revenue recognition criteria is met, deposit method is applied until all the conditions for recording a sale are met. Pending recognition of sale, cash received from buyers is presented as "Customers' deposits" included in "Accounts payable and other current liabilities" account in the consolidated balance sheet.

Share in Net Earnings (losses). The Company recognizes its share in the net income (loss) of associates proportionate to the equity in the voting shares of such associates in accordance with the equity method of accounting for investments.

Interest Income. Interest income is recognized as it accrues, using the effective interest method.

The following revenue streams were included under "Other income" account in the consolidated statement of income:

Sale of Transponders and Magnetic Cards. Revenue is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, which is normally upon delivery.

Guarantee fees. Guarantee fees are recognized in accordance with the terms of the agreement.

Sale of AFS Financial Assets. Gain or loss is recognized when risk and rewards of ownership has been transferred to the buyer.

Rental Income. Revenue from rent is recognized on a straight-line basis over the terms of the lease.

The following revenue streams relate to the revenues from Landco, which in 2008 were presented under "Income (loss) from discontinued operations, net of tax". Prior years statements of income were likewise reclassified to conform with the 2008 presentation.

Commission Income. Revenue is recognized upon receipt of full downpayment from real estate buyers and upon execution of the contract to sell or the deed of absolute sale. Commission is computed as a certain percentage of the net contract price of the real estate project sold.

Consultancy Fees. Revenue derived from property and project management and business planning services offered by the Company to real estate developers are recognized at the time the services are rendered.

Nomination Fee. Revenue is recognized, net of related direct costs such as assignment and marketing fees, upon approval by the BOD of the lot buyers' membership.

Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement at inception date of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

- $a. \ \ there is a change in contractual terms, other than a renewal or extension of the agreement;$
- b. a renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;
- c. there is a change in the determination of whether the fulfillment is dependent on a specified asset; or
- d. there is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios (a), (c) or (d) and the date of renewal or extension period for scenario (b).

Leases where the lessor retains substantially all the risks and benefits of ownership of the assets are classified as operating leases. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

Operating lease payments are recognized as income in the consolidated statement of income on a straight-line basis over the lease term.

Stock Option Plan

The Company has an Executive Stock Option Plan (ESOP) for eligible executives to receive remuneration in the form of share-based payment transactions, whereby executives render services in exchange for the share option.

The cost of equity-settled transactions with employees is measured by reference to the fair value of the stock options at the date at which they are granted. Fair value is determined using an option-pricing model, further details of which are set forth in Note 36 – Stock Option Plan. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the share price of the Parent Company ("market conditions").

The cost of equity-settled transactions is recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ("vesting date"). The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the number of awards that will ultimately vest, in our opinion, at that date, based on the best available estimate. The consolidated statement of income credit or expense for a period represents the movement in cumulative expense recognized as at the beginning and end of that period.

No expense is recognized for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified and the modification increases the fair value of the equity instruments granted, as measured immediately before and after the modification, the entity shall include the incremental fair value granted in the measurement of the amount recognized for services received as consideration

for the equity instruments granted. The incremental fair value granted is the difference between the fair value of the modified equity instrument and that of the original equity instrument, both estimated as at the date of the modification. If the modification occurs during the vesting period, the incremental fair value granted is included in the measurement of the amount recognized for services received over the period from the modification date until the date when the modified equity instruments vest, in addition to the amount based on the grant date fair value of the original equity instruments, which is recognized over the remainder of the original vesting period. If the modification occurs after vesting date, the incremental fair value granted is recognized immediately, or over the vesting period if the employee is required to complete an additional period of service before becoming unconditionally entitled to those modified equity instruments.

Where an equity-settled award is cancelled with payment, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. This includes any award where non-vesting conditions within the control of either the entity or the counterparty are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were modifications of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Retirement Costs

The Company has a funded, noncontributory retirement benefit plan covering all its eligible regular employee. The cost of providing benefits under the defined benefit plan is determined using the projected unit credit actuarial valuation method. Actuarial gains and losses are recognized as income or expense immediately in the year when it is incurred.

The past service cost is recognized as an expense on a straight-line basis over the average period until the benefits become vested. If the benefits are already vested immediately following the introduction of, or changes to, a retirement plan, past service cost is recognized immediately.

The defined benefit asset or liability is the aggregate of the present value of the defined benefit obligation (using a discount rate of government bonds) reduced by past service cost not yet recognized and the fair value of plan assets out of which the obligations are to be settled directly. If such aggregate is negative, the asset is measured at the lower of such aggregate or the aggregate of cumulative unrecognized net actuarial losses and past service cost and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

Foreign Currency Denominated Transactions and Translations

The consolidated financial statements are presented in Philippine peso, which is the Company's functional and presentation currency. All subsidiaries and associates evaluate their primary economic and operating environment and determine their functional currency. Items included in the financial statements of each entity are initially measured using that functional currency. Transactions in foreign currencies are initially recorded in the functional currency rate of exchange ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the consolidated statement of income except when qualified as adjustment to borrowing costs. In addition, foreign exchange differentials relating to the restatement of concession fees payable are deferred in view of the automatic reimbursement mechanism as approved by the MWSS Board of Trustees (BOT) under Amendment No. 1 of the Concession Agreement of Maynilad. Net foreign exchange losses are recognized as deferred Foreign Currency differential Adjustments (FCDA) and net foreign exchange gains are recognized as deferred credits in the consolidated balance sheet. The write-off of the deferred FCDA or reversal of deferred credits will be made upon determination of the new base foreign exchange rate as approved by the Regulatory Office during every Rate Rebasing exercise, unless indication of impairment of the deferred FCDA would be evident at an earlier date.

Foreign exchange differentials arising from other foreign currency denominated transactions are credited or charged to operations.

Income Taxes

Current Tax. Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the tax authority. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the balance sheet date.

Deferred Tax. Deferred tax is provided, using the balance sheet liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits from excess minimum corporate income tax (MCIT) over the regular corporate income tax (RCIT) and unused net operating loss carryover (NOLCO), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and carryforward benefits of unused tax credits from MCIT and NOLCO can be utilized. Deferred tax, however, is not recognized when it arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to offset off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same tax authority.

Earnings (Loss) Per Share

Basic earnings (loss) per share is calculated by dividing the net income (loss) for the year attributable to the equity holders of the Parent Company by the weighted average number of common shares outstanding during the year, after considering the retroactive effect of stock dividend declaration, if any.

Diluted earnings (loss) per share is computed by dividing the net income (loss) for the year attributable to the equity holders of the Parent Company by the weighted average number of common shares outstanding during the period, adjusted for any subsequent stock dividends declared and potential common shares resulting from the assumed exercise of outstanding stock options. Outstanding stock options will have dilutive effect under the treasury stock method only when the average market price of the underlying common share during the period exceeds the exercise price of the option.

Contingencies

Contingent liabilities are not recognized in the consolidated financial statements but are disclosed in the notes to consolidated financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the consolidated financial statements but are disclosed in the notes to consolidated financial statements when an inflow of economic benefits is probable.

Events After the Balance Sheet Date

Post year-end events that provide additional information about the Company's financial position at the date of the balance sheet (adjusting events), if any, are reflected in the consolidated financial statements. Post year-end events that are not adjusting events are disclosed in the notes to consolidated financial statements when material.

3. Management's Use of Judgments, Estimates and Assumptions

The preparation of the consolidated financial statements in compliance with PFRS requires management to make judgments and estimates that affect certain reported amounts and disclosures. In preparing the consolidated financial statements, management has made its best judgments and estimates of certain amounts, giving due consideration to materiality. The judgments, estimates and assumptions used in the accompanying consolidated financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the consolidated financial statements. Actual results could differ from those estimates, and such estimates will be adjusted accordingly.

The Company believes that the following represent a summary of these significant judgments, estimates and assumptions, the related impact and associated risks in the consolidated financial statements.

Judgments

In the process of applying the Company's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the consolidated financial statements.

Determination of Functional Currency. Based on the economic substance of the underlying circumstances relevant to the Company, the functional currency of the Company has been determined to be the Philippine peso. The Philippine peso is the currency of the primary economic environment in which the Company operates. It is the currency that mainly influences revenue and expenses.

Determination of Fair Value of Financial Instruments (Including Derivatives). The Company initially records all financial instruments at fair value and subsequently carries certain financial assets and financial liabilities at fair value, which requires extensive use of accounting estimates and judgment. Valuation techniques are used particularly for financial assets and financial liabilities (including derivatives) that are not quoted in an active market. Where valuation techniques are used to determine fair values (e.g., discounted cash flow, option models), they are periodically reviewed by qualified personnel who are independent of the trading function. All models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practicable, models use only observable data as valuation inputs. However, other inputs such as credit risk (whether that of the Company or the counterparties), forward prices, volatilities and correlations, require management to develo P estimates or make adjustments to observable data of comparable instruments. The amount of changes in fair values would differ if the Company uses different valuation assumptions or other acceptable methodologies. Any change in fair value of these financial instruments (including derivatives) would affect either the consolidated statement of changes in equity.

Fair values of financial assets and financial liabilities are presented in Note 40.

Classifying HTM Investments. The classification to HTM investments requires significant judgment. In making this judgment, the Company evaluates its intention and ability to hold such investments to maturity. If the Company fails to keep these investments to maturity; it will be required to reclassify the entire portfolio as part of AFS financial assets. The investments would therefore be measured at fair value and not at amortized cost.

The Company classified its investment in bonds as HTM investments and has a carrying value of ₱100.6 million as of December 31, 2008.

Financial Assets not Quoted in an Active Market. The Company classifies financial assets by evaluating, among others, whether the asset is quoted or not in an active market. Included in the evaluation on whether a financial asset is quoted in an active market is the determination on whether quoted prices are readily and regularly available, and whether those prices represent actual and regularly occurring market transactions on an arm's length basis.

Discontinued Operations. Landco is classified as a disposal group held for sale after management has assessed that it met the criteria of an asset held for sale following the provisions of PFRS 5 which include, among others:

- Landco is available for immediate sale and can be sold to a potential buyer in its current condition.
- The BOD had a plan to sell Landco and had entered into preliminary negotiations with a potential buyer as of December 31, 2008. Should negotiations with the party not lead to a sale, a number of potential buyers have been identified.
- The BOD expects negotiations to be finalized and the sale to be completed in 2009.

On February 20, 2009, the Company's BOD approved the sale of 21% ownership interest in Landco to AB Holdings, Inc., a minority shareholder of Landco (see Note 6).

Service Concession Arrangements. In applying Philippine Interpretation IFRIC 12, the Company has made a judgment that the service concession arrangements related to the Company's water and tollway businesses qualifies under the intangible asset model (see Note 2).

The carrying value of service concession assets amounted to ₱56,664.0 million as of December 31, 2008 (see Note 14).

Operating Lease Commitments. The Company has entered into various lease agreements as a lessor of condominium units and as a lessee for the use of office space. The Company has determined that the significant risks and rewards are retained by the lessor and so accounts the leases as operating lease.

Rental income, included under the "Other income" account in the consolidated statement of income, amounted to \$\mathbb{P}3.3\$ million, \$\mathbb{P}3.6\$ million and \$\mathbb{P}20.1\$ million for the years ended December 31, 2008, 2007 and 2006, respectively (see Note 33).

Rental expense, included under the "General and administrative expenses" account in the consolidated statement of income, amounted to \$\mathbb{P}22.9\$ million, \$\mathbb{P}21.9\$ million and \$\mathbb{P}8.8\$ million for the years ended December 31, 2008, 2007 and 2006, respectively (see Note 29).

Estimates and Assumptions

The key assumptions concerning future and other key sources of estimation at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Revenue and Cost Recognition. The Company's revenue recognition policies on sale of real estate require management to make use of estimates and assumptions that may affect the reported amounts of revenues and costs. The Company's revenue and cost are recognized as the related obligations are fulfilled, measured principally on the basis of the ratio of actual costs incurred to date over the estimated total costs of the project.

Revenue and cost recognized on sale of real estate in MPC amounted to \$\bar{2}0.4\$ million and \$\bar{2}19.4\$ million, respectively, in 2007 and \$\bar{2}661.6\$ million and \$\bar{2}433.2\$ million, respectively, in 2006. No sales of real estate for sale in MPC for 2008.

Revenue and cost recognized on sale of real estate in Landco, presented under "Income (loss) from discontinued operations, net of tax" account in the consolidated statement of income, amounted to ₱1,456.3 million and ₱964.1 million, respectively, in 2008; ₱1,922.6 million and ₱993.0 million, respectively, in 2007; and ₱454.4 million and ₱223.5 million, respectively, in 2006 (see Note 6).

Estimated Development Costs. The accounting for real estate requires the use of estimates in determining costs and profit recognition. Cost of real estate sold is based on the percentage of completion, which is measured on the basis of the ratio of actual costs incurred to date over the estimated total development costs of the project. The total development costs of the project are estimated by the Company's engineers. At each balance sheet date, these estimates are reviewed and revised when necessary to reflect the current conditions.

In 2008, in view of the current rise in the general level of prices of goods and services as a result of the global economic downturn and financial crisis, the Company reassessed its estimates relevant to its existing and ongoing projects. The Company is of the opinion that estimates for certain projects are no longer reasonable and has come up with new estimated development costs for these projects after thorough evaluation of each projects status. The change in estimated developments cost has increased cost of real estate sold and carrying values of real estate for sale.

Real estate for sale amounted to P2,018.3 million (of which P1,890.9 million are included under "Assets of disposal group classified as held for sale" account in the consolidated balance sheet) and P1,867.6 million as of December 31, 2008 and 2007, respectively (see Notes 6 and 9).

Cost of real estate sold recognized in the consolidated statement of income follows:

	2008	2007	2006
		(In Thousands)	
Included under:			
Costs of real estate sold	₽-	₱19,395	₱433,193
Income (loss) from discontinued operations, net of tax	964,124	992,984	223,548
	₱964,124	₱1,012,379	₱656,741

Purchase Price Allocation in Business Combinations. Purchase method requires extensive use of accounting estimates and judgments to allocate the purchase price to the fair market values of the acquiree's identifiable assets, liabilities and contingent liabilities at acquisition date. It also requires the acquirer to recognize goodwill. The Company's acquisitions have resulted to recognition of goodwill (see Note 4).

Allowance for Impairment of Loans and Receivables. The Company estimates the allowance for doubtful accounts related to receivables based on two methods. The amounts calculated using each of these methods are combined to determine the total amount of reserve. First, the Company evaluates specific accounts that are considered individually significant for any objective evidence that certain customers are unable to meet their financial obligations. In these cases, the Company uses judgment, based on the best available facts and circumstances, including but not limited to, the length of its relationship with the customer and the customer's current credit status based on third party credit reports and known market factors. The reserve provided is based on the difference between the present value of the receivable that the Company expects to collect, discounted at the receivables' original effective interest rate and the carrying amount of the receivable. These specific reserves are re-evaluated and adjusted as additional information received affects the amounts estimated. Second, if it is determined that no objective evidence of impairment exists for an individually assessed receivable, the receivable is included in a group of receivables with similar credit risk characteristics and is collectively assessed for impairment. The provision under collective assessment is based on historical collection, write-off, experience and change in customer payment terms. Impairment assessment is performed on a continuous basis throughout the year.

The carrying value of current and noncurrent receivables, net of allowance for doubtful accounts, amounted to \$\mathbb{P}4,619.4\$ million (of which and \$\mathbb{P}3,010.6\$ million are included under "Assets of disposal group classified as held for sale" account in the consolidated balance sheet) as of December 31, 2008 and \$\mathbb{P}3,365.4\$ as of December 31, 2007. Allowance for doubtful accounts amounted to \$\mathbb{P}482.5\$ million (of which \$\mathbb{P}67.3\$ million are included under "Assets of disposal group classified as held for sale" account in the consolidated balance sheet) as of December 31, 2008 and \$\mathbb{P}368.2\$ million as of December 31, 2007 (see Notes 6, 8 and 17).

Impairment of AFS Financial Assets. The Company treats an AFS financial asset as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires judgment. The Company treats "significant" generally as 20% or more and "prolonged" as greater than six (6) months for quoted equity securities. In addition, the Company evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities.

Impairment loss on AFS financial assets amounted to ₱55.8 million for the year ended December 31, 2008 (see Note 33). No impairment loss was recognized for the years ended December 31, 2007 and 2006.

The carrying value of AFS financial assets amounted to \$\P465.4\$ million (of which and \$\P62.4\$ million are included under "Assets of disposal group classified as held for sale" account in the consolidated balance sheet) as of December 31, 2008 and \$\P557.0\$ million as of December 31, 2007, (see Notes 6 and 10).

Impairment of Goodwill. The consolidated financial statements reflect acquired businesses after the completion of the respective acquisition. The Company accounts for the acquired businesses using the purchase method of accounting. Any excess in the purchase price over the estimated fair market values of the net assets acquired is recorded as goodwill in the consolidated balance sheet. Various business acquisitions and acquisition of minority interests in 2008 have resulted in significant goodwill, which is subject to annual impairment test. This requires an estimation of the value in use of cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Company to make an estimate of the expected future cash flows from the cash-generating unit and to choose a suitable discount rate in order to calculate the present value of those cash flows.

No impairment of goodwill is recognized in 2008. The carrying value of goodwill amounted to ₱12,586.4 million as of December 31, 2008 (see Note 4).

Impairment of Nonfinancial Assets. Impairment review is performed when certain impairment indicators are present. Determining the fair value of assets requires the estimation of cash flows expected to be generated from the continued use and ultimate disposition of such assets.

While it is believed that the assumptions used in the estimation of fair values reflected in the consolidated financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse impact on the results of operations.

Impairment losses on investments in associates amounted to ₱188.1 million, ₱135.0 million and ₱441.4 million for the years ended December 31, 2008, 2007 and 2006, respectively. Impairment losses on property and equipment and investment properties amounted to ₱120.2 million and ₱3.2 million, respectively, for the year ended December 31, 2008 (see Note 33).

These impairment losses are charged against those corresponding amounts presented under "Assets of disposal group classified as held for sale" for the year ended December 31, 2008.

2008

2007

The carrying values of non-financial assets subject to impairment review when impairment indicators are present are as follows:

	2000		2007
		(In Thousands)	
Service concession assets (see Note 14)	₱56,664,010		₽-
Investments in associates (see Note 12)	2,378,273	5	82,920
Property and equipment (see Note 15)	642,597	2	58,904
Software costs (see Note 18)	16,320		-
Investment in a joint venture (see Note 13)	_	4,4	66,455
Investment properties (see Note 16)	_		42,604
Non-financial assets included under "Assets of disposal group classified as held for sale" (see Note 6)	348,809		-

Estimating NRV of Inventories. Inventories are presented at the lower of cost or NRV. Estimates of NRV are based on the most reliable evidence available at the time the estimates are made of the amount the inventories are expected to be realized. A review of the items of inventories is performed at each balance sheet date to reflect the accurate valuation of inventories in the consolidated financial statements.

The carrying value of inventories amounted ₱84.4 million as of December 31, 2008.

Estimated Useful Lives of Service Concession Assets, Property and Equipment, Investment Properties and Software Costs. The useful lives of each of the item of the Company's service concession assets, property and equipment, investment properties and software costs, are estimated based on the period over which the asset is expected to be available for use. Such estimation is based on a collective assessment of similar businesses, internal technical evaluation and experience with similar assets. The estimated useful life of each asset is reviewed at each financial year-end and updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the asset. It is possible, however, that future results of operations could be materially affected by changes in the amounts and timing of recorded expenses brought about by changes in the factors mentioned above. A reduction in the estimated useful life of any item of service concession assets, property and equipment, investment properties and software costs would increase the recorded depreciation and amortization expense and decrease the carrying values of service concession assets, property and equipment, investment properties and software costs.

There was no change in the estimated useful lives of property and equipment, investment properties and software costs in 2008, 2007 and 2006.

As discussed in Notes 2 and 4, MNTC is the concession holder of certain toll roads. In October 2008, TRB approved the extension of the service concession for Phase 1 and Segment 8.1 of the Project from the original term ending December 2030 to December 2037, subject to the following conditions: (a) the immediate submission of an updated implementation schedule, including preparatory activities and studies for Phase 2 and 3 of the Project; and (b) TRB to conduct an audit in the determination of applicable toll rates. The first condition is a basic component of any project development while the fulfillment of the second condition depends on the initiative of TRB given that the Company's books are always available for TRB's audit. On the basis of the foregoing, management believes that the conditions will be easily complied with at no additional cost, thus, as allowed under PAS 38, starting October 2008, the revised life was used by the Company for purposes of determining the amount of amortization.

The carrying values of the Company's long-lived assets are as follows:

	2008	2007
		(In Thousands)
Service concession assets (see Note 14)	₱56,664,010	₱–
Property and equipment (see Note 15)	642,597	258,904
Software costs (see Note 18)	16,320	_
Investment properties (see Note 16)	_	42,604
Long-lived assets included under "Assets of disposal group classified as held for sale" (see Note 6)	138,182	-

Realizability of Creditable Withholding Taxes (CWTs). The carrying amount of CWTs is reviewed at each balance sheet date and reduced to the extent that it will not be realized as there will be no sufficient taxable profit that will be available to allow utilization of such CWTs.

The carrying amount of CWTs is reduced through the use of an allowance account. The allowance is established by charges to income in the form of provision for decline in value of the CWTs. The amount and timing of recorded expenses for any period would therefore differ based on the judgment or estimates made. An increase in provision for decline in value of CWTs would increase the Company's recorded expenses and decrease current assets.

The carrying value of CWTs, included under "Other current assets" account in the consolidated balance sheets amounted to ₱26.3 million and ₱49.6 million, respectively, as of December 31, 2008 and 2007. Allowance for decline in value of CWTs amounted to ₱347.6 million as of December 31, 2008 and 2007 (see Note 11).

Input/Output Value Added Tax (VAT). As further discussed in Note 34, upon the effectivity of Republic Act No. 9337, the Bureau of Internal Revenue (BIR) issued Revenue Memorandum Circular No. 52-2005 on September 28, 2005, which, for the first time, expressly referred to toll road operations as being subject to VAT.

In its letter dated October 28, 2005, the TRB directed MNTC to defer the imposition of VAT on toll fees. Accordingly, MNTC has deferred, and continues to defer, the imposition of VAT from motorists. MNTC, together with other toll road operators, is currently discussing the issue of VAT with the concerned government agencies.

Also in 2005, MNTC carved out the input tax on its purchases of goods and services in 2004 that were previously recorded as part of the construction cost of the roads and tollways and recorded such input tax, together with the input tax from 2005 purchases and onwards. In September 2005, MNTC requested for confirmation from the BIR that it can claim VAT input tax credit for the passed-on VAT on its purchases of goods and services for 2003 and prior years. As of April 3, 2008, confirmation by the BIR is still pending. Consequently, MNTC continues to account for input tax from 2003 and prior years' purchases as part of the service concession assets, subject to amortization.

Input VAT referred to above, amounted to \$\mathbb{P}\$1,497.3 million as of December 31, 2008 and is included under "Other noncurrent assets" account in the consolidated balance sheet (see Note 18).

Upon initial recognition of the Company's acquisition of FPII in November 2008 as further discussed in Note 4, and in the process of purchase price allocation, contingent liability in relation to the output VAT amounting to \$\mathbb{P}\$1,873.6 million, included under "Other long-term liabilities" account in the consolidated balance sheet, was recognized (see Note 24).

The carrying amounts of the affected assets and liability might change depending on the outcome of the uncertainties discussed above. However, management believes that in any event, the agreement amongst MNTC, ROP, acting by and through the TRB, and PNCC, provides MNTC with legal recourse in order to protect its lawful interests in case there is a change in existing laws which makes the performance by MNTC of its obligations under the Supplemental Toll Operation Agreement (STOA) materially more expensive.

Recognition of Deferred Tax Assets. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized.

Maynilad and MNTC recognized deferred taxes and deductible temporary differences expected to reverse after the income tax holiday period while deferred taxes on deductible temporary differences expected to reverse during the income tax holiday and to items where doubt exists as to the tax benefits they will bring in the future were not set up. The Company's assessment on the recognition of deferred tax assets on deductible temporary differences is based on the expected future results of operations.

Recognized deferred tax assets amounted to \$\mathbb{P}\$40.4\$ million (of which \$\mathbb{P}\$324.5\$ million are included under "Assets of disposal group classified as held for sale" account in the consolidated balance sheet) as of December 31, 2008 and \$\mathbb{P}\$210.1\$ million as of December 31, 2007. Unrecognized deferred tax assets, related to deductible temporary differences, unused NOLCO and MCIT amounted to \$\mathbb{P}\$8,633.4\$ million and \$\mathbb{P}\$5,391.5\$ million as of December 31, 2008 and December 31, 2007, respectively (see Note 34).

Deferred FCDA and Deferred Credits. The Company is entitled to recover (refund) foreign exchange losses (gains) arising from restatement and payments of concession fees payable. For the unrealized foreign exchange losses, the Company recognized deferred FCDA as an asset since this is a resource controlled by the Company as a result of past events and from which future economic benefits are expected to flow to the Company. Unrealized foreign exchange gains, however, which will be refunded to the customers are presented as deferred credits.

Net deferred credits pertaining to these foreign exchange gains amounted to ₱4,065.3 million as of December 31, 2008.

Retirement Costs. The determination of the obligation and retirement benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 31 and include, among others, discount rate and rate of increase in compensation. Actual results that differ from the Company's assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods. While it is believed that the Company's assumptions are reasonable and appropriate, significant differences in actual experience or significant changes in assumptions may materially affect the Company's retirement obligations.

Accrued retirement costs amounted to ₱257.6 million and ₱43.1 million as of December 31, 2008 and 2007, respectively (see Note 31).

Provisions. The Company recognizes provisions based on estimates of whether it is probable that an outflow of resources will be required to settle an obligation. Where the final outcome of these matters is different from the amounts that were initially recognized, such differences will impact the financial performance in the current period in which such determination is made.

Provisions amounted to ₱676.9 million and ₱461.5 million as of December 31, 2008 and 2007, respectively (see Note 21).

Contingencies. The Company is a party to certain lawsuits or claims arising from the ordinary course of business. However, the Company's management and legal counsel believe that the eventual liabilities under these lawsuits or claims, if any, will not have a material effect on the consolidated financial statements. Accordingly, other than those provided as a result of the business combination further discussed in Note 4, no provision for probable losses arising from contingencies was recognized in the consolidated financial statements as of December 31, 2008 and 2007 (see Note 37).

4. Business Combinations and Acquisitions of Minority Interests

Acquisition of FPII. On August 26, 2008, thru a Sale and Purchase Agreement (SPA), the Parent Company acquired a total of 4,970,570,627 FPII shares from Benpres Holdings Corporation (Benpres) and First Philippine Holdings Corporation (FPHC) for ₱2.47 per share or a total of ₱12,262.6 million representing 99.8% equity interests in FPII. The acquisition also resulted in the Parent Company's owning 100% of FPIDC, a wholly owned subsidiary of FPII and an indirect ownership of 67.1% interest in MNTC, the concession holder of the NLE, and 46.0% indirect interest in TMC, through FPIDC.

Pursuant to the SPA, the Parent Company remitted ₱11,800 million in cash and assumed the obligation to pay the advances received by Benpres and FPHC from FPIDC in the amount of ₱462.6 million or for a total amount of ₱12,262.6 million constituting the purchase price.

In connection with the acquisition, the Parent Company also offered to purchase 7,484,150 common shares from the minority shareholders of FPII for P2.47 per share or P18.5 million, which is the same price payable for the common shares of FPII. The Tender Offer period was from October 8 to November 10, 2008. On November 10, 2008, the Tender Offer expired unexercised.

The acquisition was completed on November 13, 2008.

The provisional allocation of the total cost of acquisition to identifiable assets, liabilities and contingent liabilities using provisional fair values as at November 13, 2008 is shown below:

Fair Value

	Recognized on	
	Acquisition	Carrying Value
	(In Th	ousands)
Cash and cash equivalents	₱1,853,678	₱1,853,678
Receivables	11,556	11,556
Inventories	26,977	26,977
Due from related parties	793,480	793,480
Derivative assets and other current assets	108,245	108,245
Investment in an associate	699,518	671,996
Property and equipment – net	107,398	107,398
Concession assets	16,901,482	16,433,857
Deferred tax assets	59,246	521,182
Other noncurrent assets	1,632,519	1,632,519
	22,194,099	22,160,888
Accounts payable and other current liabilities	622,128	622,128
Unearned toll revenues	22,651	22,651
Due to related parties	343,956	343,956
Provisions (current and noncurrent)	166,860	166,860
Long-term debt	9,432,515	9,454,027
Accrued retirement costs	17,160	13,331
Deferred tax liabilities – net	527,863	1,049,045
Other long-term liabilities	1,947,587	1,242,471
	13,080,720	12,914,469
Net assets	22 9,113,379	₱9,246,419
Minority interests	(2,577,615)	
Total net assets acquired	6,535,764	
Goodwill arising on acquisition	5,783,454	
Cost of business combination	₱12,319,218	

The Parent Company recorded its share in the identifiable assets, liabilities and contingent liabilities of FPII using their available fair values as of acquisition date which are considered as provisional values because the Parent Company is still in the process of determining the fair values of options granted to the Parent Company by the former shareholders of FPII to acquire interest and rights on certain toll roads.

As permitted by PFRS 3, "Business Combinations," the Parent Company will recognize any adjustment to those provisional values as an adjustment to goodwill upon determining the final fair values of identifiable assets and liabilities within 12 months from November 13, 2008, the acquisition date.

The total cost of the combination amounting to ₱12,319.2 million consists of:

	Amount
	(In Thousands)
Cost of business combination:	
Cash paid	₱11,800,000
Offset against FPIDC's advances to former shareholders	462,639
Total purchase price	12,262,639
Costs associated with the acquisition	56,579
	₱12,319,218
Cook a utiliaru an agar isiti an	
Cash outflow on acquisition:	D11.054.570
Cash paid	₱11,856,579
Net cash acquired with the subsidiary	(1,853,678)
Net cash outflow	₱10,002,901

From the date of acquisition to December 31, 2008, FPII contributed \$\frac{1}{2}\$28.4 million to the consolidated net income of the Company. If the combination had taken place at the beginning of the year, FPII's contribution to the Company's consolidated net income from continuing operations in 2008 would have been \$\frac{1}{2}\$782.7 million and its contribution to the Company's consolidated revenues from continuing operations would have been \$\frac{1}{2}\$3,668.9 million.

Acquisition of MPIC's Additional Interest in DMWC. On July 17, 2008, MPIC acquired convertible note (herein referred to as Facility Loan B) which was issued by DMWC in 2007 to FPC and a foreign company, original holders of the convertible note, with carrying value of P1,935.4 million from a foreign affiliate for a total consideration of US\$7.9 million and P7,083.1 million or a total of P7,575.7 million. The convertible note carry an option to convert the same to DMWC shares. The acquisition of the convertible note by the Company resulted to potential voting rights equivalent to approximately 12.0% interest in DMWC and control is thereby obtained by the Company. Given that control was obtained from a former joint venture (see Note 13), at the date control was obtained, the Company:

- recognized the identifiable assets and liabilities of DMWC at 100% of their fair values; and
- treated any adjustment to those fair values relating to previously held interests as a revaluation.

On October 17, 2008, DMCI infused US\$20.0 million into DMWC initially recognized as advances but with intention to use the same to subscribe to additional DMWC shares.

Subsequently, in a Subscription Agreement dated November 27, 2008, DMCI Holdings, Inc. (DMCI), MPIC's joint venture partner, and MPIC (collectively referred as "Parties"), subscribed for 961,600,000 common shares and 1,923,200,000 common shares of DMWC, respectively.

On November 27, 2008, the following transactions took place:

- a. The Parties entered into two separate Deed of Assignments whereby portion of DMCI and MPIC advances, US\$20 million advances and Facility Loan B, respectively, will be applied against their other liabilities to DMWC amounting to ₱379.7 million each. The remaining balance will be used to settle the subscription liabilities as further discussed below.
- b. Pursuant to the Subscription Agreement, MPIC deemed exercised its conversion rights under the Facility Loan B, and acquired additional 1,923,200,000 DMWC shares for a total consideration of ₱1,923.2 million; while DMCI subscribed to additional 961,600,000 DMWC shares for a total consideration of ₱961.6 million. The remaining advances under the US\$20.0 million advances from DMWC and the Facility Loan B for MPIC were used to settle the subscription price. Pending the issuance of DMWC shares, the amount subscribed and paid up were recorded under "Deposits for future stock subscription" in the consolidated balance sheet of DMWC.
- c. Simultaneous with the execution of the above agreements, MPIC, DMCI and Maynilad entered into a Shareholders' Agreement outlining the relationship of MPIC and DMCI as shareholders of DMWC. On the date of the said Shareholders' Agreement, which was immediately executory, the parties confirmed that MPIC and DMCI each holds equity interests in the form of shares and share entitlements in DMWC equal to 55.4% and 44.6% interests, respectively.

The Company's acquisition of additional 5.4% equity interest in DMWC (from 50.0% to 55.4% interests) has been accounted for as an acquisition of minority interests which resulted to a net positive goodwill of P5,513.4 million.

Acquisition of DMWC's Additional Interest in Maynilad. Pursuant to the Subscription Agreement between DMWC and Maynilad, DMWC subscribed to additional 633,980 and 1,901,913; ₱1,000 par value common shares or a total of 2,535,893 shares on October 10, 2008 and November 28, 2008, respectively, for a total cash consideration of ₱2,535.9 million. These acquisitions increased DMWC's total ownership interest in Maynilad from 83.97% to 94.12%.

As a result of the acquisition, the Company's minority interest in Maynilad was diluted from 16.03% to 5.88%. The acquisition of minority interest resulted to the Company's recognition of a gain of $\ref{p}757.6$ million, included under "Other income" account in the consolidated statement of income (see Note 33).

Metro Pacific Investments Corporation and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Acquisition of LAWL Pte. Ltd. (LAWL) Interest in Maynilad. On December 19, 2008, a Memorandum of Agreement (MOA) was executed among MPIC, MPHI and LAWL, where LAWL agreed to subscribe to 791,110,491 new common shares of MPIC at approximately ₱2.56 per share or ₱2,029.2 million (subscription price) through execution of a Subscription Agreement and MPIC agreed to purchase and acquire from LAWL 236,000 Class B Maynilad shares at ₱8,598.36 per share or ₱2,029.2 million (purchase price) thru execution of a Deed of Sale (see Note 26).

The above transaction shall result to MPIC's acquisition of a 5.8% interest held by LAWL in Maynilad in exchange for LAWL's 7.7% interest in MPIC.

Based on the terms of the MOA, risks and rewards have been transferred to the parties even before the closing conditions were met and therefore, MPIC treated the transaction as a direct acquisition of interest, specifically as an acquisition of minority interest in Maynilad, which resulted to the recognition of a positive goodwill of \$\bigset\$1,289.6 million

As of December 31, 2008, MPIC and LAWL have not issued to each other the aforementioned shares. As provided in the MOA, the parties agree to set off the subscriptions receivable and payable in as much as both the subscription price are of the same amounts and are due and payable on the same date which is as of the closing date. As of March 17, 2009, the related shares have not been issued.

The goodwill of \$\overline{P}\$6,803.0 million comprises the fair value of the expected economic benefit the Company will obtain from obtaining control over DMWC and increase in direct equity interest in Maynilad.

Impairment Testing of Goodwill

Goodwill represents the unallocated excess of cost of acquiring additional interest in DMWC and acquiring direct interest in Maynilad from a minority shareholder over the acquired share in net assets of DMWC and Maynilad, respectively.

Goodwill acquired from MPIC's acquisition of DMWC and acquisition of was tested for impairment where the recoverable amount was determined using the value in use approach. Value in use (VIU) was based on the cash flow projections on the most recent financial budgets and forecast of Maynilad, determined to be the lowest cash generating unit (CGU), approved by the BOD, which management believes are reasonable and are management's best estimates of the ranges of economic condition that will exist over the forecast period. The growth rates used ranges from 5.7% to 21.7% over the forecast period of 14 years. The discount rate applied was 9.2% which was based on the weighted cost of capital. The impairment test showed that the recoverable amount determined using VIU is higher than the amount of goodwill and therefore, no impairment was recognized.

Goodwill acquired from MPIC's acquisition of FPII is still provisional as previously discussed and therefore the amount of goodwill has yet to be allocated to its particular CGU. Impairment testing will commence on the period the initial accounting will be finalized which should not be more than 12 months from date of acquisition. Notwithstanding, management believes that based on the financial budgets and forecast of the toll road operations, there is no impairment of goodwill related to acquisition of FPII.

5. Segment Information

In 2008, the Company is organized into five major business segments, namely water utilities, toll operations, real estate, healthcare, and others. In 2007, the Company was organized into three major business segments, namely real estate, water utilities and others. In 2006, major business segments included the Company's transportation business which was sold by end of that year. These business segments are the bases upon which the Company reports its primary segment information.

Water Utilities

Water utilities primarily relate to the operations of DMWC and Maynilad in relation to the provision of water and sewerage services.

Toll Operations

Toll operations primarily relate to operations and maintenance of toll facilities by FPII and its subsidiary MNTC and associate TMC.

Real Estate

Real estate primarily relates to the operations of MPC and Landco and its subsidiaries which are involved in the business of real estate of all kinds. Following management's decision to divest it its investment in Landco, total assets and liabilities and income and expense of Landco are presented under the "Discontinued operations" column in the segment report.

Transportation

Transportation relates to the operation of Negros Navigation Co., Inc. (Nenaco), which provides inter-island passengers and freight transport services. In 2006, MPC's BOD approved the sale of its 83.96% interest in Nenaco under a management buy-out as further discussed in Note 6.

Total income and expense of Nenaco are presented under the "Discontinued operations" column in the segment report.

<u>Healthcare</u>

Healthcare primarily relates to operations and management of hospitals, medical and chemical clinics and/or laboratories, medical school and such other enterprises that have similar undertakings.

<u>Others</u>

Others represent operations of subsidiaries involved in provision of services and holding companies.

The following table presents information on revenue and income and certain assets and liabilities regarding business segments for the year ended December 31, 2008:

			Continuing O	perations		Discontinue	d Operation	
	Water	Toll		Other				
	Utilities	Operations	Healthcare	Businesses	Eliminations (Consolidated	Real Estate	Total
Revenue								
External sales	₱8,469,296	₱730,776	₱-	₱-	₱–	₱9,200,072	₱1,456,328	₱10,656,400
Inter-segment sales	-	=	=	-	-	=	=	
Total revenue	₱8,469,296	₱730,776	₱-	₱–	₱–	₱9,200,072	₱1,456,328	₱10,656,400
Results								
Segment results	₱1,314,509	₱238,151	₱-	(₱215,543)	₱72,309	₱1,409,426	(₱340,788)	₱1,068,638
Other income (charges) - net	376,107	92,726	_	489,883	(668,998)	289,718	298,647	588,365
Interest income	74,533	12,527	_	188,804	2,969	278,833	222,350	501,183
Interest expense	(794,887)	(101,799)	_	(295,136)	30,392	(1,161,430)	(136,548)	(1,297,978)
Minority interests	(110,188)	(80,659)	_	57	(276,743)	(467,533)	(49,144)	(516,677)
Provision for income tax	(59,072)	6,297	_	128,125	(12,272)	63,078	(9,967)	53,111
Share in net losses of associates	-	18,939	383,886	(2,168)		400,657	8,362	409,019
Share in net losses in a joint venture	_	-	_	_	(256,723)	(256,723)	_	(256,723)
Net income (loss)	₱801,002	₱186,182	₱383,886	₱294,022	(₱1,109,066)	₱556,026	(₱7,088)	₱548,938
Assets and Liabilities								
Segment assets	₱49,219,732	₱20,276,994	₱ -	₱2,011,745	(₱360,963)	₱71,147,508	₱5,785,263	₱76,932,771
Investments in associates - at equity		635,736	1,259,011	33,756	449,770	2,378,273	210,627	2,588,900
Investment in a joint venture	_	-	_	_	· –	-	_	_
Consolidated total assets	49,219,732	20,912,730	1,259,011	2,045,501	88,807	73,525,781	5,995,890	79,521,671
Segment liabilities	₱19,876,795	₱2,499,365	₱-	₱3,955,045	(₱455,412)	₱25,875,793	₱3,236,764	₱29,112,557
Other Segment Information								
Capital expenditures -								
Property and equipment	₱7,209,890	₱ –	₱ –	₱-	₱-	₱7,209,890	₱53.979	₱7,263,869
Depreciation and amortization	68,223	3,624	_	5,250	_	77,097	43,375	120,472
Provision for decline in value of assets	51,205	-/	_	431,191	=	482,396	-	482,396
Noncash expenses, other than depreciati	Noncash expenses, other than depreciation and							
amortization and provision for decli								
value of assets	139,278					139,278		139,278

The following table presents information on revenue and income and certain assets and liabilities regarding business segments for the year ended December 31, 2007:

		Co	ontinuing Oper	rations	1	Discontinued O	peration
			Other				
	Real Estate	Water Utilities	Businesses	Eliminations	Consolidated	Real Estate	Total
Revenue							
External sales	₱20,357	₱–	₽-	₽-	₱20,357	₱1,922,646	₱1,943,003
Inter-segment sales	-	-	_	_	-	_	-
Total revenue	₱20,357	₽-	₽-	₽-	₱20,357	₱1,922,646	₱1,943,003
Results							
Segment results	(P 22,170)	₽-	(P 18,039)	(P 117,531)	(P 157,740)	P 45,426	(P 112,314)
Other income (charges) - net	(211,116)	_	3,087,338	(904,460)	1,971,762	339,693	2,311,455
Interest income	344	-	33,515	634	34,493	282,136	316,629
Interest expense	(12,428)	_	(3,514,817)	_	(3,527,245)	(66,604)	(3,593,849)
Minority interests	-	-	_	(105,122)	(105,122)	(129,552)	(234,674)
Provision for income tax	(1,137)	_	(138,320)	(10,370)	(149,827)	(168,666)	(318,493)
Share in net losses of associates	-	-	37,638	(45,364)	(7,726)	(749)	(8,475)
Share in net earnings in a joint venture	-	1,529,349	_	_	1,529,349	_	1,529,349
Net income (loss)	(P 246,507)	₱1,529,349	(P 512,685)	(₱1,182,213)	(P 412,056)	₱301,684	(₱110,372)
Assets and Liabilities							
Segment assets	₱1,379,841	₽-	(P 331,457)	₱701,875	₱1,750,259	₱5,129,880	₱6,880,139
Investments in associates - at equity	-	-	_	_	-	582,920	582,920
Investment in a joint venture	-	4,466,455	_	_	4,466,455	_	4,466,455
Consolidated total assets	1,379,841	4,466,455	(331,457)	701,875	6,216,714	5,712,800	11,929,514
Segment liabilities	₱677,095	₱_	₱184,959	₱5,876	₱867,930	₱2,613,834	₱3,481,764
(Forward)							

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	Continuing Operations			[Discontinued Operation		
			Other				
	Real Estate	Water Utilities	Businesses	Eliminations	Consolidated	Real Estate	Total
Other Segment Information							
Capital expenditures -							
Property and equipment	₱–	₱_	₱–	₱_	₱–	₱50,910	₱50,910
Investment properties	-	-	21,222	_	21,222	-	21,222
Depreciation and amortization	2,009	-	2,821	_	4,920	30,864	35,784
Provision for decline in value of assets	199,901	-	_	_	199,901	-	199,901
Noncash expenses (income), other than depreciation							
and amortization and provision for decline							
in value of assets	-	-	(3,622,208)	_	(3,622,208)	2,917,941	(704,267)

The following table presents information on revenue and income and certain assets and liabilities regarding business segments for the year ended December 31, 2006:

			Co	ontinuing Oper	ations	[Discontinued C	perations	
	Water		Other						
	Utilities	Real Estate	Businesses	Eliminations Co	onsolidated	Real Estate	Transportation	Discontinued	Total
Revenue									
External sales	₱–	₱661,595	₱–	₽-	₱661,595	₱454,429	₱1,764,362	₱2,218,791	₱2,880,386
Inter-segment sales	_	_		_	_			_	
Total revenue	₽-	₱661,595	₽-	₱_	₱661,595	₱454,429	₱1,764,362	₱2,218,791	₱2,880,386
Results									
Segment results	₱_	₱15,153	₱17,333	₱223	₱32,709	(P 330,121)	(₱177,150)	(₱507,271)	(P 474,562)
Other income (charges) - net	_	4,743,845	(7,435,257)	2,216,161	(475,251)	161,278	289,402	450,680	(24,571)
Interest income	_	97,176	(5,164)		92,012	148,876	· –	148,876	240,888
Interest expense	_	(70,825)		_	(70,825)	(19,414)	(242,522)	(261,936)	(332,761)
Minority interests	_	(21,965)	9,438	(4,719)	(17,246)	20,782		20,782	3,536
Provision for income tax	_	(81,675)	24,308	_	(57,367)	(4,218)	14,573	10,355	(47,012)
Share in net losses of associates	_	(8,883)	· –	_	(8,883)	8,480	· –	8,480	(403)
Share in net losses in a joint		(3)			(-,,	.,		.,	(/
venture	(62,894)	_	_	_	(62,894)	_	_	_	(62,894)
Net income (loss)	(P 62,894)	₱4,672,826	(P 7,389,342)	₱2,211,665	(P 567,745)	(P 14,337)	(P 115,697)	(P 130,034)	(P 697,779)
Assets and Liabilities									
Segment assets	₽_	₱5,700,754	₱1,587,595	(P 1,046,124)	₱6,242,225	₽_	₽_	₽-	₱6,242,225
Investments in associates - at equ		713.037	4,035,959	(4,145,676)	603.320	1-		1 -	603,320
Investment in a joint venture	2,937,106	713,037	4,033,939	(4,145,070)	2,937,106	_	_	_	2,937,106
Consolidated total assets	2,937,100	6,413,791	5,623,554	(5,191,800)	9,782,651				9,782,651
Segment liabilities	2,237,100	P3.082.288	₱169.302	(P 35,500)	₱3,216,090	₽_	₽_		(P 3,216,090)
<u>Segment liabilities</u>		1 3,002,200	1 102,302	(1 33,300)	13,210,030		'		(1 3,2 10,0)0)
Other Segment Information									
Capital expenditures:						_			
Property and equipment	₽-	₱51,827	₱105	₽-	₱51,932	₽-	₱64,589	₱64,589	₱116,521
Investment properties	-	6,786	_	-	6,786	_	_	_	6,786
Depreciation and amortization	-	3,198	8	-	3,206	19,600	188,297	207,897	211,103
Provision for decline in value of as		1,001,118	_	(341,575)	659,543	-	139,324	139,324	798,867
Noncash expenses (income), other									
than depreciation and amortize									
provision for decline in value of	t assets –	(307,673)			(307,673)		53	53	(307,620)

6. Discontinued Operations

Landco

Following a strategic review of the Company's businesses, and its focus on infrastructure, MPIC decided to divest part of its interest in Landco. In an agreement entered on September 9, 2008 between MPIC and the minority shareholder of Landco, the former expressed its intention to sell its interest in Landco to the latter. Landco is primarily engaged in all aspects of real estate business and is a separate reportable operating segment. As of December 31, 2008, negotiations for the sale are in progress and that management expects that the sale will be completed in 2009. On the basis of the foregoing, the assets and liabilities of Landco, including that of its subsidiaries and associates, indirectly held by MPIC through Landco and MPC, were classified as of December 31, 2008 as "Assets of disposal group classified as held for sale" and "Liabilities directly associated with assets classified as held for sale" in the consolidated balance sheet.

The results of Landco's operations for all the periods presented until discontinuance have been presented in the consolidated statement of income as "Income (loss) from discontinued operations, net of tax."

	Amount
	(In Thousands)
Assets:	
Cash and cash equivalents	₱177,310
Receivables (current and noncurrent)	3,010,558
Real estate for sale	1,890,868
Due from related parties	150,317
Other current assets	290,057
Investments in associates	210,627
Available-for-sale financial assets	62,440
Property and equipment at cost – net	134,548
Investment properties	3,634
Deferred tax assets	324,461
Other noncurrent assets	65,531
	₱6,320,351
Liabilities:	
Notes payable	₱257,063
Accounts payable and other current liabilities	3,058,732
Income tax payable	3,560
Due to related parties	178,032
Long-term debt	1,273,466
Deferred tax liabilities	269,150
	₱5,040,003
Reserve of disposal group classified as held for sale	₱16,881

Pursuant to PFRS 5, assets held for sale shall be stated at its net realizable value, hence the Company recognized impairment loss amounting to \$\infty\$431.2 million for the year ended December 31, 2008, allocated to Landco's noncurrent assets on the basis of their carrying amounts (see Note 33).

The results of operations of Landco classified as held for sale are as follows:

	2008	2007	2006
		(In Thousands)	
Revenue from sale of real estate	₱1,456,328	₱1,922,646	₱454,429
Costs and expenses:			
Costs of real estate sold	964,124	992,984	223,548
General and administrative expenses	832,992	884,236	561,002
	1,797,116	1,877,220	784,550
	(340,788)	45,426	(330,121)
Other income (expenses) - net	307,009	338,944	169,758
Interest income	222,350	282,136	148,876
Interest expense	(136,548)	(66,604)	(19,414)
Income (loss) before income tax	52,023	599,902	(30,901)
Provision for income tax	9,967	168,666	4,218
Income (loss) after income tax	₱42,056	₱431,236	(₱35,119)

<u>Nenaco</u>

On December 20, 2006, MPC's BOD approved the sale of the Company's 83.96% interest, equivalent to 2,531,843,830 common shares, in Nenaco to Negros Holdings and Management Corporation, a company owned by the management of Nenaco.

The results of operations of Nenaco have been presented in the 2006 consolidated statement of income as "Income (loss) from discontinued operations, net of tax."

In 2006, the results of operations of Nenaco classified as discontinued operations are as follows:

	Amount
	(In Thousands)
Revenues	₱1,764,362
Costs and expenses:	
Costs of real estate sold and services	1,803,166
General and administrative expenses	138,346
	1,941,512
	(177,150)
Other income (expenses) - net	289,402
Interest expense	(242,522)
Loss before income tax	(130,270)
Benefit from income tax	(14,573)
Loss after income tax	(₱115,697)

On May 6, 2008, MPC's BOD approved to dispose the Company's remaining 15.3% interest in Nenaco. On May 26, 2008, the said investment, with carrying value of P122.3 million was sold for P173.6 million, resulting to a gain on sale of investment amounting to P 51.3 million (see Note 33).

The combined net cash flows of Landco and Nenaco are as follows:

	2008	2007	2006
		(In Thousands)	
Operating	(₱608,706)	(₱354,032)	₱420,574
Investing	(99,404)	(214,289)	104,413
Financing	739,798	486,208	(456,926)
Net cash inflows (outflows)	₱31,688	(₱82,113)	₱68,061
Net income (loss) per share attributable to equity holders of Parent Company (see Note 35): Basic, from discontinued operations Diluted, from discontinued operations	(₱0.002) (₱0.002)	₱0.241 ₱0.109	(₱0.138) (₱0.138)

7. Cash and Cash Equivalents and Short-term Deposits

This account consists of:

	2008	2007
		(In Thousands)
Cash on hand and in banks	₱1,934,855	₱134,221
Short-term deposits	6,809,566	113,860
	₱8.744.421	₱248.081

Cash in banks earn interest at the prevailing bank deposit rates. Short-term deposits are made for varying periods of up to three months depending on the immediate cash requirements of the Company, and earn interest at the prevailing short-term deposit rates.

Short-term deposits includes \$\infty\$570.2 million cash deposits to Calyon Bank of Hongkong (Calyon), which serves as a collateral for the Standby Letter of Credit (SBLC) issued by the same Bank.

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise of the following at December 31:

	2008	2007	2006
		(In Thousands)	
Cash on hand and in banks	₱1,934,855	₱14,732	₱11,277
Short-term deposits	6,809,566	102,100	5,000
Cash on hand and in banks and short-term deposits attributable			
to a discontinued operation (see Note 6)	177,310	131,249	218,885
	₱8,921,731	₱248,081	₱235,162

8. Receivables

This account consists of:

This account consists on	2008	2007
		(In Thousands)
Trade receivables (see Note 25)	P 1,380,287	₱1,001,062
Notes receivable (see Note 25)	195,000	780,000
Advances to other affiliates (see Note 25)	106,398	106,398
Advances to suppliers	95,278	599,710
Advances to officers and employees	32,881	56,012
Accrued interests receivable (see Note 25)	195	4,286
Commissions and management fees receivable	_	97,115
Receivables from landowners	_	73,550
Advances to stockholders	_	59,050
Receivable from sale of AFS financial assets	_	22,418
Advances to sinking fund	_	7,129
Others	214,092	204,188
	2,024,131	3,010,918
Less allowance for doubtful accounts	415,249	368,204
	₱1,608,882	P 2,642,714

a. Trade receivables in 2008, mainly include receivables from customers arising from provision of water and sewerage services, further classified as residential, semi-business, commercial and industrial customers depending on the purpose of the provision of water and sewerage services. These receivables are generally collectible over a period of 60 days.

Trade receivables in 2007 include receivables related to the Company's real estate business which consist of (i) installment contract receivables (ICR) from the sale of various real estates (e.g., residential lots, condominiums and others), (ii) lease receivable from retail space and land rentals and (iii) receivables from sales of club shares and agrotourism.

ICRs are collectible in monthly installments over periods ranging from one year to five years and bear interest of up to 16.0% per annum computed daily on the diminishing balance of the principal.

The carrying values of the Company's ICRs that were used to secure certain liabilities as of December 31, 2007 follow:

Secured Liabilities	Amount
	(In Thousands)
Notes payable (see Note 19)	₱171,034
Long-term debts (see Note 23)	532,964

- b. Notes receivable include: (i) a five-year note with a face value of ₱150.0 million that was issued by Steniel (Netherlands) Holdings B.V. (Steniel Netherlands) on December 12, 2000 as part of the consideration for the Steniel Manufacturing Corporation (Steniel) shares of stock which was sold by MPC on October 30, 2000. The said note was fully provided with allowance when no payment was received from Steniel Netherlands on June 30, 2006, the maturity date of the note; and (ii) a noninterest-bearing loan of ₱45.0 million made to a certain individual due on February 21, 2009 subject to a 12.0% interest per annum in case of default. The said note remains outstanding as of March 17, 2009.
- c. Advances to other affiliates and stockholders represent advances to former subsidiaries and affiliates of the Company which are mostly provided with allowance.
- d. Advances to suppliers pertain to advance payments made by the Company to suppliers/contractors with whom the Company has existing contracts. As of December 31, 2008, advances to suppliers pertaining to Landco are presented under "Assets of disposal group classified as held for sale" account in the consolidated balance sheet. The remaining balance of \$\mathbb{P}\$5.2 million is fully provided with allowance.
- e. Receivable from landowners represent unremitted Company's share on the sales proceeds of projects which have been collected by the landowners. Such collections should be remitted to the Company the month following the date of collection, and are therefore considered current.

Movements in the allowance of individually assessed impaired receivables in 2008 and 2007 are as follows:

			2008		
				Assets of Disposal	
	Balance at January 1, 2008	Charge for the year (see Note 33)	Reversal	Group classified as Held for Sale	Balance at December 31, 2008
		(See Hote SS)	(In Thousands)	ricia for saic	
Trade receivables	₱2,485	₱113,008	P-	(P 63,050)	₱52,443
Notes receivable	150,000	_	_	_	150,000
Advances to other affiliates	106,398	_	_	_	106,398
Advances to officers and employees	9,894	_	_	_	9,894
Receivable from sale of AFS financial assets	4,160	890	(808)	(4,242)	_
Advances to suppliers	95,267	11	_	_	95,278
Others	_	1,236	_	_	1,236
	₱368,204	₱115,145	(P 808)	(P 67,292)	P415,249

		20	07	
	Balance at	Charge for		Balance at
	January 1,	the year		December 31,
	2007	(see Note 33)	Reversal	2007
		(In Tho	usands)	
Trade receivables	₱2,842	₱_	(P 357)	₱2,485
Notes receivable	150,000	-	-	150,000
Advances to other affiliates	105,818	580	-	106,398
Advances to officers and employees	9,894	_	-	9,894
Receivable from sale of AFS financial assets	4,160	_	-	4,160
Advances to suppliers	93,526	1,741	-	95,267
	₱366,240	₱2,321	(₱357)	₱368,204

9. Real Estate for Sale

This account consists of:		
	2008	2007
		(In Thousands)
Land	₱54,747	₱537,153
Development costs:		
Residential resort community and Central		
Business District	46,706	442,704
Condominium units, including parking lots	26,020	161,660
Residential	-	561,869
Memorial lots	-	164,168
	₱127,473	₱1,867,554

Condominium units include units which are carried at NRV. Had these been carried at cost, the carrying values of such units would have been P88.5 million and P199.7 million as of December 31, 2008 and 2007, respectively. The Company's property operations, specifically for MPC's condominium properties, were affected by the then general decline in the real estate industry resulting in the Company recording the real estate for sale at its NRV in prior years. The Company recognized impairment loss of P62.5 million in 2007. No impairment loss was recognized in 2008 and 2006 (see Note 33).

The carrying values of the Company's real estate for sale that were used to secure certain liabilities as of December 31 follow:

Secured Liabilities	Description of Properties	2008	2007
			(In Thousands)
Long-term debts (see Note 23)	Land and land under development	₽-	₱145,807
Provisions (see Note 21)	Condominium units	18,893	18,893

Real estate for sale with a carrying value of P105.8 million as of December 31, 2008, included under "Assets of disposal group classified as held for sale" account in the 2008 consolidated balance sheet was pledged to secure certain long-term debt.

10. Available-for-sale Financial Assets

This account consists of:

This account consists of.	2008	2007
		(In Thousands)
Shares of stock in:		
BLC	₱402,964	₱402,964
Golf clubs	-	154,028
	₱402,964	₱556,992
Less current portion	402,964	402,964
	₱_	₱154,028

Investment in BLC consists of unquoted shares of stock totaling of 2,942,850 shares as of December 31, 2008 and 2007. Investments in golf club shares have no fixed maturity date or coupon rate.

The fair values of the listed golf club shares pertains to the quoted price while fair value for the unlisted shares was determined based on prevailing and recent selling prices.

In 2008, investments in golf club shares with the carrying value of P 62.4 million are presented under "Assets of disposal group classified as held for sale" account in the consolidated balance sheet (see Note 6).

The rollforward of unrealized gain on AFS financial assets shown under "Other reserves" account in 2007 and "Reserve of disposal group classified as held for sale" account in 2008 in the consolidated balance sheet follows:

	800	2007
		(In Thousands)
Balance at beginning of year P14,	060	₱14,472
Change in fair values during the year (11,4)	24)	6,248
Realized fair value adjustments transferred		
to income 4,	544	(6,660)
Balance at end of year P7,:	280	₱14,060

In 2007, the unrealized gain on AFS financial assets is included under the "Other reserves" account in the consolidated statement of changes in equity (see Note 26). In 2008, the unrealized gain on AFS financial assets is included under "Reserve of disposal group classified as held for sale" account in the consolidated statement of changes in equity (see Note 6).

The carrying values of the Company's AFS financial assets were used to secure the following liabilities as of December 31:

Description of Properties	2008	2007
	((In Thousands)
BLC shares	₱402,964	₱402,964
Golf club shares	-	12,000
	2008	2007
		(In Thousands)
	BLC shares	BLC shares P402,964 Golf club shares -

2008	3 2007
	(In Thousands)
Sinking fund P507,665	₱ –
CWT 373,906	397,217
Advances to contractors and consultants 188,411	=
Input VAT 28,867	76,806
Prepaid expenses 23,637	20,951
Cash deposits (see Note 23) 65,309	-
Miscellaneous deposits 3,266	29,513
Others -	- 51,226
1,191,061	575,713
Less allowance for decline in value 385,119	366,594
	<u></u> \$209,119

Sinking fund represents amount set aside to cover semi-annual interest payment of certain long-term debts (see Note 23).

Advances to contractors and consultants pertain mainly to down payments made by the Company on its various construction contracts. Cash deposits represent MPIC's Debt Service Account with the purpose of holding funds on reserve to service payment of a certain long-term debts (see Note 23).

The allowance for decline in value mainly represents provision for impairment of CWT recognized in prior years as management believes that it may not be able to utilize the same. No further provision for decline in value of CWT was recognized in 2008. The increase in the allowance for decline in value came from subsidiaries acquired during the year.

12. Investments in Associates

Investments in associates consist of:

	2008	2007
	(In Th	ousands)
Acquisition costs:		
Balance at beginning of year	₱3,695,268	₱3,572,154
Acquisitions during the year	1,139,011	123,114
Acquisition of an associate through business combination	699,400	-
Associates previously treated as subsidiaries before discontinued operation	129,016	-
Discontinued operation (see Note 6)	(390,031)	-
Disposal during the year	(122,294)	-
Balance at end of year	5,150,370	3,695,268
Accumulated equity in net losses:		, ,
Balance at beginning of year	(1,598,008)	(1,589,533)
Share in net earnings (losses) during the year	409,019	(8,475)
Share in net earnings during the year from discontinued operation (see Note 6)	(8,362)	-
Discontinued operation (see Note 6)	(327)	_
Dividends	(55,200)	-
Balance at end of year	(1,252,878)	(1,598,008)
	3,897,492	2,097,260
Less allowance for impairment loss:		
Balance at beginning of year	1,514,340	1,514,340
Provision during the year (see Note 33)	188,093	
Provision during the year from discontinued operation (see Note 6)	(188,093)	_
Associates previously treated as subsidiaries before discontinued operation	127,173	-
Disposal during the year	(122,294)	-
	1,519,219	1,514,340
	₱2,378,273	₱582,920

Details of investments in associates are as follow:

			MPIC'S E	ffective
	Place of		Inte	rest
Associate	Incorporation	Principal Activities	2008	2007
Costa De Madera Corporation (a)	Philippines	Real estate	59.89	59.89
Prime Media Holdings, Inc.	Philippines	Media holding company	47.33	47.33
Metro Pacific Land Holdings, Inc.	Philippines	Real estate	47.33	47.33
TMC	Philippines	Tollways	45.93	-
Metro Strategic Infrastructure Holdings, Inc.	Philippines	Investment holding	38.64	38.64
Davao Doctors Hospital, Inc. (DDH)	Philippines	Hospital	34.63	-
Medical Doctors Inc. (MDI)	Philippines	Hospital	32.40	7.50
Landco NE Resources Ventures, Inc. (LNERVI) (b)	Philippines	Real estate	44.04	44.04
Pacific Mall Corporation (PMC) (c)	Philippines	Real estate	32.81	32.81
NE Pacific Shopping Centers (NEPSCC) (c)	Philippines	Shopping center	14.94	14.94
Nueva Ecija Land Company, Inc. (NELCI) (c)	Philippines	Real estate	17.85	17.85
Forest Lake San Pedro, Inc. (FLSPI) (c)	Philippines	Real estate	17.85	17.85
Landco Urdaneta Properties, Inc. (LUPI) (c)	Philippines	Real estate	15.81	15.81
BVB Land Company (c)	Philippines	Real estate	15.30	15.30
Landco Bulacan Properties, Inc. (c)	Philippines	Real estate	15.30	15.30
Waterwood Land, Inc. (WLI) (c)	Philippines	Real estate	12.75	12.75
Forest Lake Manila South, Inc. (c)	Philippines	Real estate	10.20	10.20
Nenaco ^(d)	Philippines	Real estate	-	14.77

(a) Not consolidated as control rests with the minority shareholders

(b) Joint ownership by MPC and Landco owning 24.95% and 38.70%, respectively

(c) Associates of Landco; included under "Assets of disposal group classified as held for sale" in 2008

(d) Sold in 2008

The carrying values of investments in associates accounted for under the equity method are as follow:

	2008	2007
	(1)	n Thousands)
MDI	₱1,135,746	₱158,481
TMC	663,139	-
DDH	545,632	-
LNERVI	31,721	73,567
PMC	-	238,079
NEPSCC	-	56,346
WLI	-	18,495
LUPI	-	14,714
Others	2,035	23,238
	₱2,378,273	₱582.920

Condensed combined financial information of the associates follow:

	2008	2007
		(In Thousands)
Current assets	P 2,933,614	₱16,279,501
Noncurrent assets	6,506,693	41,955,866
Current liabilities	2,201,095	17,737,632
Noncurrent liabilities	2,599,071	25,467,715
Revenue	4,538,234	10,428,293
Costs and expenses	3,808,451	7,774,603
Net income	436,590	4,058,414

Unrecognized share in net losses of associates amounted to P410.9 million and P552.6 million as of December 31, 2008 and 2007, respectively.

MDI

On May 9, 2007, the Company has subscribed for a total of \$\mathbb{P}\$750.0 million worth of convertible notes (Notes) of MDI. The Notes are subject to 7.0% interest per annum, payable semi-annually up to the date of conversion.

The Notes are convertible to common shares of MDI at the rate of \$\infty\$800.0 per share, but not lower than the par value of the common shares. The Notes are convertible into shares anytime after the Note's issue date and all outstanding convertible notes will be mandatorily converted into common shares on the 5th anniversary date.

As of December 31, 2007, P120.0 million convertible notes have already been converted into 150,000 common shares, making the Company a holder of 7.5% interest in MDI. The remaining unconverted portion of the Notes amounting to P630.0 million, representing 787,500 common shares of MDI, was included in "Notes Receivable" under "Receivables" account in the 2007 consolidated balance sheet.

On January 18, 2008, all the remaining portion of the convertible notes was converted giving additional 25.9% interest in MDI. As of December 31, 2008, MPIC holds 937,500 MDI common shares representing 32.4% interest in MDI.

In relation to the purchase price allocation related to the acquisition, the excess of fair values of identifiable assets, liabilities and contingent liabilities of MDI over the acquisition cost, amounting to \$\infty\$224.8 million, was recognized as negative goodwill and is included under "Share in net earnings of associates" account in the 2008 consolidated statement of income.

DDH

On May 15, 2008, the BOD approved the purchase and acquisition of up to 34% of the issued share capital (including treasury shares) of DDH for ₱1,600.0 per share. As of December 31, 2008, MPIC has acquired a total of 311,612 common shares representing 34.6% interest in DDH. Provisional goodwill from the acquisition amounting to ₱129.8 million was determined provisionally on the basis that the Company has yet to determine the fair values of the assets, liabilities and contingent liabilities of the investee. Provisional goodwill was included in the carrying value of investments.

TMC

With MPIC's acquisition of FPII on November 13, 2008 as discussed in Note 4, TMC became an associate of the Company at 45.9%.

Nenaco

As discussed in Note 6, the Company sold its remaining interest in Nenaco in 2008.

13. Interest in a Joint Venture

Prior to July 17, 2008, MPIC has 50.0% interest in DMWC, a joint venture with DMCI, which was incorporated to acquire equity interest, purchase, negotiate or otherwise deal with or dispose of stocks, bonds of Maynilad. The investment in the joint venture was accounted under the equity method in 2007.

As discussed in Note 4, MPIC acquired control over DMWC on July 17, 2008, and DMWC became a subsidiary of MPIC. Share in net losses from the joint venture before control was obtained amounted to \$256.7 million in 2008. In 2007 and 2006, share in net earnings (losses) from the joint venture amounted to \$1,529.3 million and (\$62.9 million), respectively.

The movement of the Company's interest in DMWC in 2007 follows:

The movement of the company's merest in 2007 to low.	A
	Amount
	(As restated -
	see Note 2)
	(In Thousands)
Acquisition cost	₱3,000,000
Accumulated equity in net earnings (losses):	
Balance at beginning of year	(62,894)
Share in net earnings	1,807,608
Balance at end of year, as previously reported	1,744,714
Effect of change in accounting policy - adoption of IFRIC 12	(278,259)
Balance at end of year, as restated	₱4,466,455
Condensed combined financial information of the joint venture in 2007 follows:	
	Amount
	(As restated -

	see Note 2)
	(In Thousands)
Current assets	₱13,475,733
Noncurrent assets	35,450,113
Current liabilities	15,191,670
Noncurrent liabilities	24,178,386
Revenues	7,377,042
Costs and expenses	5,006,229
Net income	2,557,504

14. Service Concession Assets

The movements in the service concession assets follow:

FPII	DMWC	Total
	(In Thousands)	
₱16,901,482	₱38,122,218	₱55,023,700
19,447	2,907,319	2,926,766
16,920,929	41,029,537	57,950,466
75,146	1,211,310	1,286,456
₱16,845,783	₱39,818,227	₱56,664,010
	₱16,901,482 19,447 16,920,929 75,146	(In Thousands) P16,901,482 P38,122,218 19,447 2,907,319 16,920,929 41,029,537 75,146 1,211,310

Metro Pacific Investments Corporation and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Service Concession Arrangement with MWSS

On February 21, 1997, Maynilad entered into a Concession Agreement with MWSS, a government-owned and controlled corporation organized and existing pursuant to Republic Act (RA) No. 6234 (the Charter), as clarified and amended, with respect to the MWSS West Service Area. The Concession Agreement sets forth the rights and obligations of Maynilad throughout the concession period. The MWSS Regulatory Office (MWSS-RO or Regulatory Office) acts as the regulatory body of the Concessionaires [Maynilad and the East Concessionaire - Manila Water Company, Inc. (Manila Water)].

Under the Concession Agreement, MWSS grants Maynilad (as contractor to perform certain functions and as agent for the exercise of certain rights and powers under the Charter), the sole right to manage, operate, repair, decommission and refurbish all fixed and movable assets (except certain retained assets) required to provide water and sewerage services in the West Service Area for 25 years commencing on August 1, 1997 (the Commencement Date) to May 6, 2022 (the Expiration Date) or the early termination date as the case maybe.

While Maynilad is also tasked to manage, operate, repair, decommission and refurbish certain specified MWSS facilities in the West Service Area, legal title to these assets remains with MWSS. The legal title to all property, plant and equipment contributed to the existing MWSS system by Maynilad during the concession period remains with Maynilad until the Expiration Date (or on early termination date) at which time, all rights, titles and interest in such assets will automatically vest to MWSS.

Under the Concession Agreement, Maynilad is entitled to the following rate adjustments:

- a. annual standard rates adjustment to compensate for increases in the Consumer Price Index (CPI) subject to rates adjustment limit;
- b. extraordinary price adjustment (EPA) to account for the financial consequences of the occurrence of certain unforeseen events subject to grounds stipulated in the Concession Agreement; and
- c. rate rebasing (Rate Rebasing) mechanism allows rates to be adjusted every five (5) years to enable Maynilad to recover expenditures efficiently and prudently incurred, Philippine business taxes and payments corresponding to debt service on concession fees and concessionaire's loans incurred to finance such expenditures.

In addition, Amendment No. 1 on the Concession Agreement, provided Maynilad with certain reliefs including, without limitation, to the implementation of effective foreign exchange recovery mechanisms which are as follows:

- a. a rate adjustment of P4.21 per cubic meter (Accelerated EPA or AEPA) beginning October 15, 2001 (although actual implementation commenced only on October 20, 2001 after publication of rates) up to December 31, 2002 to enable Maynilad to recover foreign exchange losses incurred for the period August 1, 1997 to December 31, 2000:
- b. a Special Transitory Mechanism (STM) beginning July 2002 to enable Maynilad to recover foreign exchange losses for the period January 1, 2001 to December 31, 2001 and such losses arising from the repayment of Maynilad's US\$100.0 million bridge loan and short-term loans and other payments relating thereto, the payment of concession fees suspended, and past foreign exchange losses unrecovered through the adjustment in (a) above as of December 31, 2002; and
- c. the FCDA to enable Maynilad to recover/account for present and future foreign exchange losses/gains including all accruals and carrying costs thereof for the period beginning January 1, 2002 until the Expiration Date on a quarterly basis, excluding such losses or gains required to be recovered or accounted for through the special transitory mechanism described in (b) above.

Amendment No. 1 further provided for rate rebasing on January 1, 2003 which requires, among others, an agreement between Maynilad and MWSS covering the action plan relating to water and sewerage service targets.

STOA

PNCC is the franchise holder for the construction, operation and maintenance of toll facilities in the North and South Luzon Tollways and the Metro Manila Expressway by virtue of Presidential Decree (PD) No. 1113 issued on March 31, 1977, as amended by PD No. 1894 issued on December 22, 1983. PNCC has an existing Toll Operation Agreement (TOA) with the Government of the Republic of the Philippines (ROP), by and through the TRB.

Pursuant to the Joint Venture Agreement (JVA) entered into by PNCC and FPIDC on August 29, 1995, PNCC assigned its rights, interests and privileges under its franchise to construct, operate and maintain toll facilities in the NLE in favor of MNTC, including the design, funding and rehabilitation of the NLE, and installation of the appropriate collection system therein. FPIDC, in turn, assigned all its rights, interests and privileges to the Binictican-Bo. Tipo road project, as defined in the Memorandum of Understanding dated March 6, 1995, to MNTC, which assumed all the rights and obligations as a necessary and integral part of the NLE project. The assignment of PNCC's usufructuary rights, interests and privileges under its franchise, to the extent of the portion pertaining to the NLE, was approved by the then President of the ROP. On October 10, 1995, the Department of Justice issued Opinion No. 102, Series of 1995, affirming the authority of the TRB to grant authority to operate a toll facility and to issue the necessary Toll Operation Certificate in favor of PNCC and its joint venture partner, as reiterated and affirmed by the Secretary of Justice in his letter to the Secretary of Public Works and Highways dated November 24, 1995, for the proper and orderly construction, operation and maintenance of the NLE as a toll road during the service concession period.

In April 1998, the ROP (Grantor), acting by and through the TRB, PNCC (Franchisee) and MNTC (Concessionaire) executed the STOA for the Manila-North Expressway, whereby the ROP granted MNTC the rights, obligations and privileges including the authority to finance, design, construct, operate and maintain the project roads as toll roads (Concession) commencing upon the date the STOA comes into effect until December 31, 2030 or 30 years after the issuance of the TOP for the last completed phase, whichever is earlier, unless further extended pursuant to the STOA.

The PNCC franchise expired on May 1, 2007. Pursuant to the STOA, the ROP issued the necessary TOC for the NLE in order to allow the continuation of the Concession. The Company pays a certain amount to PNCC in consideration for the assignment of its franchise in favor of MNTC. MNTC continues to pay the same fee with the issuance of the TOC.

Also, under the STOA, MNTC shall pay for Grantor's project overhead expenses based on certain percentages of total construction costs or of periodic maintenance works on the project roads.

Upon expiry of the service concession period, MNTC shall hand-over the project roads to the Grantor without cost, free from any and all liens and encumbrances and fully operational and in good working condition, including any and all existing land required, works, toll road facilities and equipment found therein directly related to and in connection with the operation of the toll road facilities.

As discussed in Note 3, in October 2008, the TRB approved MNTC's proposal to extend the service concession term for Phase 1 and Segment 8.1 of the Project until December 31, 2037, subject to certain conditions.

15. Property and Equipment

This account consists of:

Decem	her	31	2008

		Acquisition			Discontinued	
	December 31,	of		Disposals/	Operation	December 31,
	2007	Subsidiaries	Additions	Reclassification	(see Note 6)	2008
			(In Th	ousands)		
Cost:						
Land	₱70,115	₱–	₱2,317	(₱216)	(₱72,216)	₽-
Land improvements	16,471	-	-	_	(16,471)	-
Leasehold improvements	2,716	-	-	_	-	2,716
Building and building improvements	119,745	89,096	30,856	(100)	(143,677)	95,920
Office and other equipment,						
furniture and fixtures	147,622	144,855	95,766	(15,073)	(169,992)	203,178
Transportation equipment	65,885	137,328	55,506	(5,557)	(53,275)	199,887
Instruments, tools and other equipment	-	163,098	59,548	(2,870)	-	219,776
	422,554	534,377	243,993	(23,816)	(455,631)	721,477
Accumulated depreciation:						
Land improvements	658	-	659	-	(1,317)	_
Leasehold improvements	831	-	939	-	_	1,770
Building and building improvements	46,552	-	9,413	(81)	(55,041)	843
Office and other equipment, furniture and fixtures	77,871	-	51,154	(709)	(101,602)	26,714
Transportation equipment	42,305	-	32,887	(2,864)	(48,195)	24,133
Instruments, tools and other equipment	-	-	25,420	-	_	25,420
	168,217	-	120,472	(3,654)	(206,155)	78,880
	254,337	534,377	123,521	(20,162)	(249,476)	642,597
Construction in progress	4,567	=	658	=	(5,225)	_
	₱258,904	₱534,377	₱124,179	(₱20,162)	(P 254,701)	₱642,597

Decem	ber	31,	2007

			Disposals/	
	December 31,		Reclassifications	December 31,
	2006	Additions		2007
		(In Th	ousands)	
Cost:				
Land	₱70,115	₽-	₽-	₱70,115
Land improvements	16,471	-	-	16,471
Leasehold improvements	3,979	2,717	(3,980)	2,716
Building and building improvements	115,753	3,769	223	119,745
Office and other equipment, furniture and fixtures	108,176	41,806	(2,360)	147,622
Transportation equipment	51,005	23,541	(8,661)	65,885
	365,499	71,833	(14,778)	422,554
Accumulated depreciation:				
Land improvements	658	_	-	658
Leasehold improvements	2,022	831	(2,022)	831
Building and building improvements	42,653	3,899	-	46,552
Office and other equipment, furniture and fixtures	54,639	24,165	(933)	77,871
Transportation equipment	41,965	4,789	(4,449)	42,305
	141,937	33,684	(7,404)	168,217
	223,562	38,149	(7,374)	254,337
Construction in progress	4,267	300	-	4,567
	₱227,829	₱38,449	(₱7,374)	₱258,904

Property and equipment classified under discontinued operation is provided with an allowance for impairment amounting to \$\mathbb{P}\$120.2 million for the year ended December 31, 2008 (see Notes 6 and 33).

Depreciation is computed on a straight-line basis over the following estimated useful lives of property and equipment:

Land improvements	5 years
Leasehold improvements	2–5 years
Building and building improvements	5–50 years
Office and other equipment, furniture and fixtures	2–5 years
Transportation equipment	2–5 years
Instruments, tools and other equipment	5 years

As further discussed in Note 23, all existing and future assets of FPII are mortgaged in favor of the lenders in line with the requirements of the Mortgage Assignment and Pledge Agreement known as the Master Security Agreement (MSA).

16. Investment Properties

Details of the account are as follows:

December 31, 2008

				Discontinued	
	December 31,			Operation	December 31,
	2007	Additions	Disposals	(see Note 6)	2008
			(In Thousands)		
Cost of investment properties	₱53,939	₱–	₱44,125	₱9,814	₽-
Accumulated depreciation	9,945	3,241	11,641	1,545	_
	43,994	(3,241)	32,484	8,269	-
Allowance for impairment (see Note 33)	1,390	3,245	_	4,635	-
	₱42.604	(₱6,486)	₱32,484	₱3.634	₽-

December 31, 2007			
	December 31,		December 31,
	2006	Additions	2007
		(In Thousands)	
Cost of investment properties	₱3,939	₱–	₱53,939
Accumulated depreciation	7,845	2,100	9,945
	46,094	(2,100)	43,994
Allowance for impairment	1,390	-	1,390
	₱44,704	(₱2,100)	P 42,604

Investment properties consist of condominium units and parking lots being held by the Company under operating leases to earn rentals.

Rent income amounting to P4.6 million, P11.9 million and P11.6 million were recognized for the years ended December 31, 2008, 2007 and 2006, respectively. Direct operating expenses related to investment properties that earned rental income amounted to P4.3 million, P2.9 million and P2.7 million for the years ended December 31, 2008, 2007 and 2006, respectively. Rent income and direct operating expenses are shown as part of "Income (loss) from discontinued operation, net of tax" account in the consolidated statement of income (see Note 6).

The estimated fair values of the condominium units amounted to \$\mathbb{P}\$155.9 million as of December 31, 2007, which were based on the prevailing prices of the condominium units. The investment properties are depreciated on a straight-line basis over a period of 20 years.

17. Long-term Receivables

In 2007, this account consists of:

	Amount
	(In Thousands)
Noncurrent portion of ICR (see Notes 8 and 25)	₱448,537
Notes receivable (see Note 25)	149,269
Accrued interests receivable (see Note 25)	124,901
	₱722,707

Notes receivable pertains to receivables from a certain landowner and related parties obtained for use in the projects. In 2008, long-term receivables amounting to P71.6 million, net of allowance for doubtful accounts of P63.9 million, are presented under "Assets of disposal group classified as held for sale" account in the consolidated balance sheet (see Notes 6 and 33).

18. Other Noncurrent Assets

This account consists of:

	2008	2007
		(In Thousands)
Input VAT (see Notes 3 and 34)	₱1,497,265	₱–
Miscellaneous deposits	66,807	_
Software cost - net of accumulated amortization of P 12,000	16,320	_
Restricted cash	_	33,740
Others	31,069	78,750
	₱1,611,461	₱112,490

Miscellaneous deposits mainly represent rental deposits and deposits for restoration works.

19. Notes Payable

As of December 31, 2007, this account consists of:

	Amount
	(In Thousands)
Secured	₱255,584
Unsecured	379,524
	₱635,108

Secured short-term loans with local banks bear an average annual interest rates ranging from 7.9% to 15.5% for the year ended December 31, 2007. These loans were secured by certain receivables (see Note 8).

Unsecured short-term loans represent loans from local banks, a contractor and a related party. The loans bear an average annual interest rate of 13.6% in 2007.

In 2008, unsecured notes payable amounting to ₱343.7 million were settled through cash and various asset-for-debt exchanges resulting in a gain on debt settlement of ₱173.0 million, included under "Other income" account in the consolidated statement of income (see Note 33).

The remaining balance of notes payable as of December 31, 2008 amounting to P294.7 million, is presented under "Liabilities directly associated with the assets classified as held for sale" account in the consolidated balance sheet as follows: (a) notes payable for P257.1 million and (b) long-term debt for P37.6 million (see Note 6).

20. Accounts Payable and Other Current Liabilities

This account consists of:

	2008	2007
		(In Thousands)
Accrued expenses	₱2,213,846	₱619,414
Accrued construction costs	1,912,797	_
Trade payables	746,310	_
Interest and other financing charges payable	782,313	322,413
Retention payable	509,333	78,657
Withholding taxes payable	68,918	3,637
Output taxes payable	57,318	87,703
Accounts payable	33,005	832,052
Dividends payable	28,588	54,354
Unearned rental income and other deposits	3,860	3,561
Customers' deposits	-	580,457
Maintenance Care Fund (MCF) liability	-	94,313
Subscriptions payable	-	89,591
Others	75,884	206,986
	₱6,432,172	₱2,973,138

Accrued expenses mainly consist of accruals of salaries, wages and benefits, contracted services other than from construction and taxes.

 $\label{lem:constructions} Accrued constructions costs \ represent \ unbilled \ construction \ costs \ from \ contractors.$

Trade payable includes unpaid billings of creditors, suppliers and contractors. Accounts payable in 2007 includes the excess of collections over the recognized receivables and billings of various contractors and other liabilities incurred in relation to project developments. These liabilities are noninterest-bearing and are normally settled within one year from the balance sheet dates.

Retention payable is the amount withheld (equal to 10% of the contract price) by the Company until the completion of the construction.

Customers' deposits in 2007 mainly include collections received from buyers which have not met the revenue recognition criteria.

The MCF liability in 2007 pertains to amounts received from buyers of certain memorial lots. The MCF is a separate fund set up on behalf of the purchasers of the memorial lots for the care and maintenance of the lots.

Others include liabilities to Bases Conversion Development Authority (BCDA) in relation to a Project Agreement between MPC and BCDA executed in prior years for the construction of a two-tower luxury residential condominium project known as the "Pacific Plaza Towers" and various non-trade payables. In 2007, balance also include liabilities to certain local banks and financial institutions amounting to ₱151.8 million resulting from the assignment of the Company's share in the net proceeds from the sale of certain lots in a real estate project in San Pedro, Laguna and certain ICRs. The balance is being reduced by the amount of collection from customers.

21. Provisions

Movements in this account follow:

December 31, 2008

		Heavy	
	Warranties	Maintenance	
	and Guarantees	and Others	Total
		(In Thousands)	
Balance at the beginning of year	₱461,476	₱_	₱461,476
Acquisition of a subsidiary (see Note 4)	=	166,860	166,860
Additions (see Note 33)	=	66,668	66,668
Payments	_	(18,130)	(18,130)
	461,476	215,398	676,874
Less current portion	461,476	45,123	506,599
	₱–	₱170,275	₱170,275

December 31, 2007

	Warranties
	and Guarantees
	(In Thousands)
Balance at the beginning of year	₱433,229
Additions (see Note 33)	102,688
Payments	(25,156)
Reversals	(49,285)
	461,476
Less current portion	461,476
	₱–

Provisions mainly consist of estimated expenses related to the concluded and ongoing debt settlement negotiations and certain warranties and guarantees extended by MPC in relation to debt for asset swap arrangements entered in prior years. Certain warranties and guarantees are secured by PPT condominium units and BLC shares (see Notes 9 and 10). Some of these claims and warranties expired and were cancelled in 2007 and therefore the related provisions were reversed.

Provision for heavy maintenance pertains to the contractual obligations of FPII to restore the service concession assets to a specified level of serviceability. FPII recognizes provision as the obligation arises which is a consequence of the use of the roads and therefore it is proportional to the number of vehicles using the road and increasing in measurable annual increments.

Other provisions consist of estimated liabilities for certain fees under the STOA and Operation and Maintenance Agreement entered into by FPII.

22. Service Concession Fees Payable

The concession fees payable are denominated in various currencies and payable monthly following an amortization table up to the end of concession period and is non-interest bearing. Concession fee payments were used to settle the debt of the Philippine Government in relation to loans obtained to construct the facilities of Maynilad.

As of December 31, 2008, current and non-current portion of concession fees payable amounted to P974.5 million and P6,620.7 million, respectively.

The schedule of undiscounted estimated future concession fee payments follows:

	In Original Currency		
	Foreign	Peso Loans/	
	Currency Loans	Project Local	Total Peso
Year	(Translated to US\$)	Support	Equivalent*
		(In Millions)	
2009	\$30.0	P 2.4	P 1,425.6
2010	24.5	1.6	1,164.2
2011	22.9	1.5	1,088.2
2012	19.6	1.2	931.4
2013-2022	92.4	5.6	4,390.8
	\$189.4	P 12.3	P 9,000.2

^{*} Peso equivalent translated using the December 31, 2008 exchange rate of ₱47.52:US\$1.



23. Long-term Debts

This account consists of

This account consists of:		De	cember 31, 2008		
		Convertible	CC1115C1 51/2000		
		Preferred	Long-term	Convertible	
	Loans	Shares	Bonds	Notes	Total
			(In Thousands)		
MPIC	₱6,750,000	₽_	₽_	₽-	₱6,750,000
DMWC and subsidiary Maynilad	16,894,638				16,894,638
FPII and subsidiary MNTC	8,974,990	_	_	_	8,974,990
MPC	0,574,550	57,267	14,731	37,231	109,229
Landco	1,273,466	37,207	14,731	37,231	1,273,466
Latituco	33,893,094	57,267	14,731	27 221	34,002,323
Local and an deleting and an alice discontinu	33,093,094	57,207	14,/31	37,231	34,002,323
Less Landco debt presented under "Liabilities directly	4 272 466				4 272 466
associated with assets classified as held for sale" (see Note 6)	1,273,466		-	-	1,273,466
	32,619,628	57,267	14,731	37,231	32,728,857
Less unamortized debt issue costs	522,751				522,751
	32,096,877	57,267	14,731	37,231	32,206,106
Less current portion of long-term debt – net of					
unamortized debt issue costs of P 8.5 million	742,651	57,267	14,731	37,231	851,880
	₱31,354,226	₱–	₽-	₽-	₱31,354,226
		De	cember 31, 2007		
		Convertible			
		Preferred	Long-term	Convertible	
	Loans	Shares	Bonds	Notes	Total
			(In Thousands)		
MPIC	₽_	₱_	₱_	₱3,444,739	₱3,444,739
MPC.		57,267	12,797	37,231	107,295
Landco	795,203	57,207	12,7 57	57,251	795,203
Landeo	795,203	57,267	12,797	3,481,970	4,347,237
Loss current portion	386,178	57,267	12,797	3,481,970	3,938,212
Less current portion	₱409.025	77,207	12,/ 5/	<u>5,401,970</u> ₱_	₱409,025
	P409,023	r-	r-	r-	P409,023
The movements in debt issue are as follows:					
The movements in debt issue are as follows:					2000
					2008
					(In Thousands)
Balance at beginning of year					₱536,781
Amortization during the year charged to interest expense (see Note 32)					(14,030)
Balance at end of year					₱522,751
Repayment schedule of the long-term debts follow:					
Year				2008	2007
				(In	Thousands)
Current				₱860,381	₱3,938,212
2010				730,843	213,932
2011				7,861,377	86,050
2012 and onwards				23,276,256	109,043
				., -,	, 5 15

MPIC

Loans. On November 4, 2008, MPIC entered into an Omnibus Notes Facility and Security Agreement (the MPIC Omnibus Agreement) with a certain local bank for a \$\frac{9}6.8\$ billion note (the Note) for the purpose of partially financing its acquisition of FPII common shares. The note bears a fixed interest rate equivalent to a 10-year Philippine Dealing System Treasury-Fixing (PDST-F) interest prevailing on one banking day prior to November 13, 2008 (Issue Date) plus applicable margin of 1.75% or such rate not exceeding 2.25% per annum, as agreed between the parties, subject to a floor of nine percent (9%) per annum. Interest shall be paid semi-annually commencing on the Issue Date. The Note is payable in twenty (20) consecutive semi-annual installments to commence at the end of the 9th month after Issue Date. After four (4) years from the Issue Date, MPIC may redeem in whole or in part the Note on any interest payment date falling thereafter.

All legal and professional fees incurred in relation to the debt totaling P85.0 million were recognized as debt issue costs and amortized using the effective interest method. Amortization of debt issuance costs, amounting to P1.1 million is presented as part of "Interest expense" account in the consolidated statement of income for the year ended December 31, 2008 (see Note 32).

As a continuing security for the due and punctual payment and performance of the Note, MPIC pledged the acquired FPII shares (see Note 4).

The MPIC Omnibus Agreement also provides for the maintenance of a Debt Service Account from the Issue Date until payment in full of all amounts due to the lenders for the purpose of holding funds on reserve to service MPIC's payments of the Notes. The Debt Service Account amounting to \$\infty\$65.3 million as of December 31, 2008, is presented as part of "Other current assets" account in the consolidated balance sheet (see Note 11).

Moreover, the MPIC Omnibus Agreement requires MPIC to ensure during the terms of the Notes that its debt-to-equity ratio does not exceed 70:30, and its debt service coverage ratio is at a minimum of 1.3x. As of December 31, 2008, MPIC is in compliance with the required financial ratios.

As of December 31, 2008, MPIC's current and noncurrent portion of the outstanding loans amounted to P25.2 million and P6,640.8 million, respectively.

Convertible Notes from MPHI and Inframetro Holdings Pte. Ltd. (Inframetro). On January 8 and May 16, 2007, the Parent Company availed of US dollar-denominated loans (Dollar Loans) amounting to \$61.9 million (Tranche 1) and \$15.9 million (Tranche 2) from MPHI and Ashmore [Global Special Situations Fund Limited, Ashmore Global Special Situations Fund 2 Limited, Ashmore Global Special Situations Fund 3 Limited, Asset Holder PCC No. 2 Limited in Respect of Ashmore Asian Recovery Fund and EMDCD Ltd. (collectively referred to as Ashmore)], respectively, or for an aggregate amount of ₱3,765.2 million to finance the Company's investments in Maynilad and MDI. The Dollar Loans carry a conversion option by written notice by the lenders to the Company to convert all or part of the principal amount of the Dollar Loans to equity at ₱1/share.

Interest on Dollar Loans is floating (LIBOR plus 300 basis points), payable in 12 months from date of grant. The Company shall pay interest on the outstanding Dollar Loans, unless the lenders convert the loans into shares the Company's share. The interest shall continue to accrue on any remaining balance on the Dollar Loans after the conversion into shares and shall continue to apply until such time as all of the Dollar Loans have been converted into shares. The Dollar Loan's principal and interest will mature on January 8, 2008 and May 16, 2008, respectively, if no conversion happens.

The conversion option of the Dollar Loans was separately accounted for as an embedded derivative. The day 1 loss related to the convertible note from MPHI amounting to P286.1 million was recognized directly under "Other reserves" account in the equity section of the 2007 consolidated balance sheet and consolidated statement of changes in equity. The day 1 loss amounting to P305.1 million related to the Ashmore loan was recognized under "Other expense" account in the 2007 consolidated statement of income (see Note 33). The Dollar Loans were recorded at present value and interests were recognized using the effective interest method. Interest expense representing the accretion of the Dollar Loans amounted to P12.6 million and P3,211.5 million in 2008 and 2007, respectively (see Note 32).

Interest payable and derivative liability amounted to ₱245.2 million and ₱3,222.8 million as of December 31, 2007. These were subsequently extinguished upon the issuance of the Peso-denominated loans as further discussed below. Mark to market gain related to the derivative liability amounting to ₱1,065.7 million was presented under "Other income" account in the consolidated statement of income for the year ended December 31, 2007 (see Note 33).

In 2007, Ashmore conveyed to Inframetro their rights, title, interests and obligations in and to the Dollar Loans as if Inframetro was named a party in the Dollar Loans agreement.

On December 31, 2007, the Company replaced the Dollar Loans with Peso-denominated loans (Peso Loans) amounting to ₱2,766.4 million (Tranche 1) and ₱691.0 million (Tranche 2). Upon and conditional on such issuance, the Dollar Loans shall be surrendered to, and cancelled by the Company and all obligations of the Company under the Dollar Loans shall be discharged and become obligations under the Peso Loans, however, all accrued rights of MPHI and Inframetro against the Company are not discharged.

The Peso Loans pay interest based on PDST-F benchmark rate plus 3.0%. The interest shall continue to accrue on any remaining balance on the loans after the conversion into shares and shall continue to apply until such time all of the loans have been converted into shares. The Peso Loans will matured in February 28, 2008 and May 26, 2008

The Peso Loans also carry a conversion option by written notice by the lenders to the Company to convert all or part of the principal amount of the Peso Loans into equity at \$\P\$1.08236 (Tranche 1) and \$\P\$1.05286 (Tranche 2) per share. However, throughout 2007, MPHI and Inframetro had already been in discussion to find resolution to the Dollar Loans agreement that it had signed with the Company. As mentioned under the Dollar Loans agreement, Company had granted MPHI and Inframetro the right to convert its loans to Company to common shares of the Company. Additionally, MPHI and Inframetro, gave each other the right to force the conversion of the other party's loan into equity in the Company should one of them decide to convert its loan.

Pursuant to an agreement effective December 31, 2007, MPHI and Inframetro, agreed on the following: (a) for Inframetro to waive its right to convert its portion of the Tranche 1 Peso Loans, and; (b) for MPHI and Inframetro to waive each of their right to force conversion of the Peso Loans.

On both the Dollar and Peso Loans, the Company may prepay the loans in full or in part, without premium or penalty, at anytime during the term of the loans. The Company may not prepay the loans in full or in part to defeat the conversion option of the lenders. In any case, the lender's exercise of their option shall override any notice of prepayment by the Company.

The exchange of the Peso Loans against the Dollar Loans, after considering the waiver of a portion of the option, resulted in a net gain of ₱1,054.0 million, representing the difference of the gain on extinguishment of ₱2,945.0 million on the Dollar Loan and the loss on recognition of ₱1,891.0 million on the Peso Loans (see Note 33). The value of the conversion option of ₱1,903.6 million embedded in the Peso Loan was recognized directly in equity and included under "Other reserves" account in the consolidated balance sheet and consolidated statement of changes in equity (see Note 26).

On March 3, 2008, a Deed of Assignment was executed between MPHI and Inframetro where the latter assigns to the former its right over Inframetro's Tranche 2 loan amounting to \$\textstyle{258.4}\$ million. On the same date, MPHI issued a Notice of Conversion signifying its intention to convert to equity Tranche 1 and Tranche 2 loans amounting to \$\textstyle{1,338.9}\$ million and \$\textstyle{243.6}\$ million, respectively. Further, MPHI also intended to convert to equity the assigned Inframetro Tranche 2 loan amounting to \$\textstyle{258.4}\$ million. Upon issuance of the shares, MPHI confirmed that MPIC is deemed to have fully repaid the loans with all interests and other charges thereon waived.

On June 27, 2008, MPIC and Inframetro agreed that the Inframetro Tranche 1 loan of ₱1,427.5 million shall be paid and settled in the equivalent amount of \$32.1 million at fixed exchange rate of ₱44.45. Only upon the date of receipt by Inframetro of the payment did Inframetro render its quittance, discharge, release in full of the entire obligation of MPIC and waived any and all accrued interests on the loan, without necessity for the execution of any other document. Eventually on July 7, 2008, Inframetro

Tranche 1 loan was paid in cash.

On August 31, 2008, all the convertible notes issued to MPHI mentioned above were converted to 1,893,282,845 common shares of MPIC (see Note 26).

DMWC

Loans. On June 30, 2008, Maynilad entered into an Omnibus Notes Facility and Security Agreement (the Maynilad Omnibus Agreement) with certain local banks (Noteholders) for US\$365.0 million notes ("the Notes") for the purpose of financing the capital expenditures and payment of advances from shareholders. The Notes comprise Series 1 amounting to US\$125.0 million and Series 2 amounting to US\$125.0 million. Series 1 is a peso-denominated loan which consists of US\$120.0 million fixed-rate note and US\$120.0 million floating-rate note. Series 2 is a US\$125.0 million floating-rate dollar-denominated note.

Series 1 fixed-rate note bears interest of fixed benchmark rate plus 2.0% spread per annum and is payable within ten (10) years to commence at the end of the 36th month after the initial issue date. Series 1 floating-rate note bears interest of floating benchmark rate plus 2.0% spread per annum and is payable within ten (10) years to commence at the end of the 36th month after the initial issue date.

Series 2 floating-rate note bears interest of LIBOR and Credit Default Swap (CDS) rate plus 2.0% spread per annum and is payable within ten (10) years to commence at the end of the 36th month after the initial issue date.

All legal, professional and registration fees incurred in relation to the availment of the Notes, totaling \$\frac{9}{2}\$1.8 million, were recognized as debt issue costs starting July 2008. Debt issue costs are amortized using the effective interest method. Amortization of debt issue costs amounting to \$\frac{9}{2}\$12.9 million is presented as part of "Interest expense" account in the 2008 consolidated statement of income (see Note 32).

As of December 31, 2008, DMWC noncurrent loans amounted to ₱16,455.8 million.

FPII and Subsidiary MNTC

Loans consist of:

	Amount
	(In Thousands)
Fixed Rate Corporate Notes (FXCN)	₱5,566,888
Asian Development Bank (ADB) Loan	1,288,980
USD Bank Facility (USD) Loan	1,061,038
Export Finance and Insurance Corporation (EFIC) Loan	522,269
Calyon S.A. Corporate and Investment Bank (COFACE) Loan	535,815
	8,974,990
Less current portion	717,401
	₱8 257 589

In 2001, MNTC entered into a Common Terms Agreement (CTA) with the lenders, the security trustee, the co-security trustee and inter-creditor agent. The CTA specifies the mechanics on the funding under the term facilities, payment and prepayments, as well as the conditions precedent to drawdown set forth by the secured lenders. The CTA also contains covenants concerning restrictions with respect to, among others, waiver, modification, amendment or assignment of the key project agreements, hedge agreements, restricted payments, and the maximum debt-to-base equity ratio and the level of the debt-service-coverage ratio. Total financing facility availed by MNTC in 2001 under the original CTA amounted to US\$252.2 million.

The loans were granted under a limited-recourse project finance structure. All existing and future assets of MNTC are mortgaged in favor of the lenders in line with the requirements of the Mortgage, Assignment and Pledge Agreement, known as the MSA. In addition, FPIDC and Egis provided completion support as agreed under the Sponsor Support Agreement (SSA).

On November 8, 2006, MNTC refinanced its outstanding loans through partial prepayment and restructuring of MNTC's US Dollar-denominated long-term debt using the proceeds of a P5.5 billion FXCN issue. The refinanced debt package consisted of a total of US\$100 million in USD term loan facilities participated in by majority of the original project lenders and a P5.5 billion FXCN issue participated in by sixteen (16) qualified local institutional investors (Issuer).

The aggregate USD term loan facilities consist of direct loan facilities from multi-lateral and bi-lateral institutions like ADB and EFIC and syndicated facilities, including a covered loan from COFACE, the French export credit agency, participated in by a mix of four (4) foreign commercial banks. The loans are payable in 16 equal semi-annual installments starting December 15, 2006 up to June 15, 2014, the original maturity date.

The FXCNs are payable within seven years from issue date under a bullet-like structure, i.e., 94% of the principal is payable on maturity date (November 17, 2013) while the balance of 6% is payable over the term of the notes in minimal annual installments. The simultaneous prepayment and drawdown on refinancing date (November 17, 2006) was facilitated through a US\$96 million Conversion Bridge Facility (Bridge Loan) provided by Mizuho Corporate Bank, Ltd. (Singapore). This was a cash-secured temporary dollar facility backed by the FXCN proceeds that allowed the Company to obtain the necessary dollars for the lum P sum prepayment on refinancing date. The Bridge Loan was fully paid on December 5, 2006. Under the Notes Purchase Agreement (NPA) covering the FXCN, the Issuer may at its option redeem the notes prior to the maturity date in whole but not in part, subject to the terms and conditions of the NPA.

Interest rates on direct facilities, consisted of fixed rates ranging from 8.03% to 8.25% in 2008. Interest rates on syndicated facilities, consisted of fixed and floating rates, ranging from 5.94% to 7.83% in 2008.

In connection with the refinancing, the CTA, MSA and other loan agreements were amended to reflect the revised covenants and security package covering all MNTC's debt on a parri-passu basis. The major amendments were: the removal of pledge of shares and other forms of sponsor support in the security package; the release of trapped cash in the form of maintenance reserves, the principal portion of the debt reserve, and undrawn base equity contributions; the reduction of assigned contracts; the removal of assignment of operator assets and contracts as well as PNCC rights under certain contracts, and the reduced approval rights of lenders and lenders' advisors.

Certain agreements like the SSA were terminated and the sponsor guarantees along with other elements of the original security package were released effective November 17, 2006.

Assets issued as remaining security for the outstanding loans are embodied in the following agreements:

- a. Trust and Retention Agreement (TRA) with the secured lenders' designated trustees and the inter-creditor agent. The TRA provides for the establishment and regulation of the security accounts and the security account collateral where the inflows and outflows of project revenues may be monitored. The security accounts form part of "Cash and cash equivalents" account in the consolidated balance sheets.
- b. The MSA which grants to the trustees, on behalf of the secured lenders, the security interest in MNTC's various assets. The MSA provides for the establishment of real estate mortgage and chattel mortgage as well as the assignment of key project agreements, insurances, and bank accounts in favor of the co-security trustee for the benefit of the secured lenders.

As of December 31, 2008, MNTC is in compliance with the required financial ratios and other loan covenants.

MPC

Convertible Preferred Shares Restructured into Term Loan. On July 23, 1999, MPC issued convertible preferred shares at a subscription price of ₱7,000 per share or an aggregate subscription price of ₱720.0 million. The shares carried a dividend rate of 10.0% per annum, with a premium to be paid on redemption that will equate to a cumulative yield over the full term of 15.0% per annum. The shares were also redeemable after three years, with conversions permitted throughout the period based at a conversion price of ₱2.25 per share, representing a premium of 12.5% over the prevailing market price. MPC accrued and paid dividends of ₱72.0 million on the shares up to December 31, 2001, but was unable to meet obligations from January 1, 2002 onwards. Consequently, the preferred shareholders opted to exercise its put option and demanded redemption of the shares, thereby warranting the reclassification of the portion of the equity represented by the preferred shares into debt in July 2002.

In various dates in 2008 and 2007, a total of \$\frac{9}{462.8}\$ million of shares due from redemption were settled via asset-for-debt exchange of PPT condominium units, CCEI shares and certain Landco properties. Out of the \$\frac{9}{20.0}\$ million convertible preferred shares, \$\frac{9}{200.0}\$ million were restructured into term loans.

As of December 31, 2008 and 2007 and ₱57.3 million, remains outstanding and forms part of "Current portion of long-term debts" account in the consolidated balance sheets.

Long-term Bonds. These long-term bonds were issued by Metro Pacific Company Limited (MPCL), a subsidiary, on April 11, 1996. The bonds are guaranteed by MPC, are unsecured and bear a fixed interest rate of 2.5% per annum payable annually in arrears. The bonds can be converted into common shares of MPC from June 11, 1996 to March 28, 2003 at a conversion price of ₱5.08 per share adjusted for the stock dividend in 1997 of 33.0%, and based on a fixed rate of exchange of ₱26.19 = US\$1.00.

The bondholders have the option to have the bonds redeemed in whole or in part on April 11, 2001 at 128.9% of their principal amount, together with accrued interest. Through January 2001, a subsidiary bought back from the market about US\$12.2 million of the outstanding principal amount at an average unit price of 120.0% of the face value of the bond for a total purchase price of US\$14.7 million including premium and accrued interest. As at the redemption date on April 28, 2001, bondholders of US\$66.3 million of the total US\$66.6 million outstanding bonds opted for redemption and were paid a total of US\$87.1 million including interest and premium.

As the guarantor, MPC assumed the balance of US\$0.3 million following MPCL's default in payment. The balance as of December 31, 2008 remains at US\$0.3 million (P14.7 million and P12.8 million as of December 31, 2008 and 2007, respectively).

Convertible Notes. Convertible notes represent the unsettled balance of three-year convertible notes issued by MPC at par in 1999 with an aggregate value of P1.514.0 million.

The notes bear interest at the rate of 9.5% per annum, payable semi-annually in arrears, with a premium on redemption to provide for a yield of 12.0% per annum. The notes are convertible into common shares of MPC at a price of \$\mathbb{P}\$2.25 per share. The notes were issued to the creditors of Nenaco in order to refinance the latter's obligations that matured on September 30, 2002.

Prior to their maturity dates in 2002, negotiations for settlement of the notes were initiated and resulted in the restructuring of P744.0 million into a five-year to ten-year loan, bearing annual interest based on the 91-day Treasury Bill rate plus spread of 3.0%, and the settlement through dacion of property with carrying value of P193.0 million. Between 2003 and 2006, the debts were partially settled primarily via dacion of the Company's and Landco's certain assets.

As of December 31, 2008 and 2007, convertible notes amounting to \$\overline{P}\$37.2 million remains outstanding

<u>Landco</u>

Loans consist of the following:

- a. Loan from ABH with a balance of \$\text{P63.7}\$ million and \$\text{P101.8}\$ million as of December 31, 2008 and 2007, respectively, payable in seven years with a 24-month grace period on principal payments. Interest is equivalent to PDST-F (one year) plus 3.5%, plus applicable gross receipts tax reviewable every year and payable monthly in arrears, principal payable in 61 monthly amortizations starting August 7, 2006. This loan is collateralized by various farm lots with an area of 164,612 square meters located in Lemery, Batangas with a carrying value of P 96.4 million and \$\text{P128.7}\$ million as of December 31, 2008 and 2007, respectively. The loan covenant contains restrictions with respect to, among others, sale or transfer of substantial portion of assets and a maximum debt-to-base equity ratio.
- b. Loan from Allied Bank with a balance of P26.7 million as of December 31, 2008 and 2007, respectively, payable in two years and subject to interest of 7.9% per annum. The loan is secured by money market placements owned by FLDI with a carrying value of P31.8 million and P26.7 million as of December 31, 2008 and 2007, respectively.

- c. Loan from Wealth Development Bank with a balance of \$\frac{p}\$46.7 million and \$\frac{p}\$4.4 million as of December 31, 2008 and 2007, respectively, payable in five years until August 29, 2013 and subject to interest of 11.0% per annum. The loan is secured by the assignment of Landco's receivables with a carrying value of \$\frac{p}\$46.7 million as of December 31, 2008 and by certain lots in Legazpi City with a carrying value of \$\frac{p}\$7.6 million as of December 31, 2007 (see Notes 8 and 9).
- d. Loan from Bank of Commerce with a balance of ₱267.7 million and ₱3.4 million as of December 31, 2008 and 2007, respectively, payable in 3 years until 2011 and subject to interest rate of 14.0% per annum. The loan is secured by assignment of certain ICRs of Landco Pacific Corporation (LPC) Parent Company with a carrying value of ₱266.7 million as of December 31, 2008 and certain lots in Legazpi City with a carrying value of ₱9.4 million as of December 31, 2008 and 2007.
- e. Loans from Malayan Bank with a balance of \$\overline{9}66.6\$ million and \$\overline{2}4.4\$ million as of December 31, 2008 and 2007, respectively, which bear annual interest at a rate from 10.0% to 15.5% per annum. These loans, which are payable over one to five years, are secured by assignment of certain ICRs of LPC Parent Company and FLC.
- f. Loan from Union Bank with a balance of ₱441.7 million and ₱539.5 million as of December 31, 2008 and 2007, respectively, payable in 12 to 72 monthly equal amortizations until 2013 and subject to interest from 9.0% to 10.3% per annum. The loans are secured by assignment of the LPC's ICRs amounting to ₱428.1 million as of December 31, 2008 and 2007, respectively, by a bank account of FLC amounting to ₱13.6 million as of December 31, 2008, and by certain lots owned by Genvi-Agro Industrial, a landowner, with a carrying value of ₱100.0 million as of December 31, 2007 (see Note 8).
- g. Loan from Asiatrust Bank with a balance of ₱5.3 million and ₱10.0 million as of December 31, 2008 and 2007, respectively, payable monthly until May 28, 2011 and subject to interest of 14.74% per annum. The loan is secured by certain lots located in Laurel, Batangas owned by Tagaytay Grassland Company, Inc. with a carrying value of ₱17.2 million and ₱20.4 million as of December 31, 2008 and 2007 (see Note 9).
- h. Loans from China Bank with a balance of ₱19.8 million and ₱58.1 million as of December 31, 2008, and 2007, respectively, payable over one to three years until 2011 and subject to 6.5% to 9.5% interest per annum with annual repricing based on the bank's Contract To Sell (CTS) rate. The loans are secured by assignment of certain ICRs of LPC Parent Company (see Note 8).
- i. Loan from Philippine National Bank with a balance of \$\frac{2}{2}.25\$ million as of December 31, 2008, payable over three to five years until December 29, 2011 and subject to interest of 8.0% per annum. The loans are secured by assignment of certain ICRs of LPC Parent Company and certain subsidiaries with carrying value of \$\frac{2}{2}.25\$ million as of December 31, 2008 (see Note 8).
- j. Loan from Landbank of the Philippines with a balance of \$\int 0.5\$ million and \$\int 1.9\$ million as of December 31, 2008 and 2007, respectively, payable in 48 monthly equal amortizations. Interest rate is at 91-day T-bill plus spread of 4.0% per annum. The loan is secured by 100 Canyon Woods club shares with a carrying value of \$\int 12.0\$ million as of December 31, 2008 and 2007 (see Note 10).
- k. Loan from MCF of certain related parties amounting to \$\mathbb{P}\$25.0 million as of December 31, 2007. The loan, which bears an annual interest rate of 15.0%, is payable over a period of three years.
- I. Loan from NE Inc. amounting to \$13.3 million as of December 31, 2008. The proceeds of the loan were used to finance the development and construction of the Lakewood City Project. Interest due on the loan has been waived by NE Inc. since 2001.

m. Loan from NELCI amounting to \$39.0 million as of December 31, 2008. The loan bears an interest rate of 6.0% per annum.

As of December 31, 2008 and 2007, loans amounted to P1,273.5 million and P795.2 million, respectively. Landco loans as of December 31, 2008 are presented as part of "Liabilities directly associated with assets classified as held for sale" in the consolidated balance sheet.

24. Other long-term liabilities

Other long-term liabilities mainly include (a) contingent liabilities of P2,639.1 million that were recognized pursuant to various Company's acquisitions (see Note 4); (b) customers' guaranty deposits paid by customers for water line connection of P417.1 million; and (c) accrued interest payable to MWSS of P904.1 million.

25. Related Party Transactions

Enterprises and individuals that directly, or indirectly through one or more intermediaries, control, or are controlled by, or under common control with the Company, including holding companies, subsidiaries and fellow subsidiaries are related parties of the Company. Associates and individuals owning, directly or indirectly, an interest in the voting power of the Company that gives them significant influence over the enterprise, key management personnel, including directors and officers of the Company and close members of the family of these individuals and companies associated with these individuals also constitute related parties. In considering each possible related entity relationship, attention is directed to the substance of the relationship, and not merely the legal form.

The Company, in the normal course of business, has transactions with related parties which consist mainly of availment of noninterest-bearing cash advances with no fixed repayment terms.

Metro Pacific Investments Corporation and Subsidiaries NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Outstanding balances of receivable from/payable to related parties are carried in the consolidated balance sheets under the following accounts:

	2008	2007
	(/.	n Thousands)
Trade receivables*	₽-	₱54,315
Notes receivable*	-	49,269
Advances to other affiliates*	-	106,398
Accrued interests receivable*	-	122,670
Due from related parties	354,754	218,974
Dividends payable**	-	27,000
Due to related parties	2,823,555	280,498
Notes payable (see Note 19)	-	50,221
Long-term debts (see Note 23)	-	10,184

^{*} Included under "Receivables" and "Long-term receivables" accounts in the consolidated balance sheet (see Notes 8 and 17).

Composition of amounts due to/from related parties follows:

December 31, 2008

	Amount
	(In Thousands)
Due from related parties:	
TMC	₱347,319
FPC	2,733
Others	4,702
	354,754
Less current portion	32,088
	₱322,666
Due to related parties:	
MPHI	₱2,327,825
TMC	264,070
DMCI	141,692
Smart Communications, Inc. (Smart)	71,786
Philippine Long Distance Telephone Company (PLDT)	7,764
Others	10,418
	₱2,823,555

<u>December 31, 20</u>07

<u>ember 31, 2007</u>	
	Amount
	(In Thousands)
Due from related parties:	
NELCI	₱44,230
LUPI	32,997
PMC	25,124
WLI	19,607
Forest Lake Manila	12,309
DMWC	10,574
Club Punta Fuego	9,149
FLSPI	7,815
Forest Lake General	6,368
Maynilad	4,101
LNERVI	2,247
FPC	3,768
Others	40,685
	₱218,974
Due to related parties:	
Smart	₱71,786
PLDT	6,686
NELCI	81,970
WLI	60,135
FBDC	32,808
LNERVI	5,263
PMC	4,891
Others	16,959
	₱280,498

^{**} Included under "Accounts payable and other current liabilities" account in the consolidated balance sheet (see Note 20).

TMC

Transactions with TMC follow:

- In 2003, MNTC has extended a financing facility to TMC under the Operator Equipment Loan Agreement (OELA) with an aggregate principal amount not exceeding US\$5.0 million for the acquisition of the equipment together with minor items of equipment or plant as may be reasonably required for the performance of the contracted services and for payment of deposits required for utilities. TMC has availed of the entire US\$5.0 million from the facility. Interest rate is at LIBOR plus 1%. The loan shall be due in one lumpsum payment, the loan less the book value of any Operator's Equipment to be returned to MNTC on the last day of the term of the O&M, which is at the end of the service concession period.
- TMC provides services as operator to the NLE under the O&M. The O&M Agreement contains the terms and conditions for the operation and maintenance by TMC of Phase I of the NLE and subsequently, of Segment 7, and sets forth the scope of its services. TMC is assisted by Transroute Philippines, Inc. as service provider in accordance with the Technical Assistance Agreement. Under the O&M Agreement, MNTC pays TMC a minimum fixed annual amount for the NLE and for Segment 7, to be escalated on a quarterly basis plus a variable component. The O&M Agreement also provides for certain bonuses and penalties as described in the O&M Agreement. Total operators' fee recognized by MPIC in the 2008 consolidated statement of income amounted to \$\mathbb{P}\$187.6 million which corresponds to operators fee from November 13, 2008, acquisition date of FPII up to December 31, 2008.
- TMC also pays annual guarantee fee to FPIDC equivalent to 2.5% of the gross value of the corporate guarantee issued by FPIDC. The guarantee was issued in favor of MNTC for the liability of TMC under the O&M agreement. Total guarantee fee recognized by MPIC in the 2008 consolidated statement of income amounted to \$\mathbb{P}\$2.3 million which corresponds to guarantee fees from November 13, 2008, acquisition date of FPII up to December 31, 2008.

DMC

Maynilad entered into construction contracts with DMCI totaling ₱611.6 million in 2008. As of December 31, 2008, unpaid construction contracts amounted to ₱179.6 million.

MPH

Transactions with MPHI mainly relates to advances. The outstanding amount represents advances made to partially finance MPIC's acquisition of FPII common shares and funds given for working capital funding to Landco. Total dollar cash advances received from MPHI in 2008 amounted to \$\mathbb{P}\$2,159.0 million in 2008.

Smart

The balance represents various advances received in prior years for the Company's operations.

PLDT

The balance represents fees payable to PLDT for various administrative assistance extended to the Company. It also includes unpaid rent expense from lease of office space.

Other:

Other transactions with related parties mainly relate to advances to finance various real estate projects as well as intercompany charges for share in certain operating and administrative advances.

Directors' Remuneration

Annual remuneration of the directors amounted to \$1.2 million and \$1.4 million in 2008 and 2007, respectively.

Non-executive directors are entitled to a per diem allowance of \$20 thousand for each attendance in the Parent Company's BOD meetings. The Parent Company's By-Laws provide that an amount equivalent to 1.0% of net profit after tax of the Parent Company shall be allocated and distributed among the directors of the Parent Company who are not officers of the Parent Company or its subsidiaries and affiliates, in such manner as the Board may deem proper. There are no other special arrangements pursuant to which any director will be compensated.

Compensation of Key Management Personnel

Compensation of key management personnel of the Company are as follows:

	2008	2007	2006
		(In Thousands)	
Short-term employee benefits	₱97,195	₱77,274	₱92,028
Retirement costs	1,225	2,239	8,429
Other long-term benefits	338	920	767_
	₱98,758	₱80,433	₱101,224

26. Equity

Details of authorized and issued capital stock follow:

	Number	Number of Shares	
	2008	2007	
Authorized common shares - ₱1 per value	11,950,000,000	4,600,000,000	
Authorized preferred shares - ₱0.01 par value	5,000,000,000	_	
	16,950,000,000	4,600,000,000	
Issued – common shares: Balance at beginning of year Additional subscription of MPIC's majority shareholders Tendered shares of MPC minority shareholders in exchange for MPIC shares Conversion of loan from MPHI to equity (see Note 23)	1,342,918,793 3,791,525,175 - 1,893,282,845	1,198,952,522 - 143,966,271 -	
Balance at end of year	7,027,726,813	1,342,918,793	

Capitalization of MPIC

MPIC was incorporated with original authorized capital stock of 100,000 common shares having par value of P1 per share. On March 27, 2006, the MPIC's BOD approved a resolution to increase its authorized capital stock to 4,600,000,000 common shares with a par value of P1 per share. Such increase in authorized capital stock was approved by the SEC on June 5, 2006.

On October 23, 2006, MPIC purchased from MPHI, MPRI, Intalink B.V., and FPIL (all related parties of MPIC and major shareholders of MPC) 725,160,154 MPC common shares or 76.1% interest. MPIC issued 181,290,038 common shares in exchange for 725,160,154 MPC common shares.

On November 28, 2006, the closing date of the Tender Offer, a total of 195,367,956 MPC shares were tendered equivalent to 48,841,989 MPIC common shares and 146,525,967 MPIC warrants. Out of the total warrants available for conversion, 143,976,804 warrants were converted as of December 31, 2007 and 2,549,163 warrants expired on December 15, 2007.

Authorized Capital Stock

On August 12, 2008, the SEC approved the increased in Parent Company's authorized capital stock to ₱12.0 billion divided into 11.95 billion common shares with a par value of ₱1 per share and 5.0 billion preferred shares with par value of ₱0.01 per share from 4.6 billion common shares at ₱1 par value.

Further on October 9, 2008, the Parent Company's BOD approved the increase in the authorized capital stock of MPIC from ₱12.0 billion to up to ₱21.6 billion divided into 20.0 billion common shares with a par value of ₱1 per share, 5.0 billion Class A preferred shares with a par value of ₱1 per share and 1.5 billion Class B preferred shares with a par value of ₱1 per share. On February 13, 2009, the SEC approved such increase in the Company's authorized capital stock.

Issued Common Stock

On June 30, 2008, the following issuances of shares to MPHI were approved by the Parent Company's BOD:

- 1,568,925,175 common shares at a price of ₱2 per share from the existing unissued capital of MPIC;
- Conversion of ₱2.0 billion MPHI convertible loans to 1,893,282,845 shares (see Note 23); and
- 2,222,600,000 additional common shares at a price of ₱2 per share, following the SEC's approval of the increase in the authorized capital stock of MPIC.

As of December 31, 2008, all of the above mentioned shares have been subscribed/converted and issued. Transaction costs totaling \$\mathbb{P}77.9\$ million directly related to the issuances of new shares were deducted from additional paid-in capital.

Deposits for Future Stock Subscriptions

In addition to the issuances mentioned above, MPHI also subscribed for additional 2,389,040,000 shares of MPIC common shares at P2 per share or a total of P4,778.1 million during the year. Pending the increase in authorized capital stock, the subscription was shown as "Deposits for future stock subscription" in the consolidated balance sheet.

Furthermore, the subscription of LAWL of 791,110,491 common shares of MPIC for ₱2,029.2 million, as discussed in Note 4, was likewise included under the "Deposits for future stock subscription" account in the 2008 consolidated balance sheet.

Other Reserves

This account consists of:

2008	2007_
	(In Thousands)
₱690,386	₱690,386
(286,122)	(286,122)
(99,093)	_
_	14,060
23,882	-
_	1,903,624
₱329,053	₱2,321,948
	P690,386 (286,122) (99,093) - 23,882

27. Minority Interests

Movements in this account are as of December 31 follows:

	2008	2007
		(In Thousands)
Balance at beginning of year	₱965,388	₱751,980
Minority interests arising from business combinations during the year	7,886,327	_
Acquisition of minority interests	(863,141)	_
Share in net income during the year	516,677	234,674
Dividends paid to minority interests	(181,134)	(11,760)
Share in expenses recognized directly in equity	(458,754)	(9,506)
Balance at end of year	₱7,865,363	₱965,388

28. Costs of Services

In 2008, this account consists of:

	Amount
	(In Thousands)
Amortization of service concession assets (see Note 14)	₱1,286,456
Salaries, wages and benefits (see Notes 30 and 31)	392,620
Repairs and maintenance	191,212
Operator's fee (see Notes 21 and 25)	187,632
Materials and supplies	104,325
Depreciation and amortization (see Note 15)	50,015
Franchise fee	38,026
Contracted services	37,909
Provision for heavy maintenance (see Note 21)	25,451
Rental	13,777
Insurance	5,297
Toll collection and medical services	2,826
Others	35,469
	₱2,371,015

29. General and Administrative Expenses

This account consists of:

		200/	2006
		(As restated -	(As restated -
	2008	see Notes 2 and 6)	see Notes 2 and 6)
		(In Thousands)	
Personnel costs (see Notes 30 and 31)	₱384,151	₱12,835	₱46,281
Taxes and licenses	149,359	10,003	3,639
Professional fees	157,531	13,738	19,415
Outside services	146,572	3,027	=-
Communication, light and water	114,557	2,632	3,077
Transportation and travel	78,379	3,278	4,691
Repairs and maintenance	69,348	143	1,705
Commissions	45,173	=	=
Entertainment, amusement and representation	40,310	2,242	7,241
Depreciation and amortization (see Notes 15 and 16)	30,323	4,920	3,206
Insurance	25,175	18,622	4,752
Advertising and promotion	14,420	=	=
Rental expense	22,911	21,852	8,826
Administrative supplies	1,202	9,005	12,632
Association dues	121	13,573	3,046
Business development costs	82	30,784	54,009
Miscellaneous	47,958	12,048	23,173
	₱1,327,572	₱158,702	₱195,693

0. Personnel Costs			
This account consists of:			
	2008	2007	2006
		(In Thousands)	
Salaries and wages	₱580,621	₱11,426	₱23,015
Retirement costs (see Note 31)	59,603	1,409	1,268
Other employee benefits	136,547	=	21,998
	₱776,771	₱12,835	₱46,281

31. Retirement Costs

The Company has a funded, noncontributory retirement benefit plan covering all its eligible regular employees. The benefits provided in the plan are based on the years of credited service and compensation of employees. The following tables summarize the components of the retirement costs included in "Personnel costs" under "General and administrative expenses" account in the consolidated statement of income and "Accrued retirement costs" account in the consolidated balance sheet. The principal assumptions used to determine pension benefit obligations as of December 31, 2008, 2007 and 2006 are as follows:

	2008	2007	2006
		(In Thousands)	
Current service cost	₱35,899	₱6,287	₱2,490
Interest cost	30,267	1,450	2,137
Expected return on plan assets	(6,563)	(193)	(175)
Past service cost	_	206	206
Actuarial net loss	_	22,706	-
	59,603	30,456	4,658
Less discontinued operation	_	29,047	3,390
Retirement costs for the year	₱59,603	₱1,409	₱1,268
Actual return on plan assets	1,400	303	126
Accrued retirement costs:			
Balance at beginning of year	₱43,124	₱18,463	₱13,805
Accrued retirement costs from acquired subsidiaries	201,869	=	
Retirement costs for the year	59,603	30,456	4,658
Payments	(5,331)	(5,795)	-
•	299,265	43,124	18,463
Less discontinued operation	41,715		, –
Balance at end of year	₱257,550	₱43,124	₱18,463

The reconciliation of the present value of defined benefit obligation (PVDBO) to the accrued retirement costs recognized in the consolidated balance sheets follows:

	2008	2007	2006
		(In Thousands)	
PVDBO	₱518,030	₱53,724	₱23,281
Fair value of plan assets	(278,877)	(2,118)	(1,925)
Unfunded PVDBO	239,153	51,606	21,356
Unamortized nonvested past service cost	-	(2,687)	(2,893)
Actuarial loss	23,728	_	-
Payments	(5,331)	(5,795)	-
Accrued retirement costs	₱257,550	₱43,124	₱18,463

Actuarial gains and losses are recognized in full in the year the gain or losses occurred.

Movements in the PVDBO are as follows:

	2008	2007	2006_
		(In Thousands)	
Balance at beginning of year	₱53,724	₱23,281	₱18,654
PVDBO from acquired subsidiaries	551,122	=	-
Interest cost	30,267	1,450	2,137
Service cost	35,899	6,287	2,490
Actuarial loss	(95,336)	28,501	-
Benefits paid	(5,331)	(5,795)	-
	570,345	53,724	23,281
Less discontinued operation	52,315	_	-
Balance at end of year	₱518,030	₱53,724	₱23,281

Movements in the fair value of plan assets (FVPA) are as follows:

	2008	2007
		(In Thousands)
Balance at beginning of year	₱2,118	₱1,925
FVPA from acquired subsidiaries	315,474	=
Expected return on plan assets	(36,737)	193
Actuarial loss	140	=
	280,995	2,118
Less discontinued operation	2,118	=
Balance at end of year	₱278,877	₱2,118

Maynilad and FPII expect to contribute ₱176.0 million and ₱17.0 million to their respective plan assets in 2009.

The major categories of plan assets as a percentage of the fair value of total plan assets follow:

	DMWC	FPII
Investments in:		
Government securities	61.0%	45.4%
Unit trust funds	22.6%	-%
Investment in stocks	5.7%	-%
Perpetual preferred shares	-%	24.9%
Cash in banks	2.9%	28.5%
Receivables and others	7.8%	1.2%
	100.0%	100.0%

The plan assets are maintained in a trust account with a local bank that was set up by FPII in November 2006.

The category of plan assets as a percentage of the total FVPA follows:

	2008
Deposits in banks	1.4%-2.9%
Investments in bonds	61.0%–98.6%
Trust fund and others	36.1%

The principal assumptions used to determine pension benefit obligations as of December 31, 2008, 2007 and 2006 are as follows:

	2008	2007	2006	2005	2004
Discount rates	8.3%-37.6%	8.3%-8.5%	8.0%	11.5%	14.0%
Rates of increase in compensation	4.0%-8.0%	8.0%-8.1%	8.0%	8.0%	10.0%
Expected rate of return on plan assets	10.0%	10.0%	10.0%	=	=

The overall expected rates of return on assets were determined based on the market prices prevailing on that date, applicable to the period over which the obligation is to be settled.

Amounts for the periods are as follows:

	2008	2007	2006	2005	2004
PVRO	₱518,030	₱53,724	₱23,281	₱14,127	₱6,291
FVPA	(278,877)	(2,118)	(1,925)	(1,750)	(1,925)
	₱239,153	₱51,606	₱21,356	₱12,377	₱4,366
Experience adjustments on benefit obligation	₱11.001	₽_	₽_	₽_	₽_

32. Interest Income and Interest Expense

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

		2007	2000
		(As restated -	(As restated -
	2008	see Notes 2 and 6)	see Note 2 and 6)
		(In Thousands)	
Due from related parties	₱182,079	₱_	₱13,706
Cash and cash equivalents	89,373	6,014	15,811
Receivable on financial guarantee	1,344	-	-
Investment in bonds	1,149	-	-
Notes receivable	_	28,479	62,495
Accretion of miscellaneous deposits	4,888	-	
	₱278,833	₱34,493	₱92,012

The following	are the sources	of the Compan	y's interest expense:

		2007	2006
		(As restated -	(As restated -
	2008	see Notes 2 and 6)	see Note 2 and 6)
		(In Thousands)	
Long-term debts	₱878,712	₱306,936	₱32,763
Accretion on service concession fee payable	240,843	-	-
Debt issue costs (see Note 23)	14,030	-	-
Due to related parties	13,903	-	1,583
Accretion of financial liability (see Note 23)	12,598	3,211,468	-
Financial guarantee obligation	1,344	-	-
Notes payable	-	8,626	17,472
Accounts payable and other current liabilities	-	215	19,007
	₱1,161,430	₱3,527,245	₱70,825

33. Other Income and Other Expense

Other income consists of:

		(As restated -	(As restated -
	2008	see Notes 2 and 6)	see Note 2 and 6)
		(In Thousands)	
Gain on dilution of minority interests (see Note 4)	₱757,591	₱–	₱–
Reversal of provision for decline in value of assets	262,461	3,261	6,131
FCDA	313,986	-	-
Gain on debt settlement - net (see Note 19)	173,025	1,053,943	7,573
Gain on sale of investment in associate (see Note 12)	51,333	-	-
Fair value changes of derivatives (see Note 23)	38,625	1,065,713	-
Commission income	19,389	-	82,142
Rental income	3,332	3,560	20,062
Guarantee fees (see Note 25)	2,299	-	
Gain on sale of properties	409	-	-
Reversal of accruals (a)	-	60,239	91,144
Sales penalty and refund	-	-	1,549
Gain on sale of AFS financial assets	-	-	5,545
Others	36,827	26,297	53,470
	₱1,659,277	₱2,213,013	₱267,616

2006

2007

Other expense consists of:

Provision for decline in value of assets Passet Notes 2 and 6 (In Thousands) see Notes 2 and 6 (In Thousands) see Note 2 and 6 (In Thousands) Provision for decline in value of assets P882,396 P200,854 P659,57 Commission expense Provision for ESOP (C) 183,440 — — Other provisions 35,830 — —			2007	2006
Commission for decline in value of assets (b) P482,396 P200,854 P659,50			(As restated -	(As restated -
Provision for decline in value of assets (D) P482,396 P200,854 P659,5 Commission expense Provision for ESOP (C) 100,491 - - Other provisions 35,830 - -		2008	see Notes 2 and 6)	see Note 2 and 6)
Commission expense 100,491 - Provision for ESOP (C) 183,440 - Other provisions 35,830 -	(%)		(In Thousands)	
Commission expense 100,491 - Provision for ESOP (C) 183,440 - Other provisions 35,830 -	Provision for decline in value of assets (D)	₱482,396	₱200,854	₱659,543
Other provisions 35,830 –	Commission expense	100,491	-	-
	Provision for ESOP (C)	183,440	-	-
	Other provisions	35,830	-	-
Provision for warranties and guarantees – 102,688 52,6	Provision for warranties and guarantees	-	102,688	52,697
Day 1 loss (see Note 23) – 305,056	Day 1 loss (see Note 23)	-	305,056	-
Others 67,459 9,100 32,0	Others	67,459	9,100	32,054
P869,616 P617,698 P744,2		P869,616	₱617,698	₱744,294

- a. Represents reversal of excess accruals for certain obligations, recognized in prior years, over actual settlements during the year.
- b. Provision for decline in value was provided for the following assets:

	2008	2007	2006
(;)		(In Thousands)	
Investments in associates (see Note 12) (I)	₱188,093	₱135,039	₱441,397
Property and equipment (see Note 15)	120,153	-	_
Receivables (see Note 8)	115,145	2,321	52,125
AFS financial assets (see Note 10)	55,760	=	=
Investment properties (see Note 16)	3,245	=	=
Due from related parties	-	982	19,263
Real estate for sale (see Note 9) (ii) Others (iii)	-	62,512	-
Others (III)	_	-	146,758
	₱482,396	₱200,854	₱659,543

- $i. \quad Impairment \ losses \ were \ provided \ for \ investments \ in \ associates \ to \ record \ the \ investments \ at \ their \ recoverable \ amounts.$
- ii. Provision for decline in value of real estate for sale represents the write-down of the asset to its NRV.
- iii. Others mainly pertain to the allowance for decline in value provided on Company's CWTs.

As discussed in Note 6, an impairment loss of $\mathbb{P}431.2$ million was provided to recognize the assets of disposal group as its realizable value. The impairment loss was allocated on the following accounts based on their carrying values:

, ,	2008
	(In Thousands)
Investments in associates	₱188,093
Property and equipment	120,153
Receivables	63,940
AFS financial assets	55,760
Investment properties	3,245
	₱431,191

c. Provision for ESOP represents the excess of the carrying value of DMWC's investment in Maynilad over the expected amount to be paid by Maynilad when Maynilad will procure the shares to be issued to its employees (ESOP shares) from DMWC in compliance with the concession agreement.

34. Income Tax

a. The components of the Company's deferred tax assets and deferred tax liabilities are as follows:

Net Deferred Tax Assets

The believed tax y special	2008	2007
	(In Th	housands)
Excess of fair values over book values	₱302,922	₱–
Accrued retirement costs and other accrued expenses	261,917	15,215
Difference in gross profit on sale of real estate between financial and tax reporting bases	139,071	99,230
NOLCO	80,307	35,052
Provision for heavy maintenance	49,758	_
Unamortized preoperating expenses	20,654	_
MCIT	18,720	8,518
Cumulative translation adjustment	15,257	_
Unamortized past service cost	3,227	_
Accretion on noncurrent financial assets and liabilities	1,085	_
Provisions	2,182	1,883
Fair value adjustments on certain financial assets	· _	36,946
Others	45.266	13,238
	940,366	210,082
Less discontinued operation	324,461	
	₱615,905	₱210.082

Net Deferred Tax Liabilities

	2008	2007
	(In T	housands)
Excess of fair values over book values	₱2,990,582	₽-
Difference in depreciation method	249,767	-
Unrealized foreign exchange gain – net	101,842	131,465
Difference in gross profit on sale of real estate between financial and tax reporting bases	41,176	61,555
Unamortized realized forex losses capitalized	24,491	-
Capitalized interest	10,006	24,632
Fair value adjustments on certain financial liabilities	_	97,033
Others	11,071	10,240
	3,428,935	324,925
Less discontinued operation	269,150	
	₱3,159,785	₱324,925

b. The Company has the following temporary differences for which no deferred tax assets have been recognized since management believes that it is more likely than not that these will not be realized in the near future.

	2008	200/
	(In	Thousands)
Allowance for doubtful accounts	₱4,347,040	₱4,050,091
NOLCO	3,435,349	528,293
Provisions and other accruals	383,281	408,950
Allowance for decline in value of land and land development costs	211,459	121,870
Accrued retirement costs and others	122,980	260,361
Unamortized preoperating expenses	95,961	-
Unearned toll revenue	19,344	=
Unrealized foreign exchange gain (losses)	15,907	-
MCIT	2,117	21,923
	₱8,633,438	₱5,391,488

c. As of December 31, 2008, unrecognized NOLCO amounting to ₱3,435.4 million of the Parent Company and various subsidiaries can be carried forward and claimed as deduction from regular taxable income as follows:

Year Incurred	Amount	Applied	Balance	Expiry Year
		(In Thousands)		
2008	₱3,136,233	₱–	₱3,136,233	2011
2007	443,083	(143,966)	299,117	2010
2006	85,200	(85,200)	=	2009
	₱3,664,516	(₱229,166)	₱3,435,350	

NOLCO attributable to discontinued operation as of December 31, 2008 amounting to \$274.2 million is excluded from the above table.

NOLCO incurred in 2008 includes balances of acquired subsidiaries as follows:

Year Incurred	FPII	DMWC	Total	Expiry Date
		(In Thousands)		
2008	₱1,171	₱1,533,467	₱1,534,638	2011
2007	18,154	1,124,358	1,142,512	2010
2006	284,015	60,731	344,746	2009
	₱303,340	₱2,718,556	₱3,021,896	

d. The carryforward benefits of MCIT amounting to ₱2,179.0 million as of December 31, 2008 can be claimed as tax credits against future income taxes payable as follows:

Year Incurred	Amount	Expired	Balance	Expiry Year
		(In Thousands)		
2008	₱2,178,957	₱–	₱2,178,957	2011
2005	21,923	(23,052)	-	2008
	₱2 200 880	(₱23.052)	₱2 178 957	

MCIT of discontinued operations as of December 31, 2008 amounting to ₱18.9 million is excluded from the above table.

The carryforward benefits of MCIT in 2008 includes the balances of acquired subsidiaries as follows:

Year Incurred	FPII		Expiry Date
	(In Thousands)		
2008	₱774,466		2011
2007	349,805		2010
2006	993,145		2009
	₱2,117,416		
The current provision for income tax in 2008, 2007 and 2006 represents the following:			
J.	2008	2007	2006
		(In Thousands)	
RCIT	₱1,732	₱2,211	₱25,767
Final tax	5,688	729	981

f. The reconciliation of provision for income tax computed at the statutory income tax rate to provision for income tax as shown in the consolidated statements of income is summarized as follows:

₱7,420

₱2,940

₱26,748

		2007	2006
		(As restated -	(As restated -
	2008	see Notes 5 and 6)	see Notes 5 and 6)
		(In Thousands)	
Income (loss) from continuing operations before income tax	₱960,481	(P 157,107)	(P 493,132)
Income tax at statutory tax rate of 35% in 2008, 2007 and 2006	336,168	(54,987)	(172,596)
· · · · · · · · · · · · · · · · · · ·	,	(- /- /	(172,390)
Net income under ITH	(304,455)		
Nondeductible (taxable) expenses (gain) - net	126,016	(302,774)	6,407
Equity in net losses (earnings) of associates	(50,262)	(532,306)	1,560
Fair value adjustment on certain financial instruments	(47,400)	857,784	-
Changes in unrecognized deferred tax assets and others	(100,980)	182,042	224,605
Various income subjected to lower final tax rates - net	(23,349)	(1,847)	(4,522)
Expiration of MCIT	7,673	-	=
Final tax on interest income	2,099	729	1,913
Effect of change in tax rates	(8,588)	=	-
Others	_	1,186	
	(₱63,078)	₱149,827	₱57,367

On May 24, 2005, the Congress of the Philippines issued Republic Act 9337 (RA 9337) which became effective on November 1, 2005. RCIT rate for domestic corporations and resident and non-resident foreign corporations was increased to 35% (from 32%) beginning November 1, 2005 and the rate will be reduced to 30% beginning January 1, 2009. Also, under the RA 9337, all other laws, acts, decrees, executive orders, issuances and rules and regulations or parts thereof which are contrary to and inconsistent with any provisions of RA 9337 were repealed, amended or modified.

On September 26, 2006 and October 9, 2006, the House of Representatives and the Senate, respectively, approved House Bill 5742 which lifted the 70% cap on input VAT, allowing companies to again charge 100% of input VAT to output VAT per quarter. Following the approval of the Congress, the President of the Philippines has signed RA No. 9361. The Secretary of Finance, through the BIR, has promulgated the necessary rules and regulations to implement the new law.

Following effectivity of RA 9337, the BIR issued Revenue Memorandum Circular No. 52-2005 on September 28, 2005, which expressly referred for the first time to toll road operations as being subject to VAT.

The TRB, in its letter dated October 28, 2005, directed MNTC to defer the imposition of VAT on toll fees; hence, MNTC has deferred, and continues to defer, the imposition of VAT from motorists. Accordingly, MNTC has not been collecting VAT and no VAT liability has been recognized since the TRB date. As discussed in Note 3, the Company, upon its acquisition of FPII, recognized the related contingent liability.

35. Earnings (Loss) per Share

The calculation of earnings (loss) per share for the years ended December 31 follows:

,		2008	2007	2006
		(In Thous	ands, Except for Per SI	hare Amounts)
Net income (loss) attributable to equity holders of the Parent Company from:				
Continuing operations		₱556,026	(P 412,056)	(P 567,745)
Discontinued operations		(7,088)	301,684	(130,034)
Net income (loss) attributable to equity holders of the Parent Company	(a)	548,938	(110,372)	(697,779)
Net income (loss) attributable to equity holders of the Parent Company				
from continuing operations, adjusted for the effect of potential dilution		8,188	-	_
	(b)	₱557,126	(₱110,372)	(₱697,779)
Outstanding common shares at the beginning of the year		₱1,342,919	₱1,198,952	₽-
Effect of issuance of common shares during the year		2,123,645	51,968	939,466
Weighted average number of common shares for basic earnings per share	(c)	3,466,564	1,250,920	939,466
Effects of potential dilution from:				
Convertible options		1,260,460	1,522,368	_
Stock warrants		_	_	13,396
Deposit for future stock subscription (see Note 26):				
MPHI		508,271	_	_
LAWL		26,009	_	_
Weighted average number of common shares adjusted				
for the effects of potential dilution	(d)	₱5,261,304	₱2,773,288	₱952,862
Basic earnings (loss) per share:				
Income (loss) from continuing operations after income tax		₱0.160	(P 0.329)	(P 0.604)
Income (loss) from discontinued operations after income tax		(0.002)	0.241	(0.138)
	(a/c)	₱0.158	(₱0.088)	(₱0.742)
Diluted earnings (loss) per share:				
Income (loss) from continuing operations after income tax		₱0.106	(P 0.329)	(P0.604)
Income (loss) from discontinued operations after income tax		(0.002)	0.109	(0.138)
	(b/d)	P0.104	(P 0.220)	(P0.742)

Weighted average number of shares issued and outstanding is derived by multiplying the number of shares outstanding at the beginning of the year, adjusted by the number of shares issued during the year, with a time-weighting factor. The time-weighting factor is the number of days that the common shares are outstanding as a proportion to the total number of days in the year.

Basic earnings per share attributable to equity holders of Parent Company amounts are calculated by dividing net income for the year attributable to equity holders of Parent Company by the weighted average number of common shares outstanding during the year.

Diluted earnings per share attributable to equity holders of the Parent Company is calculated in the same manner assuming that, the weighted average number of common shares outstanding is adjusted for potential common shares from the assumed exercise of convertible options and stock warrants, and issuance of common shares representing deposit for future stock subscription and subscriptions receivable. Outstanding convertible options and stock warrants will have a dilutive effect only when the average market price of the underlying common shares during the year exceeds the exercise price of the option. Where the outstanding convertible options and stock warrants have no dilutive effect, diluted earnings per share is the same as basic earnings per share attributable to equity holders of the Parent Company.

In 2006, the stock warrants have a dilutive effect since the exercise price is lower than the average market price of the shares.

In 2007, such warrants expired hence: the remaining unconverted portion of the warrants were not considered in determining the average number of ordinary shares for purposes of computing diluted earnings per share. In addition, the convertible option pursuant to the convertible loans discussed in Note 23 has a dilutive effect since the exercise price is lower than the average market price of the shares.

In 2008, deposits for future stock subscription from MPHI (see Note 26) and subscription receivable from LAWL (see Note 4) for purposes of identifying dilutive potential ordinary shares are deemed to have been converted into ordinary shares at the beginning of the period or if later, the date of the issue of the potential ordinary shares. These are considered dilutive since conversion to ordinary shares would decrease earnings per share. The convertible options that were converted into ordinary shares during the year are included in the calculation of diluted earnings per share from the beginning of the year to the date of conversion; the resulting ordinary shares are included in both basic and diluted earnings per share.

36. Stock Option Plan

MPIC

On June 24, 2007, the shareholders of MPIC approved a share option scheme (the Plan) under which MPIC's directors may at their discretion, invite executives of MPIC upon the regularization of employment of eligible executives, to take up share option of MPIC to obtain an ownership interest in MPIC and for the purpose of long-term employment motivation. The scheme became effective on June 14, 2007 and is valid for ten (10) years. An amended plan was approved by the stockholders on February 20, 2009.

As amended, the overall limit on the number of shares which may be issued upon exercise of all options to be granted and yet to be exercised under the Plan must not exceed 5% of the shares in issue from time to time. The maximum number of shares in respect of which options may be granted under the Plan shall not exceed 5% of the issued shares of MPIC on June 14, 2007 or the date when an event of any change in the corporate structure or capitalization affecting the Company's shares occurred, as the case may be.

The exercise price in relation to each option shall be determined by the Company's Compensation Committee, but shall not be lower than the highest of: (i) the closing price of the shares for one or more board lots of such shares on the Philippine Stock Exchange (PSE) on the option offer date; (ii) the average closing price of the shares for one or more board lots of such shares on the PSE for the five (5) business days on which dealings in the shares are made immediately preceding the option offer date; and (iii) the par value of the shares.

MPIC has granted, subsequent to December 31, 2008, options in respect of 123,925,245 common shares in two separate tranches as follows: (a) Tranche A for 61,000,000 shares, 50% of which vested immediately on January 2, 2009 with an exercise price of \$\mathbb{P}\$2.12 per share and (b) Tranche B for 62,925,245 shares, 50% of which vested on March 10, 2009 with an exercise price of \$\mathbb{P}\$2.73 per share. The remaining fifty percent (50%) of each said tranche will vest on the first (1st) anniversary of the initial vesting date.

MPC

Certain directors and senior officers of MPC, and the executive and management committees of the subsidiaries, have options to purchase common shares of MPC under an Executive Stock Option Plan (ESOP). The purchase price for the shares is determined by reference to the market price in April each year and adjusted on an annual basis.

The aggregate number of options exercised and cancelled, including those arising in respect of the 33.0% stock dividend in 1997, and the number of shares available under the ESOP as of December 31 are as follows:

		Number of Shares
	2007	2006
		(In Thousands)
Beginning of year Exercised	2	316
Exercised	=	(46)
Cancelled	(2)	(268)
End of year	=	2

37. Contingencies

MPC

Under the agreement relating to the repayment of the Larouge loan, signed between MPC, Ayala Land Inc. (ALI) and Greenfield Development Corp. (GDC) on April 17, 2003, certain obligations/warranties by MPC will remain outstanding for certain periods ranging from one to three years and covered by security arrangements. Under the agreement, MPC shall indemnify ALI and GDC to the extent of MPC's derivative share in BLC/FBDC for certain secured indemnity obligations and other obligations resulting from any breach of warranties and representations.

The security offered for the above obligations includes:

- Pledge of 5.0% interest of the Parent Company in BLC;
- · Additional pledge of 1.6% interest in BLC subject to the release of certain BLC shares from an existing pledgee which has a prior lien; and
- Second mortgage on the Parent Company's NCBD property, subject to the approval of the first mortgagee.

ALI and GDC have formally advised MPC in their letter dated September 19, 2003 that they are allocating the first two pledges above for possible payment of secured indemnity obligations enumerated in their letter. Total estimated indemnity is **P1.1** billion.

The Company has already provided for \$\partial 317.8 million in prior years, determined on the basis of certain possible taxes that will be claimed by ALI and GDC.

The above warranty has expired last April 17, 2007. However, due to pending taxes included in the warranties, the provision amounting to \$\mathbb{P}\$402.8 million has remained in the books.

FPIDC and MNTC

FPIDC has received real property tax assessments amounting to \$\text{P98.5}\$ million for alleged delinquency property tax covering Segment 7 located in the province of Bataan for the tax period from 1997 to June 2005. FPIDC appealed before the Local Board of Assessment Appeals (LBAA) of Bataan and prayed for the cancellation of the assessment. In the said appeal, FPIDC invoked that the property is owned by the Republic of the Philippines, hence, exempt from real property tax. The case is still pending before the LBAA of Bataan.

FPIDC and MNTC are also respondents in other cases arising from the normal 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 lawsuits or claims cannot be presently determined. In the opinion of management and FPIDC's and MNTC's legal counsels, the eventual liability from these lawsuits or claims, if any, will not have a material adverse effect on the Company's financial position and financial performance. The STOA provides MNTC with legal recourse in order to protect its lawful interests. Accordingly, no provision has been made by MNTC for these contingent liabilities.

Also as discussed in Note 3, MNTC, together with other toll road operators, are currently in discussions with concerned government agencies on the issue on VAT. As further discussed in the note, MPIC provided for this contingent liability pursuant to the provisions of PFRS 3, Business Combination.

Mavnilad

The following are contingencies involving Maynilad

- a. Additional Tranche B Service Concession Fees and interest penalty are being claimed by MWSS from Maynilad in excess of the amount recommended by the Receiver. Such additional charges being claimed by MWSS (in addition to other miscellaneous claims) amounted to P4.6 billion as of December 31, 2008. The Rehabilitation Court has resolved to deny and disallow the said disputed claims of MWSS in its December 19, 2007 Order, upholding the recommendations of the Receiver on the matter. 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, MWSS has not yet indicated to the Maynilad the amount of additional Tranche B Concession Fees that it is still claiming, which amount is therefore undeterminable as of this time. Maynilad and MWSS are seeking to resolve this matter in accordance with the dispute resolution requirements of the TCA.
- b. In a decision dated September 7, 2007, the National Labor Relations Commission (NLRC) dismissed the complaint filed by MWSA for alleged non-payment of cost of living allowance (COLA) in NLRC NCR CN. 00-03-03620-2003. In the said case, the Labor Arbiter had earlier issued a decision ordering the payment of COLA to the supervisor-employees "retroactive to the date when they were hired by the respondent company in 1997, with legal interest from the date of promulgation of the decision" until full payment of the award, which decision was reversed and set aside by the NLRC. On December 10, 2007, in pursuance of its efforts to effect an early exit from corporate rehabilitation, the Company executed a Compromise Agreement with MWSA (Compromise Agreement) for the settlement of certain claims of MWSA, wherein the Company agreed to pay to MWSA residual benefits equivalent to the latter's claim for COLA for 23 months from August 1997 to June 1999. On January 15, 2008, Maynilad received a copy of the petition for certiorari filed by the MWSA with the Court of Appeals alleging grave abuse of discretion on the part of the NLRC and praying that the Labor Arbiter's decision dated November 10, 2006 be affirmed in toto, but only in relation to the MWSA's claim for COLA from July 1999 up to the present time. The Company filed its comment on the said petition on March 6, 2008. The case remains pending with the Court of Appeals.
- c. On October 13, 2005, the Company and East Concessionaire 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. Accordingly, Maynilad and East Concessionaire filed a joint appeal of the said assessment with the Local Board of Assessment Appeals (LBAA). An appeal-in-intervention was also filed by MWSS with the LBAA. MWSS maintains the position that these properties are owned by the Republic of the Philippines and that the same are exempt from taxation. On February 2, 2007, Maynilad and East Concessionaire received an updated assessment of real property tax from the Municipality of Norzagaray, Bulacan, which included real property tax purportedly due for 2006 of ₱35.7 million and interest of 2% per month of ₱93.6 million.

On May 2, 2007, the LBAA denied the joint appeal of Maynilad and East Concessionaire. The LBAA also denied the appeal-in-intervention filed by MWSS. Subsequently, the Company and East Concessionaire elevated the case to the Central Board of Assessment Appeals (CBAA) by filing separate appeals. The CBAA, through the board secretary, issued a "First Endorsement" addressed to Maynilad stating that the LBAA order was "not in accordance with Sec. 227 of the Local Government Code of 1991" as it was signed only by the chairman "without the concurrence of at least one member to constitute a majority." In an order dated July 9, 2007, the LBAA explained the lack of signatures of the other members of the LBAA in the May 2, 2006 order and reiterated the previous denial of the separate appeals filed by Maynilad and East Concessionaire. Responding to a letter from Maynilad, Cristeta Esteban, municipal treasurer of Norzagaray, insisted on the concessionaires' liability to pay the subject real property tax. According to her letter dated July 17, 2007, the supposed joint liability of Maynilad and East Concessionaire for real property tax, including interest, as of June 30, 2007 amounts to P554.2 million. On August 21, 2007, Maynilad filed a second appeal based on the LBAA order dated July 9, 2007. During the November 27, 2007 hearing, the presiding commissioner encouraged the parties to enter into an amicable settlement. At the subsequent hearing on February 12, 2008, the parties agreed to (i) set an ocular inspection of the area where the subject common purpose facilities are situated; and (ii) continue exploring the possibility of an amicable settlement. However, due to the parties' failure to report any development regarding the amicable settlement suggested by the commissioner, an order/notice of hearing dated June 27, 2008 was issued by the CBAA setting a hearing on July 30, 2008. During such hearing, an agreement was arrived at on the holding of a meeting on August 20, 2008 to be attended by officials of Maynilad and East Concessionaire for the purpose of entering into a possible compromise agreement. It was also agreed that a formal hearing will then be set on a date to be agreed upon during the meeting. Eventually, a hearing with the CBAA was held on October 21, 2008. Pursuant to the Order dated October 23, 2008, the CBAA required the parties to file their respective Memoranda on whether or not CBAA should hear and proceed with the case or remand the same to the LBAA of the Province of Bulacan to be heard and proceeded on the merit. Maynilad filed its Memorandum dated November 05, 2008 stating that the CBAA has the authority to hear, proceed and decide the appeal on the merits without the need of remanding the matter to the LBAA. In such Memorandum, Maynilad likewise prayed that the LBAA Orders dated May 02, 2006 and July 09, 2007 be reversed and set aside and that the subject properties be declared as part of public dominion and therefore, tax-exempt. An adverse decision on this case may result in similar assessments by other municipalities.

- d. The Laguna Lake Development Authority (LLDA) has served Maynilad notices of violation for failure of the wastewater in the following facilities of Maynilad: (i) La Mesa Treatment Plant 1; (ii) La Mesa Treatment Plant 2; and (iii) Project 7, IMHOFF Tank, to conform to the 1990 Revised Effluent Standard for Inland Water Class "C." On the hearing dated January 14, 2009, Maynilad informed LLDA that (i) Maynilad has already completed the necessary facilities in La Mesa Treatment Plants 1 and 2 and that said facilities already comply with the requirements of the 1990 Revised Effluent Standard for Inland Water Class "C"; and (ii) Maynilad is the beneficiary of a grant from the World Bank-Global Environment Fund for a pilot sewage/septage treatment plant and that once the project is completed, the Project 7, IMHOFF Tank will be able to comply with the 1990 Revised Effluent Standard for Inland Water Class "C." Maynilad also informed LLDA that it was willing to settle and pay the fees assessed pursuant to the aforementioned notices.
- e. Maynilad is also contingently liable for liabilities arising from lawsuits or claims (other than those discussed above), filed by third parties which are either pending decisions by the court or subject to settlement agreements. The outcome of these lawsuits or claims cannot be presently determined.

The Company and its legal counsel has assessed that the eventual liability from these lawsuits or claims, if any, will not have a material effect on the consolidated financial statements.

38. Significant Contracts and Commitments

The significant contracts entered into by FPII and subsidiaries are as follows:

- a. On September 2007, MNTC entered into a contract with Epsys, Inc. for FOE second line maintenance services. This contract pertains to services beyond the primary maintenance obligations of TMC under the Provisional Operating and Maintenance Agreement (POMA). The contract amount up to September 2010 is €0.4 million.
- b. MNTC engaged the services of Easytri P Services Corporation on December 5, 2007 to assist the Company in increasing the usage of the electronic toll collection facility along the NLE. Total service fee up to June 2010 will amount to P42.6 million.

The significant contracts entered into by Maynilad are as follows:

- a. In relation to the Concession Agreement, Maynilad entered into the following contracts with the East Concessionaire:
 - Interconnection Agreement wherein the two Concessionaires shall form an unincorporated joint venture that will manage, operate, and maintain interconnection facilities. The terms of the agreement provide, among others, the cost and the volume of water to be transferred between zones.
 - Common Purpose Facilities Agreement that provides for the operation, maintenance, renewal, and as appropriate, decommissioning of the Common Purpose Facilities, and performance of other functions pursuant to and in accordance with the provisions of the Concession Agreement and performance of such other functions relating to the Concession (and the Concession of the East Concessionaire) as Maynilad and the East Concessionaire may choose to delegate to the Joint Venture, subject to the approval of MWSS; and
 - Agreement that provides for the new price of the water transfers and for the application of the certain arrangements relating to the CPI adjustments in the price of the water transfers.
- b. Under Section 6.9 of the Service Concession Agreement, Maynilad is required to post a Performance Bond to secure the performance of its obligations under certain provisions of the Concession Agreement. The aggregate amount drawable in one or more installments under such performance bond during the Rate Rebasing Period to which it relates is set out below.

	Aggregate Amount
	Drawable Under
Rate Rebasing Period	Performance Bond
	(In Millions)
First (August 1, 1997–December 31, 2002)	US\$120
Second (January 1, 2003–December 31, 2007)	120
Third (January 1, 2008–December 31, 2012)	90
Fourth (January 1, 2013–December 31, 2017)	80
Fifth (January 1, 2018–May 6, 2022)	60

Within 30 days from the commencement of each renewal date, the Company shall cause the performance bond to be reinstated to the full amount set forth above applicable for the year.

In connection with the implementation of the Selection Process by MWSS, the Company and MWSS executed the Agreement on the Performance Bond on December 15, 2006, incorporating the terms and conditions of MWSS BOT Resolution No. 2006-249 dated November 17, 2006 which approved certain adjustments to the obligation of the Company to post the Performance Bond under Section 6.9 of the Concession Agreement. These adjustments are summarized as follows:

- i. The aggregate amount drawable in one or more installments under each Performance Bond during the Rate Rebasing Period to which it relates has been adjusted to US\$30 million until the Expiration Date.
- ii. Upon the completion of the Capital Restructuring, the Sponsor shall be required to post a Performance Bond of US\$30.0 million as part of the requirement under the Selection Process and to maintain the same until the Company is already in a position to post the Performance Bond, subject to compliance by the Company with the DCRA and, as necessary, the recommendation of the Receiver and the approval of the Rehabilitation Court.

iii. While the Company is under corporate rehabilitation:

- any capital expenditure (CAPEX) commitment of the Sponsor not exceeding US\$18 million to be infused into the Company for a period of three (3) years shall be deemed to be in compliance with the obligation of the Sponsor or the Company to deliver the equivalent amount of the Performance Bond, subject to the terms and conditions set out in the relevant agreement between MWSS and the Sponsor; and
- since the Concession Fees due to MWSS are protected under the DCRA and existing Philippine rehabilitation rules, the coverage of the Performance Bond shall exclude the obligation of the Company to pay Concession Fees under Section 6.4 of the Concession Agreement.

iv. Once the Company exits from corporate rehabilitation:

- any CAPEX commitment of the Sponsor shall no longer be deemed to be in compliance with the Company's obligation to deliver the equivalent amount of the Performance Bond; and accordingly, the amount of the Performance Bond shall be no less than US\$30 million beginning on the first day of the Rate Rebasing Period immediately following the date the Company exits from rehabilitation and until the Expiration Date;
- the Performance Bond shall again cover the Company's obligation to pay Concession Fees under Section 6.4 of the Concession Agreement; and
- · the obligation to deliver the Performance Bond reverts to the Company.

Considering that the Agreement on the Performance Bond effectively amends Section 6.9 of the Concession Agreement, the Republic of the Philippines (through the Secretary of Finance) acknowledged the terms and conditions of the said agreement on January 4, 2007, as required under Section 16.2 of the Concession Agreement.

On January 24, 2007, DMWC, as the Sponsor, delivered to MWSS an irrevocable standby letter of credit having a stated amount of US\$18.0 million covering its CAPEX commitment and another irrevocable standby letter of credit having a stated amount of US\$12.0 million as Performance Bond, in compliance with the above provisions.

Under the TCA, the Company is required to update the Performance Bond to US\$30 million by January 1, 2009 (to coincide with the implementation of the new rebased rate) pursuant to the Agreement on the Performance Bond dated December 15, 2006.

- c. Payment of half of MWSS and MWSS-RO's budgeted expenditures for the subsequent years, provided the aggregate annual budgeted expenditures do not exceed \$\big200.0\$ million, subject to CPI adjustments.
- d. To meet certain specific commitments in respect to the provision of water and sewerage services in the West Service Area, unless modified by the MWSS-RO due to unforeseen circumstances.
- e. To operate, maintain, renew and, as appropriate, decommission facilities in a manner consistent with the National Building Standards and best industrial practices so that, at all times, the water and sewerage system in the West Service Area is capable of meeting the service obligations (as such obligations may be revised from time to time by the MWSS-RO following consultation with Maynilad).
- f. To repair and correct, on a priority basis, any defect in the facilities that could adversely affect public health or welfare, or cause damage to persons or third-party property.
- g. To ensure that at all times the Company has sufficient financial, material and personnel resources available to meet its obligations under the Concession Agreement.
- h. Non-incurrence of debt or liability that would mature beyond the term of the Concession Agreement, without the prior notice of MWSS.

Failure of the Company to perform any of its obligations under the Concession Agreement of a kind or to a degree which, in a reasonable opinion of the MWSS-RO, amounts to an effective abandonment of the Concession Agreement and which failure continues for at least 30 days after written notice from the MWSS-RO, may cause the termination of the Concession Agreement.

i. Operating Lease Commitments

The Company leases the branches, where service outlets are located for certain periods up to 2008, renewable under certain terms and conditions to be agreed upon by the parties. Total rent expense for these operating leases amounted to \$\mathbb{P}66.7\$ million in 2008.

Future minimum operating lease payments for each of the following periods are:

Period Covered	Amount
	(In Millions)
Not later than one year	₱34.5
More than one year but not later than five years	55.6
More than 5 years	6.0

- j. Interconnection Agreement wherein the two Concessionaires shall form an unincorporated joint venture that will manage, operate, and maintain interconnection facilities. The terms of the agreement provide, among others, the cost and the volume of water to be transferred between zones.
- k. Common-Purpose Facilities Agreement that provides for the operation, maintenance, renewal, and as appropriate, decommissioning of the Common-Purpose Facilities, and performance of other functions pursuant to and in accordance with the provisions of the Concession Agreement and performance of such other functions relating to the Concession (and the Concession of the East Concessionaire) as the Company and the East Concessionaire may choose to delegate to the Joint Venture, subject to the approval of MWSS; and

I. Agreement that provides for the new price of the water transfers and for the application of certain arrangements relating to the CPI adjustments in the price of the water transfers

39. Financial Risk Management Objectives and Policies

The Company's principal financial instruments consist mainly of borrowings from a related party and third party investors and due from/to related parties, proceeds of which were used for the acquisition of investments and in financing operations. The Company has other financial assets and financial liabilities such as cash and cash equivalents, receivables and other related party transactions which arise directly from the Company's operations.

The Company also enters into derivative transactions, particularly cross currency swaps to manage the interest rate and currency risks arising from the long-term debts.

The main risks arising from the Company's financial instruments are interest rate risk, foreign currency risk, liquidity risk, credit risk and equity price risk from the use of financial instruments. The BOD reviews and approves policies of managing each of these risks and they are summarized below.

Interest Rate Risk

The Company's exposure to market risk for changes in interest rates relate primarily to the Company's long-term debts. The Company manages interest rate exposure by fixing the interest rates on its loans. As of December 31, 2008, only MNTC, a subsidiary of FPII is exposed to interest rate risk (i.e., cashflow and price interest rate risk). As of December 31, 2007, MPIC and Landco are exposed to interest rate risk.

In accordance with its interest rate management policy, MNTC converted certain of its outstanding loans into fixed-rate debt, effectively locking in the interest rate on majority of its loan obligations and reducing exposure to interest rate fluctuations. This was done through the exercise of various fixed-rate funding options that were provided under some of the loan facilities - EFIC, ADB Direct and COFACE.

To further reduce its interest rate risk exposure, MNTC entered into a series of derivative transactions in 2008, particularly, cross currency interest rate swaps (see Note 40). Under these derivative transactions, the counterparty shall pay semi-annual interest in U.S. Dollar at floating rates equivalent to those of the long-term debt obligations every six months. In exchange, the Company shall pay its counterparty semi-annual interest in Philippine peso at an agreed-upon fixed rate every six months. These swaps are designated as cash flow hedges of the underlying debt obligations. The following table summarizes the changes in interest rates as a result of these derivative transactions:

	Notional		
Loan Facility	Amount	Floating Interest Rate	Fixed Interest Rate
	(In Thousands)		
ADB-CFS A	\$11,688	LIBOR + 2.75% Margin	8.30%
ADB-CFS B	2,063	LIBOR + 2.75% Margin	8.88%
USD Bank Facility	22,034	LIBOR + 3.00% Margin	9.10%
,	\$35.785		

The cross currency swap on the COFACE Covered Loan features a shift from a fixed interest rate to floating interest rate (see Note 40). MNTC plans to revert to a fixed interest rate in 2009.

The following tables set out the carrying amount, classified by maturity, of the Company's interest-bearing financial assets and financial liabilities. Interest on financial instruments classified as floating rate is repriced semi-annually on each interest payment date. Interest on financial instruments classified as fixed rate is fixed until the maturity of the instrument. The other financial instruments of the Company that are not included in the table below are noninterest-bearing and are therefore not subject to interest rate risk.

U.S. Dollar-Denominated Financial assets and Financial liabilities

December 31, 2008

			Within			More Than	
	Interest Rate	On Demand	1 Year	2-3 Years	4-5 Years	5 Years	Total
					(In Thousands)		
Cash and cash equivalents	1.00%-6.75%	\$143,032	\$-	\$-	\$-	\$-	\$143,032
Due from related party	LIBOR + 1.00%	-	_	-	-	5,000	5,000
		143,032	-	-	-	5,000	148,032
Fixed rate loans:							
Maynilad Omnibus Agreement	9.21%	-	_	-	-	121,753	121,753
Service concession fees payable	5.00%	-	57,716	-	-	-	57,716
ADB-Direct	8.25%	-	2,250	4,500	4,500	1,125	12,375
EFIC	8.03%	-	1,875	3,750	3,750	938	10,313
COFACE	6.13%	-	1,869	3,738	3,738	934	10,279
		-	63,710	11,988	11,988	124,750	212,436
Floating rate loans:							
ADB-CFS	LIBOR						
	+ 2.75% Margin	-	2,500	5,000	5,000	1,250	13,750
USD Bank	LIBOR						
	+ 3.00% Margin	_	4,006	8,012	8,012	2,003	22,033
		\$-	\$6,506	\$13,012	\$13,012	\$3,253	\$35,783

Peso-Denominated Financial assets and Financial liabilities

				Dece	ember 31, 2008		
			Within			More Than	
	Interest Rate	On Demand	1 Year	2-3 Years	4-5 Years	5 Years	Total
				(In Thousands)			
Cash and cash equivalents	1.00%-6.75%	₱1,467,094	₽-	₽-	₽-	₽-	₱1,467,094
Short-term investments	1.00%-6.75%		182,888	_	_	_	182,888
Due to related party	10%	_	500,000	_	_	_	500,000
		1,467,094	682,888	-	-	-	2,149,982
Fixed rate loans:							
Maynilad Omnibus Agreer	ment 9.21%	_	-	-	-	10,670,113	10,670,113
MPIC Omnibus Agreemen	t 10.72%	_	46,781	67,500	67,500	6,568,219	6,750,000
FXCN Noteholders	9.75%	_	55,000	110,000	110,000	5,170,000	5,445,000
Concession fees payable	5.0%	_	_	-	_	7,595,219	7,595,219
		₽-	₱101,781	₱177,500	₱177,500	₱30,003,551	₱30,460,332
Peso-Denominated Notes							
reso-Denominated Notes			Dec	cember 31, 2007			
	Average	Within		, , , , , , , , , , , , , , , , , , , ,		More Than	
	Interest Rate	1 Year	1-2 Years	2-3 Years	3-4 Years	4 Years	Total
				(In Thousands)			
	PDST-F benchmark rate						
	and various benchmark						
Floating rate rat	es + certain credit spread	₱3,530,717	₱36,591	₱34,367	₱15,545	₽-	₱3,617,220
Fixed rate	2.5% - 21.0%	1,042,602	177,341	51,683	36,099	57,400	1,365,125
		₱4,573,319	₱213,932	₱86,050	₱51,644	₱57,400	₱4,982,345

The following table demonstrates the sensitivity of cash flows due to changes in interest rates with all other variables held constant. The management expects that interest rates will move by ± 50 basis points within the next reporting period. The estimates in the movement of interest rates were based on the management's annual financial forecast. There is no other effect on equity other than those affecting the consolidated statement of income:

		Ellect
	Increase/	on Income
	Decrease	Before
	in Basis Points	Income Tax
2008	+50	(P 59,527)
	-50	59,527
2007	+50	(₱58,497)
	-50	58,497

With regard to the Company's derivatives transactions, the following table demonstrates the sensitivity of fair value changes due to movements in interest rates with all other variables held constant. The management expects that interest rates will move by ± 50 basis points within the next reporting period. The sensitivity to the consolidated statement of income pertains to derivatives at FVPL whereas the sensitivity to equity pertains to those derivatives accounted for as cash flow hedges:

	Increase/	Effect On		
	Decrease	Income Before		
	in Basis Points	Income Tax	Effect on Equity	
2008	+50	(₱6,179)	₱19,110	
	-50	6,328	(19,565)	

Foreign Currency Risk

The Company's foreign currency risk results primarily from movements of the Philippine peso against the United States Dollar, European Euro and the Japanese Yen.

DMWC Foreign Currency Risk Policy. The servicing of foreign currency denominated loans of MWSS is among the requirements of the Concession Agreement. Majority of the revenues are generated in Philippine peso. However, there is a mechanism in place as part of the Concession Agreement wherein the Company (or the end consumers) can recover currency fluctuations through the FCDA that is approved by the Regulatory Office.

FPII Foreign Currency Risk Policy. The exposure to foreign currency risk was reduced when MNTC entered into derivative transactions through cross currency interest rate swaps during the year, allowing the Company to hedge its exposure on variability in cash flows due to foreign currency exchange fluctuations. The following table summarizes the features of these hedging transactions:

		Principal Amount		Notional
Loan Facility	Effective Date	Hedge	Swap Rate	Amount
		(In Thousands)		
ADB-CFS A	September 23, 2008	\$12,750	₱46.33	₱590,708
ADB-CFS B	October 3, 2008	2,250	47.05	105,863
COFACE	July 2, 2008	11,213	45.00	504,585
USD Bank Facility	October 3, 2008	24,038	47.05	1,130,988
· · · · · · · · · · · · · · · · · · ·		\$50.251		₱2.332.144

In connection with MNTC objective of reducing the exposure to currency risk to zero, since revenues are 100% Philippine Peso-denominated, the authorized toll rate (ATR) adjustment formula was revised starting on the next periodic toll rate adjustment on January 1, 2011. The revised formula removes the foreign exchange component factor, which passes on 50% of the foreign currency exposure on bi-annual adjustments following the initial toll rate adjustment. Only two loans remain exposed to foreign currency risk - ADB Direct and EFIC. MNTC plans to eliminate the foreign currency risk on these loans either through fixed-rate funding option or another derivative transaction before the effectivity of the toll rate adjustment using the revised ATR formula.

The Company's assets and liabilities denominated in foreign currencies as of December 31 as of December 31 are as follows:

	2008		2007
	U.S. Dollar	Euro	U.S. Dollar
Assets:			
Cash and cash equivalents	\$143,032	€-	\$14
Due from related parties	5,000	_	-
·	148,032	-	14
Liabilities:			
Accounts payable and other current liabilities	(427)	(44)	-
Long-term debts	(190,503)	_	(78,123)
Service concession fees payable	(57,716)	_	-
	(248,646)	(44)	(78,123)
Net foreign currency denominated liabilities	(\$100,614)	(€44)	(\$78,109)

The following table demonstrates sensitivity of cash flows due to changes in foreign exchange rates with all variables held constant. Management estimates that U.S. Dollar and Euro exchange rates will change by $\pm 5\%$ within the next reporting period. The estimates in the movement of the foreign exchange rates were based on the management's annual financial forecast. Changes in income before income tax pertain to those financial obligations which are unhedged.

2008:	Increase/ Decrease in Peso: U.S. Dollar and Euro Exchange Rates	Effect On Income Before Income Tax
U.S. Dollar Euro U.S. Dollar Euro 2007 -	+5% +5% -5% -5%	(₱36,381) (145) 36,381 145
U.S. Dollar	+3% -3%	(₱367) 367

With regard to the Company's derivatives activities, the following table demonstrates the sensitivity of fair value changes due to movements in foreign exchange rates with all variables held constant. Management estimates that U.S. Dollar exchange rates will change by ±5% within the next reporting period. The sensitivity on statement of income pertains to derivatives at FVPL whereas the sensitivity to equity pertains to those derivatives accounted for as cash flow hedges.

	Increase/		
	Decrease in	Effect	
	Peso: U.S. Dollar	On Income	
	and Euro	Before	
	Exchange Rates	Income Tax	Effect on Equity
2008	+5%	₱20,876	₱77,825
	-5%	(21,490)	(78,519)

Liauidity Risk

The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans and advances from related parties.

The Company monitors its cash position using a cash forecasting system. All expected collections, check disbursements and other payments are determined on a daily basis to arrive at the projected cash position to cover its obligations. The Company monitors its cash flow portion particularly the collections from receivables and the funding requirements of operations to ensure an adequate balance of inflows and outflows.

The Company's objective to manage its liquidity profile are: a) to ensure that adequate funding is available at all times; b) to meet commitments as they arise without incurring unnecessary costs; and c) to be able to access funding when needed at the least possible cost. The Company also has an online facility with its depository banks wherein bank balances are monitored daily to determine the actual Company cash balances at any time.

The table below summarizes the maturity profile of the Company's financial liabilities at December 31, 2008 and 2007 based on contractual undiscounted payments.

				2008			
		Within				More Than	
	On Demand	1 Year	1-2 Years	2-3 Years	3-4 Years	4 Years	Total
				(In Thousands)			
Accrued expenses	₱2,213,846	₽-	₽-	₽-	₽_	₽-	₱2,213,846
Accrued construction costs	1,912,797	-	_	-	_	_	1,912,797
Trade payables	746,310	-	_	-	_	_	746,310
Accounts payable	33,005	-	_	-	_	_	33,005
Interest and other financing charges	149,558	632,755	_	-	_	_	782,313
Dividends payable	27,913	675	_	-	_	_	28,588
Retention payable	509,333	-	_	-	_	_	509,333
Other current liabilities	75,884	-	_	-	_	_	75,884
Due to related parties	2,323,555	500,000	_	-	_	_	2,823,555
Provisions	461,476	-	_	-	_	_	461,476
Customer's deposits*	-	-	_	-	_	417,091	417,091
Financial guarantee obligation**	-	11,050	11,050	11,050	11,050	199,010	243,210
Concession fees payable	-	974,521	876,088	847,354	732,642	4,164,614	7,595,219
Long-term debts**	-	2,326,590	2,136,762	3,139,537	2,027,540	32,249,804	41,880,233
	8,453,677	4,445,591	3,023,900	3,997,941	2,771,232	37,030,519	59,722,860
Derivative liabilities:							
Derivative contracts - receipts	(507,213)	(484,474)	(459,495)	(448,543)	(426,914)	204,933	(2,121,706)
Derivative contracts - payments	566,455	528,967	497,443	465,000	431,009	(202,865)	2,286,009
	59,242	44,493	37,948	16,457	4,095	2,068	164,303
·	₱8,512,919	₱4,490,084	₱3,061,848	₱4,014,398	₱2,775,327	₱37,032,587	₱59,887,163

(*) Included under "Other long-term liabilities" account in the consolidated balance sheet.

(**) Including interest to be paid.

				2007			
	On Demand	Within 1 Year	1–2 Years	2-3 Years	3–4 Years	4–5 Years	Total
				(In Thousands)			
Notes payable	₱343,719	₱291,389	₱–	₽_	₱–	₽-	₱635,108
Accounts payable	131,390	700,662	_	-	-	-	832,052
Customers' deposits	-	580,457	_	-	_	_	580,457
Accrued expenses	59,361	560,053	-		-	-	619,414
Interest and other financing charges	-	322,413	_	-	-	-	322,413
Dividends payable	-	54,354	_	-	-	-	54,354
MCF liability	10,357	83,956	_	-	-	_	94,313
Others	26,340	158,507	27,154	22,787	19,128	50,398	304,314
Due to related parties	280,498		_	-	-	_	280,498
Provisions	-	461,476	_	-	-	_	461,476
Long-term debts	201,793	4,163,899	253,979	109,046	64,341	58,108	4,851,166
	₱1,053,458	₱7,377,166	₱281,133	₱131,833	₱83,469	₱108,506	₱9,035,565

Credit Risl

The Company trades only with recognized, creditworthy third parties. Customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis.

DMWC Credit Risk Policy. In the Company's water utilities segment, a basic need service, historical collections of the Company are relatively high. Credit exposure is widely dispersed. Maynilad billings are payable on the due date, which is normally 14 days from the billing date. However, customers are given 60 days to settle any unpaid bills before disconnection.

FPII Credit Risk Policy. The Company's exposure to credit risk on trade receivables is indirect since the responsibility for account management and collection is part of the subscription account management function of its operator, TMC. The Company, through TMC, offers a credit card payment option called automatic debit via credit card (Credit Card ADA) which, to a certain extent, operates like a post-payment account that can have some collection backlog if not managed properly. FPII's policy is to provide TMC a 30-day window within which to collect declined Credit Card ADA transactions for the annual period. Any uncollected Credit Card ADA top-ups after the 30-day grace period will be considered as part of the toll collection variance of TMC (ADA variance). In 2008, the cut-off date for the determination of the ADA variance will be January 30, 2009 following the 30-day policy. As of January 31, 2009, the declined ADA reload transactions in 2008 amounted to only \$\frac{1}{2}0.1 \text{ million}.

There is also a credit risk on receivables from the Company's hedging counterparty, Mizuho Corporate Bank (Mizuho). Under the hedge agreements, Mizuho shall pay the Company, in U.S. Dollars and at specified dates, amounts equal to the semi-annual principal and interest payments for the Company's U.S. Dollar-denominated loans, namely ADB-CFS, USD Bank and COFACE. In exchange, the Company pays Mizuho equivalent amounts in Philippine Peso at agreed-upon swap rates and fixed interest rates. The Company manages its counterparty risk by transacting with counterparties of good financial condition and credit rating. Although limiting aggregate exposure on all outstanding derivatives to any individual counterparty would effectively manage settlement risk on derivatives, the CTA stipulated that hedge counterparties would not have voting rights and may not declare an event of default which other counterparties find difficult to accept. To mitigate this exposure, the Company monitors and assesses on a regular basis the counterparty's credit rating in Moody's, S& P and Fitch to obtain reasonable assurance that the counterparty would be able to fulfill its financial obligations under the hedge agreements.

Landco Credit Risk Policy. In the Company's real estate segment, title to the property is transferred only upon full payment of the purchase price. There is also a provision in the sales contract which allows forfeiture of installments/deposits made by the customer in favor of the Company. These measures minimize credit risk exposure of any margin loss from possible default in the payment of installments.

The Company has also adopted a no-business policy with customers lacking inappropriate credit history where credit records are available.

With respect to credit risk arising from the other financial assets of the Company, consisting of cash and cash equivalents, receivables and due from related parties, the Company's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments. The Company has no significant concentrations of credit risk.

The table below shows the maximum exposure to credit risk of the Company without considering the effects of collaterals, credit enhancements and other credit risk mitigation techniques.

Period Covered	2008	2007
		(In Thousands)
Financial assets at FVPL -		
Derivative assets	₱53,042	₽-
Loans and receivables:		
Cash and cash equivalents	8,174,181	248,081
Short-term deposits	570,240	-
Receivables - net (current and noncurrent)	1,608,882	3,365,421
Due from related parties	354,754	218,974
Sinking fund*	507,665	-
Miscellaneous deposits and others*	66,807	13,031
Cash deposits*	65,309	-
Restricted cash*	_	33,740
Landowner's cash*	_	49,508
MCF asset*	_	24,846
HTM investments		
Investment in bonds	100,600	-
	₱11,501,480	₱3,953,601

^{*}Included under "Other current assets" and "Other noncurrent assets" accounts in the consolidated balance sheets.

The table below shows the credit quality per class of financial assets of the Company that were neither past due nor impaired.

		20	08		
	Sub-standard				
	High Grade	Standard Grade	Grade	Total	
		(In Thou	sands)		
Cash and cash equivalents	₱8,174,181	₱–	₽-	₱8,174,181	
Short-term deposits	570,240	_	_	570,240	
Receivables:					
Trade receivables	286,753	_	_	286,753	
Notes receivable	45,000	_	_	45,000	
Accrued interests receivable	195	_	_	195	
Advances to officers and employees	3,105	_	_	3,105	
Others	62,323	1,923	90,224	154,470	
Due from related parties	346,926	196	_	347,122	
Derivative assets	53,042	_	_	53,042	
Investment in bonds	100,600	_	_	100,600	
Sinking fund*	507,665	_	_	507,665	
Cash deposits*	65,309	_	_	65,309	
Miscellaneous deposits**	66,807	_	_	66,807	
	₱10,282,146	₱2,119	₱90,224	₱10,374,489	

^{*} Included under "Other current assets" account in the consolidated balance sheets.

^{**} Included under "Other noncurrent assets" account in the consolidated balance sheets.

		200)7	
			Sub-standard	
	High Grade	Standard Grade	Grade	Total
		(In Thouse	ands)	
Cash and cash equivalents	₱248,081	₱–	₱–	₱248,081
Receivables:				
Trade receivables	1,086	1,271,299	31	1,272,416
Notes receivable	630,000	51,794	=-	681,794
Advances to suppliers	_	10,918	-	10,918
Accrued interests receivable	3,091	16,113	_	19,204
Receivable from sale of AFS financial assets	=	15,632	_	15,632
Advances to sinking fund	=	-	_	-
Others	=	-	_	-
Due from related parties		40,000	_	40,000
Landowner's cash*	49,508	-	_	49,508
Restricted cash*	33,740	-	_	33,740
MCF asset*	=	24,846	_	24,846
Miscellaneous deposit*	-	13,031	_	13,031
·	₱965,506	₱1.443.633	₱31	₱2,409,170

^{*} Included under "Other current assets" and "Other noncurrent assets" account in the consolidated balance sheet.

Cash and cash equivalents and sinking fund are classified as high grade since these are placed with reputable local and international banks which meet the credit rating criteria set under the loan agreements. Qualified banks in the Philippines are those with a bank deposit rating of at least equal to the sovereign rating, or if there is no bank deposit rating, bank financial strength rating of at least 'B' by Moody's, or whose credit rating given by Moody's, Standard & Poor's (S&P), or Fitch is equal to the Philippine government, or whose issuer or issue credit rating by Philratings is at least 'Aa'. Qualified banks outside the Philippines are those whose senior unsecured obligations are rated at least 'BBB' by S&P. In addition to this, the Company has investment in bonds issued by the Philippine government, rated as 'Aa' by Philratings.

High-grade relate to those financial assets which are consistently collected before the maturity date. In addition, these are financial assets from counterparties that also have corresponding collectibles from the Company for certain contracted services. The first layer of security comes from the Company's ability to offset amounts receivable from those counterparties against payments due to them. Standard grade include financial assets that are collected on their due dates even without an effort from the Company to follow them up. Substandard grade relate to financial assets which are collected on their due dates provided that the Company made a persistent effort to collect them. Past due receivables and advances include those that are past due but are still collectible.

As at December 31, 2008, the aging analysis of financial assets is as follows:

	Neither Past Due nor		P	ast Due but n	ot Impaired					
	Impaired	<30 Days	30-60 Days		90-120 Days	>120 Days	Total	Total	Impaired	Total
	'		,		(1	n Thousands)			'	
Cash and cash equivalents	₱8,174,181	₱-	₽-	₽-	₽-	₽-	₽-	₱8,174,181	₽-	₱8,174,181
Short-term deposits	570,240	_	_	-	_	_	_	570,240	_	570,240
Receivables:										
Trade receivables	286,753	186,249	219,551	144,822	97,456	393,013	1,041,091	1,327,844	52,443	1,380,287
Notes receivable	45,000	=-	-	-	-	-	_	45,000	150,000	195,000
Advances to other affiliates	-	-	_	-	-	-	-	-	106,398	106,398
Advances to officers										
and employees	3,105	512	_	-	-	19,370	19,882	22,987	9,894	32,881
Advances to suppliers	-	-	_	-	-	-		-	95,278	95,278
Accrued interests receivable	e 195	-	_	-	_	-	-	195	-	195
Others	154,470	-	_	-	_	58,386	58,386	212,856	1,236	214,092
Sinking fund*	507,665	-	_	-	_	-	-	507,665	-	507,665
Due from related parties	347,122	1,126	1,745	-	371	4,390	7,632	354,754	-	354,754
Investment in bonds	100,600	-	_	-	_	-	-	100,600	-	100,600
Miscellaneous deposits**	66,807	-	_	-	_	-	-	66,807	-	66,807
Cash deposits*	65,309	-	_	-	_	_	-	65,309	-	65,309
Derivative assets	53,042						_	53,042	_	53,042
	₱10,374,489	₱187,887	₱221,296	₱144,822	₱97,827	₱475,159	₱1,126,991	₱11,501,480	₱415,249	₱11,916,729

^{*} Included under "Other current assets" account in the consolidated balance sheets.

^{**} Included under "Other noncurrent assets" account in the consolidated balance sheets.

As at December 31, 2007, the aging analysis of financial assets is as follows:

N	leither Past			hant David Institut	e la caratar el					
	Due nor	-20 D		ast Due but no		. 120 D	Takal	Takal	lance of the el	T-+-1
	Impaired	<30 Days	30-60 Days	60–90 Days		>120 Days	Total	Total	Impaired	Total
					(In Thou	,				
Cash and cash equivalents Receivables:	₱248,081	₽-	₽-	₽-	₽-	₱–	₽-	₱248,081	₽-	₱248,081
Trade receivables	1,272,416	70,580	20,002	17,621	7,643	58,852	174,698	1,447,114	2,485	1,449,599
Notes receivable	681,794	6,833	41,835	34,862	13,945	_	97,475	779,269	150,000	929,269
Advances to suppliers	10,918	1,777	90,682	77,986		418,347	588,792	599,710	_	599,710
Accrued interests receivable	19,204	2,623	44,910	43,715	18,735		109,983	129,187	_	129,187
Advances to other affiliates	, –	· –	, –			_	, –	, –	106,398	106,398
Commissions and managem	ent									,
fees receivable	_	_	_	-	97,115	_	97,115	97,115	_	97,115
Receivables from landowner	s –	_	_	41,188	3,678	28,684	73,550	73,550	_	73,550
Advances to stockholders	_	_	_			59,050	59,050	59,050	_	59,050
Advances to officers						,	,	,		,
and employees	_	_	2.178	2,179	37,035	4,726	46,118	46,118	9,894	56,012
Receivable from sale			,	,	,,,,,,	, .	-,	-,	,,,,,	,-
of AFS financial assets	15,632	691	163	164	79	1,529	2,626	18,258	4,160	22,418
Advances to sinking fund	_	_	_	_	_	7,129	7,129	7,129	_	7,129
Others	_	-	_	61,651	15,636	31,634	108,921	108,921	95,267	204,188
Due from related parties	40,000	1,500	400	142	556	176,376	178,974	218,974	,	218,974
AFS financial assets	_	_	_	_	_	_		_	_	-
Landowner's cash*	49,508	-	_	_	_	_	_	49,508	_	49,508
Restricted cash*	33,740	-	_	_	_	_	_	33,740	_	33,740
MCF asset*	24,846	_	_	_	_	_	_	24,846	_	24,846
Miscellaneous deposits*	13,031	_	_	=	_	_	_	13,031	_	13,031
	₱2,409,170	₱84,004	₱200,170	₱279,508	₱194,422	₱786,327	₱1,544,431	₱3,953,601	₱368,204	₱4,321,805

^{*} Included under "Other current assets" and "Other noncurrent assets" accounts in the consolidated balance sheets.

Equity Price Risk

Equity price risk is the risk to earnings or capital arising from changes in market prices relating to its quoted equity securities. The Company's exposure to equity price risk relates primarily to its quoted AFS financial assets in 2007. As of December 31, 2008, these quoted AFS financial assets are presented under "Assets of disposal group classified as held for sale" account in the consolidated balance sheet.

The Company's policy is to maintain the risk at an acceptable level. Movement in share price is monitored regularly to determine the impact on the Company's financial position. The Company believes that any possible change in equity price has no significant impact on the consolidated financial statements.

Capital Management

The primary objective of the Company's capital management policies is to ensure that the Company maintains a strong balance sheet and healthy capital ratios in order to support its business and maximize shareholder value.

The following debt covenants are being complied by the Company as part of maintaining a strong credit rating with its creditors:

MPIC. MPIC Omnibus Agreement provides that MPIC shall ensure during the terms of the Notes that its Debt-to-equity ratio does not exceed 70:30, and its debt service coverage ratio is at a minimum of 1.3x. As of December 31, 2008, MPIC is in compliance with the required financial ratios and other loan covenants.

FPII. Under the loan agreement, there is a limit to the amount of additional senior debt that it can incur, US\$50 million (or its Peso equivalent, as escalated) for Phase 2 expansion and US\$10 million (or its Peso equivalent, as escalated) for general corporate purposes within three years after November 8, 2006. After this three-year period, incurrence of additional senior debt is governed by certain cash flow tests such as forward debt-service coverage ratios (minimum of 1.3x) and Debt:EBITDA ratio (maximum of 3:1).

FPII also ensures that its debt to equity ratio is in line with the requirements of the Bangko Sentral ng Pilipinas (BSP) and the Board of Investments (BOI). BSP requires FPII to maintain a long-term debt to equity ratio of at most 75:25 during the term of the foreign loans while BOI requires FPII to comply with a 75:25 debt-equity ratio as proof of capital build-up. FPII's long-term debt to equity ratio stood at only 58:42 and 55:45 as of December 31, 2008 and 2007, respectively, indicating that FPII has the capacity to incur additional long-term debt to build up its capital.

The Company manages capital and makes adjustments to it in light of changes in economic conditions. The Company manages its capital structure and makes adjustments to it, when necessary. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders, issue new shares or issue new debt or redemption of existing debt. No changes were made in the objectives, policies or processes during the years ended December 31, 2008 and 2007

The Company monitors capital on the basis of debt-to-equity ratio. Debt-to-equity ratio is calculated as long-term debts over equity.

During 2008, the Company's strategy, which was unchanged from 2007, was to maintain a sustainable debt-to-equity ratio. The debt-to-equity ratio on December 31, 2008 and 2007 are as follows:

	2008	2007
		(In Thousands)
Long-term debts	₱32,206,106	₱4,347,237
Equity	26,788,873	3,070,064
Debt-to-equity ratio	120.2%	141.6%

40. Financial Assets and Financial Liabilities

The classification and comparison by category of the carrying values and fair values of all of the Company's financial instruments as of December 31, 2008 and 2007 are as follows:

		2007		
	Carrying	Fair	Carrying	Fair
	Value	Value	Value	Value
Financial Assets				
Financial Assets at FVPL:				
Derivative assets at FVPL	₱50,059	₱50,059	₽-	₽-
Derivative assets accounted				
as accounting hedges	2,983	2,983	-	-
	53,042	53,042	-	-
Loans and Receivables				
Cash and cash equivalents	8,174,181	8,174,181	248,081	248,081
Short-term deposits	570,240	570,240	_	-
Receivables (current and noncurrent)				
Trade receivables	1,380,287	1,380,287	1,447,114	1,481,743
Notes receivable	195,000	195,000	779,269	779,269
Advances to other affiliates	106,398	106,398		· -
Advances to suppliers	95,278	95,278	599,710	599,710
Advances to officers and employees	32,881	32,881	46,118	46,118
Accrued interests receivable	195	195	129,187	129,187
Commissions and management fees receivable	_	_	97,115	97,115
Receivables from landowners	_	_	73,550	73,550
Advances to stockholders	_	_	59,050	59,050
Receivable from sale of AFS financial assets	_	_	18,258	18,731
Advances to sinking fund	_	_	7,129	7,129
Others	214,092	214,092	108,921	108,921
Due from related parties	354,754	391,172	218,974	240,257
Restricted cash *	_	_	33,740	33,740
Sinking fund*	507,665	507,665	-	-
Landowners' cash*	_	_	49,508	49,508
MCF asset*	_	_	24,846	24,846
Miscellaneous deposits*	66,807	80,288	13,031	13,031
Cash deposits	65,309	65,309	-	
Rental deposits and other financial assets*	2,403	3,441	_	_
The Har de posits and other manetar assets	11,765,490	11,816,427	3,953,601	4,009,986
AFS Financial assets:	, , , , , , , , ,	, ,	3/23/001	1,003,500
BLC	402,964	402,964	402,964	402,964
Golf clubs	-	_	154,028	154,028
	402,964	402,964	556,992	556,992
HTM Investments -	,	.0=,50.	550,572	555,552
Investment in bonds	100,600	107,262	_	_
Total financial assets	₱12,322,096	₱12,379,695	₱4,510,593	₱4,566,978
(Forward)	, , ,	,,	,5 . 0,5 . 5	,555,576

		2008		2007
	Carrying	Fair	Carrying	Fair
	Value	Value	Value	Value
Financial Liabilities				
FVPL -				
Derivative liability accounted as accounting hedges	₱29,861	₱29,861	₽-	₽-
Other Financial Liabilities				
Notes payable:				
Secured	_	_	255,584	255,584
Unsecured	_	_	379,524	379,524
Accounts payable and other current liabilities:			_	=
Accrued expenses	2,213,846	2,213,846	619,414	619,414
Accrued construction costs	1,912,797	1,912,797	-	-
Trade payables	1,244,183	1,244,183	=	_
Accounts payable	33,005	33,005	832,052	832,052
Interest and other financing charges	782,313	782,313	322,413	322,413
Dividends payable	28,588	28,588	54,354	54,354
Retention payable	11,460	11,460	78,657	78,657
Subscriptions payable	_	_	89,591	89,591
Customers' deposits	_	_	580,457	580,457
MCF liability	_	_	94,313	94,313
Others	75,884	75,884	206,986	283,077
Due to related parties	2,823,555	2,823,555	280,498	297,846
Provisions	461,476	461,476	461,476	461,476
Concession fees payable (current and noncurrent)	7,595,219	7,595,219	-	-
Long-term debts (current and noncurrent)	32,206,106	32,606,746	4,347,237	4,474,307
Customer's deposit**	417,091	443,573	-	-
Financial guarantee obligation**	64,270	100,688	-	-
-	49,869,793	50,333,333	8,602,556	8,823,065
Total financial liabilities	₱49.899.654	₱50,363,194	₱8.602.556	₱8.823.065

^{*} Included in "Other current assets" and "Other noncurrent assets" accounts in the consolidated balance sheets.

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value:

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 balance sheet date.

Receivables (except ICR), Restricted Cash, Landowners' Cash, Cash Deposits Notes Payable and Accounts Payable and Other Current Liabilities. Carrying values approximate the fair values at balance sheets date due to the short-term nature of the transactions.

Due to/from Related Parties. Estimated fair value approximates the carrying values of these instruments due to the quarterly repricing of interest based on 90-day LIBOR rate.

Miscellaneous Deposits, Service Concession Payable and Customers' Deposits. Estimated fair value is based on the discounted value of future cash flows using December 31, 2008 PDST-F rates

AFS Financial Assets. The fair values of quoted golf club shares were determined by reference to market bid quote as of the balance sheet date. The fair values of unquoted shares were determined based on prevailing and recent selling prices.

Investment in Bonds. These pertain to quoted RO P treasury bonds which bear fixed interest rates ranging from 8.5% to 9%, payable quarterly and will mature on July 31, 2011 and 2013. The fair value is based on the quoted market price of the financial instruments as of December 31, 2008.

Rental Deposits and Other Financial Assets. Estimated fair value is based on the discounted value of future cash flows using the prevailing peso interest rates that are specific to the tenor of the instruments' cash flows at balance sheet dates.

Other Noncurrent Financial Assets. Estimated fair value is based on the discounted value of future cash flows using the prevailing peso interest rates that are specific to the tenor of the instruments' cash flows as at balance sheet date at balance sheet dates.

Long-term Debt. For both fixed rate and floating rate (repriceable every six months) U.S. Dollar-denominated debts and peso-denominated fixed rate corporate notes, estimated fair values is based on the discounted value of future cash flows using the prevailing credit adjusted US risk-free rates and prevailing peso interest rates ranging from 1.51% to 5.72% and 8.04% to 8.81% in 2008 and 2007, respectively.

Derivative Assets and Liabilities The fair value of cross currency swap transactions is the net present value of estimated future cash flows using US and Philippine risk free rates ranging from 1.7% to 2.2% and 4.3% to 5.1%, respectively.

^{**} Included in "Other Iona-term liabilities" account in the 2008 consolidated balance sheet

Derivative Instruments. In 2008, MNTC entered into cross currency swap transactions to hedge its foreign exchange and interest rate exposures on its US dollar-denominated loans with details as follows:

	Outstanding Balance at the Date of Inception of Hedge		Outstanding Balance as of December 31,
Loan Facilities	Relationship	Interest Rate	2008
		(In Thousands)	
ADB CFS A	\$12,750	Libor + 2.75%	\$11,688
ADB CFS B	2,250	Libor + 2.75%	2,068
COFACE	11,213	6.13%	10,278
USD Bank Facility	24,038	Libor + 3.00%	22,034
·	\$ 50.251		\$46.068

The following table provides information about MNTC's outstanding derivative financial instruments as of December 31, 2008 and their related fair values:

Cross Currency Swaps	Asset	Liability
ADB-CFS A	₱2,983	₽-
ADB-CFS B	=	(2,671)
COFACE	50,059	=
USD Bank Facility	-	(27,190)
	₱53,042	(P 29,861)

Derivatives Accounted for as Non-hedge Transactions. On July 1, 2008, MNTC entered into a cross currency swap to hedge its fair value exposure on the COFACE covered loan due to movements in foreign exchange and interest rates. Under the cross currency swap, MNTC will receive US\$11.2 million in installments of US\$0.9 million every six months starting December 15, 2008 until June 16, 2014 plus semi-annual interest at a fixed rate of 6.13% per annum on the outstanding US dollar balance, and pay \$\tilde{P}\$504.6 million, payable in equal semi-annual installments of \$\tilde{P}\$42.0 million every six months starting December 15, 2008 until June 16, 2014, and semi-annual interest at 6-month PHIREF plus 2.75% per annum on the outstanding peso balance. Fair value changes in these swaps recognized in the consolidated statement of income in 2008 amounted to \$\tilde{P}\$38,625.

Derivatives Accounted for Under Cash Flow Hedge Accounting. On September 23, 2008 and October 3, 2008, MNTC entered into cross currency swap transactions with Mizuho to hedge the cash flow variability on the ADB loans and USD Bank facility due to movements in foreign exchange and interest rates. The swaps were designated by MNTC as cash flow hedges at inception. Such swap transactions were also designated by MPIC as cash flow hedges on November 13, 2008, the date MPIC acquired FPII, the parent company of MNTC.

ADB CFS A

Under the cross currency swap, MNTC will receive US\$12.8 million in installments of US\$1.1 million every six months starting December 15, 2008 until June 16, 2014 plus semi-annual interest at a rate of 6-month LIBOR plus 2.75% per annum spread on the outstanding US dollar balance, and pay ₱590.7 million payable in equal semi-annual installments of ₱49.2 million every six months starting December 15, 2008 until June 16, 2014, and semi-annual interest at fixed rate of 8.3% per annum on the outstanding peso balance.

ADB CFS B

Under the cross currency swap, MNTC will receive US\$2.2 million in installments of US\$0.2 million every six months starting December 15, 2008 until June 16, 2014 plus semi-annual interest at a rate of 6-months LIBOR plus 2.75% per annum spread on the outstanding US dollar balance, and pay ₱105.9 million payable in equal semi-annual installments of ₱8.8 million every six months starting December 15, 2008 until June 16, 2014, and semi-annual interest at fixed rate of 8.88% per annum on the outstanding peso balance.

USD Bank Facility

Under the cross currency swap, MNTC will receive US\$24.0 million in installments of US\$2.0 million every six months starting December 15, 2008 until June 16, 2014 plus semi-annual interest at a rate of 6-months LIBOR plus 3.0% per annum spread on the outstanding US dollar balance, and pay ₱1,131.0 million, payable in equal semi-annual installments of ₱94.2 million every six months starting December 15, 2008 until June 16, 2014, and semi-annual interest at fixed rate of 9.10% per annum on the outstanding peso balance.

As a result of the cash flow hedge, any amounts that will be recognized directly in equity shall be recognized in the consolidated statement of income in the same period during which the hedged transaction affects the consolidated statement of income.

Hedge Effectiveness of Cash Flow Hedges.

The effective portion of the fair value changes of the swaps designated as accounting hedges amounted to \$\frac{9}{23,882}\$ million, net of tax of \$\frac{9}{10,237}\$ million, as of December 31, 2008. Such fair value changes have been deferred in equity under the "Other Reserves" account as of December 31, 2008. The ineffective portion as of December 31, 2008 is not significant.

The difference between the fixed interest paid/accrued and the floating interest received/accrued by the Company on the cross currency swaps amounting to P4,513 million is recognized as part of interest expense.

Metro Pacific Investments Corporation and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

41. Assets Held in Trust

Materials and Supplies

Maynilad has the right to use any items of inventory owned by MWSS in carrying out its responsibility under the Concession Agreement, subject to the obligation to return the same at the end of the Concession Period, in kind or in value at its current rate, subject to CPI adjustments.

Facilities

Maynilad has been granted with the right to operate, maintain in good working order, repair, decommission and refurbish the movable property required to provide the water and sewerage services under the Concession Agreement. MWSS shall retain legal title to all movable property in existence at the Commencement Date. However, upon expiration of the useful life of any such movable property as may be determined by Maynilad, such movable property shall be returned to MWSS in its then-current condition at no charge to MWSS or the Company.

The Concession Agreement also provides Maynilad and the East Concessionaire to have equal access to MWSS facilities involved in the provision of water supply and sewerage services in both West and East Service Areas including, but not limited to, the MWSS management information system, billing system, telemetry system, central control room and central records.

The net book value of the facilities transferred to Maynilad on Commencement Date based on MWSS' closing audit report amounted to ₱7.3 billion with a sound value of ₱13.8 billion.

MWSS' corporate headquarters are made available to Maynilad and the East Concessionaire for a one-year period beginning on the Commencement Date, subject to yearly renewal with the consent of the parties concerned. As of December 31, 2008, the lease has been renewed for another year.

42. Events after the Balance Sheet Date

Long-term lease agreement with Roman Catholic Archbishop of Manila (RCAM)

Collinas Verdes Hospital Managers Corporation (Colinas Verdes), a wholly-owned subsidiary of Medical Doctors, Inc., which is in turn 32.4% owned by the Company, has entered into a long term lease agreement with RCAM to manage and operate Cardinal Santos Medical Center (CSMC) for a period of twenty years starting March 1, 2009. This follows Colinas Verdes' management of the interim operations of the 212-bed CSMC for a period of six and a half months while the RCAM conducted a selection process for the long-term operator.

Under the agreement, Colinas Verdes has an initial capex commitment of ₱250.0 million for the first three years of operation to upgrade CSMC's medical facilities and enhance its range of services. CSMC is now the third hospital to be integrated into Company's nationwide chain of premiere hospitals.

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