Metro Pacific Investments Corporation

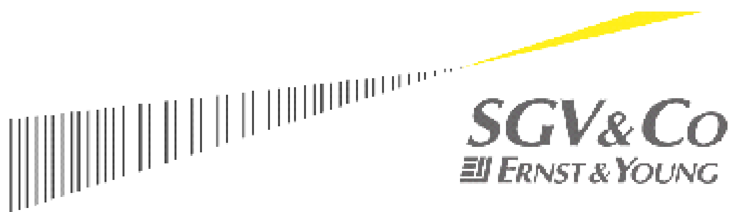
Parent Company Financial Statements
December 31, 2010 and 2009

and

Independent Auditors' Report

SyCip Gorres Velayo & Co.

SGV&Co
Ernst & Young



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INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Metro Pacific Investments Corporation

Report on the Financial Statements

We have audited the accompanying parent company financial statements of Metro Pacific Investments Corporation, which comprise the parent company balance sheets as at December 31, 2010 and 2009, and the parent company statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Parent Company Financial Statements

Management is responsible for the preparation and fair presentation of these parent company financial statements in accordance with Philippine Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of parent company financial statements that are free from material misstatement, whether due to error or fraud.

Auditors' Responsibility

Our responsibility is to express an opinion on these parent company 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 about whether the parent company financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the parent company financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the parent company 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 parent company 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 parent company financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the parent company financial statements present fairly, in all material respects, the financial position of Metro Pacific Investments Corporation as at December 31, 2010 and 2009, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

Report on the Supplementary Information Required Under Revenue Regulations 15-2010

The supplementary information on taxes and licenses required for purposes of filing with the Bureau of Internal Revenue is presented by the management of Metro Pacific Investments Corporation in a separate schedule. Revenue Regulations 15-2010 require the information to be presented in the notes to parent company financial statements. Such information is not a required part of the basic financial statements. The information is also not required by Securities Regulation Code Rule 68. Our opinion on the basic financial statements is not affected by the presentation of the information in a separate schedule.

SYCIP GORRES VELAYO & CO.

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June 1, 2009, Valid until May 31, 2012
PTR No. 2641544, January 3, 2011, Makati City

March 3, 2011

METRO PACIFIC INVESTMENTS CORPORATION

PARENT COMPANY BALANCE SHEETS

(Amounts in Thousands)

	December 31	
	2010	2009
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 5 and 22)	**₱1,619,074**	₱2,924,192
Receivables - net (Notes 6 and 22)	**444,486**	11,818,488
Real estate held for sale (Note 9)	**59,537**	59,537
Due from related parties (Notes 14 and 22)	**113,908**	179,671
Available-for-sale financial assets (Notes 7, 9 and 22)	**448,087**	236,262
Noncurrent asset held for sale (Note 9)	**–**	329,570
Other current assets (Notes 8 and 22)	**741,459**	299,009
Total Current Assets	**3,426,551**	15,846,729
Noncurrent Assets		
Receivables (Notes 6 and 22)	**275,609**	–
Investments in subsidiaries and associates and interest in joint ventures (Notes 10 and 22)	**58,906,249**	50,980,582
Property and equipment - net (Note 11)	**37,302**	34,814
Derivative asset (Notes 9 and 22)	**31,713**	–
Other noncurrent assets	**53,858**	20,712
Total Noncurrent Assets	**59,304,731**	51,036,108
	₱62,731,282	₱66,882,837

	2010	2009
LIABILITIES AND EQUITY		
Current Liabilities		
Accrued expenses and other current liabilities (Notes 12, 17 and 22)	**₱335,236**	₱493,234
Income tax payable (Note 19)	**4,173**	–
Due to related parties (Notes 14 and 22)	**1,419,534**	1,372,536
Current portion of long-term debt (Notes 13 and 22)	**58,391**	154,914
Total Current Liabilities	**1,817,334**	2,020,684
Noncurrent Liabilities		
Long-term debt - net of current portion (Notes 13 and 22)	**6,522,222**	17,457,751
Due to related parties (Notes 14 and 22)	**6,314,141**	–
Accrued retirement cost (Note 17)	**–**	9,090
Long-term incentive plan payable (Notes 17 and 22)	**83,783**	–
Deferred tax liabilities (Note 19)	**95,265**	–
Total Noncurrent Liabilities	**13,015,411**	17,466,841

(Forward)

	December 31	
	2010	2009
Equity (Note 15)		
Capital stock	**₱20,205,465**	₱20,178,155
Additional paid-in capital	**27,508,008**	27,860,033
Deposit for future stock subscriptions	**12,125**	–
Reserves	**60,957**	(239,295)
Retained earnings (deficit)	**111,982**	(403,581)
Total Equity	**47,898,537**	47,395,312
	₱62,731,282	₱66,882,837

See accompanying Notes to Parent Company Financial Statements.

METRO PACIFIC INVESTMENTS CORPORATION

PARENT COMPANY STATEMENTS OF INCOME

(Amounts in Thousands)

	Years Ended December 31	
	2010	2009
DIVIDEND INCOME (Note 10)	**₱1,959,979**	₱711,995
INTEREST EXPENSE (Notes 13 and 18)	**(1,422,517)**	(1,004,814)
OPERATING EXPENSES (Note 16)	**(605,649)**	(429,045)
INTEREST INCOME (Note 18)	**282,844**	166,511
GAIN ON DISPOSAL OF INVESTMENTS - Net (Notes 9 and 10)	**57,913**	158,621
FOREIGN EXCHANGE GAIN - Net	**15,583**	6,872
OTHER INCOME (Note 12)	**27,631**	403
OTHER EXPENSE	**(498)**	(4,419)
INCOME (LOSS) BEFORE INCOME TAX	**315,286**	(393,876)
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 19)		
Current	**22,248**	9,705
Deferred	**(25,908)**	–
	(3,660)	9,705
NET INCOME (LOSS)	**₱318,946**	(₱403,581)

See accompanying Notes to Parent Company Financial Statements.

METRO PACIFIC INVESTMENTS CORPORATION

PARENT COMPANY STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in Thousands)

	Years Ended December 31	
	2010	2009
NET INCOME (LOSS)	**₱318,946**	(₱403,581)
OTHER COMPREHENSIVE INCOME	**–**	–
TOTAL COMPREHENSIVE INCOME (LOSS)	**₱318,946**	(₱403,581)

See accompanying Notes to Parent Company Financial Statements.

METRO PACIFIC INVESTMENTS CORPORATION

PARENT COMPANY STATEMENTS OF CHANGES IN EQUITY

For the Years Ended December 31, 2010 and 2009
(Amounts in Thousands)

	Capital Stock (Notes 14 and 15)	Additional Paid-In Capital (Note 15)	Deposit for Future Stock Subscriptions (Note 15)	Reserves (Note 15)	Retained Earnings (Deficit) (Note 15)	Total
At January 1, 2010	**₱20,178,155**	**₱27,860,033**	**₱–**	**(₱239,295)**	**(₱403,581)**	**₱47,395,312**
Total comprehensive income for the year	–	–	–	–	**318,946**	**318,946**
Executive Stock Option Plan (ESOP) (Note 20):						
Exercise of stock option	**27,310**	**52,038**	**12,125**	**(13,825)**	–	**77,648**
Cost of ESOP	–	–	–	**33,465**	–	**33,465**
Transaction costs	–	**(482)**	–	–	–	**(482)**
Equity restructuring (Note 15)	–	**(403,581)**	–	–	**403,581**	–
Equity component of a financial instrument - net of tax (Note 14)	–	–	–	**280,612**	–	**280,612**
Cash dividends declared	–	–	–	–	**(206,964)**	**(206,964)**
At December 31, 2010	**₱20,205,465**	**₱27,508,008**	**₱12,125**	**₱60,957**	**₱111,982**	**₱47,898,537**
At January 1, 2009	₱7,027,727	₱5,753,809	₱6,807,293	(₱523,672)	(₱1,620,929)	₱17,444,228
Total comprehensive loss for the year	–	–	–	–	(403,581)	(403,581)
Issuance of shares during the year:						
Common shares	13,086,483	24,332,647	(6,807,293)	–	–	30,611,837
Preferred shares	50,000	–	–	–	–	50,000
Transaction costs (Note 15)	–	(628,395)	–	–	–	(628,395)
ESOP (Note 20):						
Exercise of stock option	13,945	22,901	–	(3,209)	–	33,637
Cost of ESOP	–	–	–	50,036	–	50,036
Equity restructuring (Note 15)	–	(1,620,929)	–	–	1,620,929	–
Disposal of a subsidiary (Note 9)	–	–	–	237,550	–	237,550
At December 31, 2009	₱20,178,155	₱27,860,033	₱–	(₱239,295)	(₱403,581)	₱47,395,312

See accompanying Notes to Parent Company Financial Statements.

METRO PACIFIC INVESTMENTS CORPORATION

PARENT COMPANY STATEMENTS OF CASH FLOWS

(Amounts in Thousands)

	Years Ended December 31	
	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Income (loss) before income tax	**₱315,286**	(₱393,876)
Adjustments for:		
Dividend income (Note 10)	**(1,959,979)**	(711,995)
Interest expense (Note 18)	**1,422,517**	1,004,814
Interest income (Note 18)	**(282,844)**	(166,511)
Long-term incentive plan expense (Note 17)	**71,477**	–
Gain on disposal of investments - net (Notes 9 and 10)	**(57,913)**	(158,621)
Retirement cost (Note 17)	**28,508**	1,253
Provision for Executive Stock Option Plan (Note 20)	**25,257**	50,036
Reversal of accruals (Note 12)	**(22,192)**	–
Foreign exchange gain - net	**(15,583)**	(6,872)
Depreciation and amortization (Notes 11 and 16)	**9,767**	7,215
Loss (gain) on disposal of property and equipment	**498**	(13)
Actuarial loss (Note 17)	**–**	4,275
Operating loss before working capital changes	**(465,201)**	(370,295)
Decrease (increase) in:		
Receivables	**46,048**	20,263
Due from related parties	**36,761**	(178,398)
Other current assets	**(467,450)**	(230,452)
Increase (decrease) in:		
Accrued expenses and other current liabilities	**15,201**	(2,778)
Accrued retirement cost	**(31,374)**	–
Net cash used in operations	**(866,015)**	(761,660)
Dividends received	**1,939,326**	1,153,479
Interest paid	**(1,343,730)**	(612,892)
Interest received	**134,791**	42,987
Income tax paid	**(18,075)**	(9,705)
Net cash used in operating activities	**(153,703)**	(187,791)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	**196,762**	–
Increase in other noncurrent assets	**(1,605)**	(44)
Acquisitions/issuance of:		
Notes receivables (Notes 6 and 9)	**(50,000)**	(11,205,000)
Investments in subsidiaries and associates and interest in joint ventures (Note 10)	**(7,910,311)**	(10,677,167)
Property and equipment (Note 11)	**(13,909)**	(22,356)
Software costs	**(31,541)**	(6,588)

(Forward)

	Years Ended December 31	
	2010	2009
Collection of or proceeds from sale/disposal of:		
Notes receivables (Note 6)	**₱11,205,000**	₱–
Interest in a joint venture (Note 10)	**245,000**	–
Noncurrent asset held for sale (Note 9)	**50,000**	–
Property and equipment	**1,156**	870
Net cash provided by (used in) investing activities	**3,690,552**	(21,910,285)
CASH FLOWS FROM FINANCING ACTIVITIES		
Receipt of or proceeds from:		
Due to related parties	**6,625,650**	731,642
Short-term loan (Note 13)	**–**	4,500,000
Long-term debt (Note 13)	**–**	11,200,000
Issuance of shares (Notes 15 and 20)	**65,523**	14,342,775
Deposit for future stock subscriptions (Note 15)	**12,125**	–
Payments of/for:		
Due to related parties	**(37,210)**	(374,117)
Short-term loan (Note 13)	**–**	(4,500,000)
Long-term debt (Note 13)	**(11,267,500)**	(33,750)
Debt issuance costs (Note 13)	**–**	(230,033)
Transaction costs on issuance of convertible bonds (Note 14)	**(33,000)**	–
Transaction costs related to issuance of shares	**(482)**	(627,532)
Dividends paid (Note 15)	**(206,964)**	–
Net cash provided by (used in) financing activities	**(4,841,858)**	25,008,985
EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**(109)**	(907)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(1,305,118)**	2,910,002
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**2,924,192**	14,190
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 5)	**₱1,619,074**	₱2,924,192

See accompanying Notes to Parent Company Financial Statements.

METRO PACIFIC INVESTMENTS CORPORATION
NOTES TO PARENT COMPANY FINANCIAL STATEMENTS

1. **Corporate Information**

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

MPIC is 55.6% 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. (Intalink) (26.7%) and First Pacific International Limited (FPIL) (13.3%). First Pacific Company Limited (FPC), a company incorporated in Bermuda and listed in Hong Kong, through its subsidiaries, holds a direct 40% equity interest in EIH and investment financing which under Hong Kong Generally Accepted Accounting Principles require FPC to account for the results and assets and liabilities of EIH and its subsidiaries as FPC group companies in Hong Kong. On such basis, FPC is referred to as the ultimate parent company of EIH and of MPIC.

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

The accompanying parent company financial statements as of and for the years ended December 31, 2010 and 2009 were approved and authorized for issue by the Board of Directors (BOD) on March 3, 2011.

2. **Summary of Significant Accounting Policies**

Basis of Preparation
The parent company financial statements, which have been prepared for submission to the SEC and the Bureau of Internal Revenue, have been prepared on a historical cost basis, except for available-for-sale (AFS) financial assets and derivative financial instruments that have been measured at fair value. The parent company financial statements are presented in Philippine peso, which is the Company's functional and presentation currency, and all values are rounded to the nearest thousands (000), except when otherwise indicated.

The Company also prepares and issues consolidated financial statements for the same period as the separate financial statements presented in compliance with Philippine Financial Reporting Standards (PFRS). These may be obtained at the 10th Floor, MGO Building, Legaspi corner Dela Rosa Streets, Legaspi Village, Makati City.

Statement of Compliance
The parent company financial statements have been prepared in compliance with PFRS.

Changes in Accounting Policies
The accounting policies adopted are consistent with those of the previous financial year except for the adoption of the following new and amended standards and Philippine Interpretations based on International Financial Reporting Interpretations Committee (IFRIC) which became effective on January 1, 2010.

Adoption of New and Amended Standards and Interpretations

- PFRS 3 (Revised), "Business Combinations" and Philippine Accounting Standard (PAS) 27 (Amended), "Consolidated and Separate Financial Statements" — PFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring after becoming effective. Changes affect the valuation of non-controlling interest (previously known as "minority interest"), the accounting for transactions costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs and future reported results. PAS 27 (Amended) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes by PFRS 3 (Revised) and PAS 27 (Amended) will affect future acquisitions or loss of control of subsidiaries and transactions with non-controlling interests. PFRS 3 (Revised) prospectively effective while PAS 27 (Amended) was applied retrospectively subject to certain exceptions.

  The adoption of revised PFRS 3 and amended PAS 27 affected the Company's accounting policies and procedures for business combinations and acquisition and disposal of non-controlling interest during the year. Effects of adoption of these revised and amended standards are reflected in the Company's consolidated financial statements.

- PFRS 2, "Share-based Payment (Amendment) - Group Cash-settled Share-based Payment Transactions" — The amendment to PFRS 2 clarified the scope and the accounting for group cash-settled share-based payment transactions.

- PAS 39, "Financial Instruments: Recognition and Measurement (Amendment) - Eligible Hedged Items" — This amendment 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. This also covers the designation of inflation as a hedged risk or portion in particular situations.

- Philippine Interpretation IFRIC 17, "Distributions of Non-cash Assets to Owners" — This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends.

  The adoption of the amendments to PFRS 2, PAS 39 and the Philippine Interpretation IFRIC 17 did not have any impact on the financial position or performance of the Company.

Improvements to PFRS. Improvements to PFRS, an omnibus of amendments to standards, deal primarily with a view of removing inconsistencies and clarifying wordings. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies but did not have any impact on the financial position or performance of the Company.

- PFRS 8, "Operating Segments" — This clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker. As the Company's chief operating decision maker does review segment assets and liabilities, the Company has continued to disclose this information in Note 4.

- PAS 7, “Statement of Cash Flows” — The amendment stated that only expenditure that results in recognizing an asset can be classified as a cash flow from investing activities.

- PAS 39 — clarifies the following:

  a. that a prepayment option is considered closely related to the host contract when the exercise price of a prepayment option reimburses the lender up to the approximate present value of lost interest for the remaining term of the host contract.

  b. that the scope exemption for contracts between an acquirer and a vendor in a business combination to buy or sell an acquiree at a future date applies only to binding forward contracts, and not derivative contracts where further actions by either party are still to be taken.

  c. that gains or losses on cash flow hedges of a forecast transaction that subsequently results in the recognition of a financial instrument or on cash flow hedges of recognized financial instruments should be reclassified in the period that the hedged forecast cash flows affect profit or loss.

- PAS 36, “Impairment of Assets” — The amendment clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in PFRS 8 before aggregation for reporting purposes. The amendment has no impact on the Company as the annual impairment test is performed at the level of the operating segment.

The improvements to the following standards and interpretations did not have any impact on the accounting policies, financial position or performance of the Company:

- PFRS 2, “Share-based Payment”
- PFRS 5, “Non-current Assets Held for Sale and Discontinued Operations”
- PAS 1, “Presentation of Financial Statements”
- PAS 17, “Leases”
- PAS 34, “Interim Financial Reporting”
- PAS 38, “Intangible Assets”
- Philippine Interpretation IFRIC 9, “Reassessment of Embedded Derivatives”
- Philippine Interpretation IFRIC 16, “Hedge of Net Investment in a Foreign Operation”

Future Changes in Accounting Policies

The Company has not applied the following PFRS, Philippine Interpretations and amendments to existing standards which are not yet effective as of December 31, 2010:

- PFRS 7, “Financial Instruments: Disclosures (Amendment) – Disclosures – Transfers of Financial Assets” (effective for annual periods beginning on or after July 1, 2011) —The amendments will allow users of financial statements to improve their understanding of transfer transactions of financial assets (for example, securitizations), including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period.

- PFRS 9, "Financial Instruments: Classification and Measurement" (effective for annual periods beginning on or after January 1, 2013) — PFRS 9, as issued in 2010, reflects the first phase of the work on the replacement of PAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in PAS 39. In subsequent phases, hedge accounting and derecognition will be addressed. The completion of this project is expected in the middle of 2011. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Company's financial assets. The Company will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

- PAS 12, "Income Taxes (Amendment) – Deferred Tax: Recovery of Underlying Assets" (effective for annual periods beginning on or after January 1, 2012) — The amendment provides a practical solution to the problem of assessing whether recovery of an asset will be through use or sale. It introduces a presumption that recovery of the carrying amount of an asset will, normally, be through sale.

- PAS 24 (Amended), "Related Party Disclosures" (effective for annual periods beginning on or after January 1, 2011) — This amendment clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government-related entities.

- PAS 32, "Financial Instruments: Presentation (Amendment) – Classification of Rights Issues" (effective for annual periods beginning on or after February 1, 2010) — This amended the definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, or to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency.

- Philippine Interpretation IFRIC 14 (Amendment), "Prepayments of a Minimum Funding Requirement" (effective for annual periods beginning on or after January 1, 2011) — The amendment provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset.

- Philippine Interpretation IFRIC 15, "Agreements 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 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 19, “Extinguishing Financial Liabilities with Equity Instruments” (effective for annual periods beginning on or after July 1, 2010) — This interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognized in profit and loss.

The Company is currently assessing and determining the impact of adopting the aforementioned new standards, amendments and interpretations in its future reporting and in the parent company financial statements.

Improvements to PFRS
Improvements to PFRS are omnibus of amendments to PFRS. The amendments have not been adopted as they become effective for annual periods on or after either July 1, 2010 or January 1, 2011. The Company is currently assessing the impact of applying in its future reporting the amendments listed below:

- PFRS 3, “Business Combination”
- PFRS 7, “Financial Instruments: Disclosures”
- PAS 1, “Presentation of Financial Statements”
- PAS 27, “Consolidated and Separate Financial Statements”
- PAS 31, “Interests in Joint Ventures”
- Philippine Interpretation IFRIC 13, “Customer Loyalty Programmes”

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 parent company 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. Derivatives are also recognized on a trade date basis.

Initial Recognition. 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 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.

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 every reporting date.

The Company has no HTM investments and financial liabilities at FVPL as of December 31, 2010 and 2009.

Subsequent Measurement. The subsequent measurement of financial assets and financial liabilities depends on their classification as follows:

Financial Assets

Financial Assets at FVPL. Financial assets at FVPL include financial assets held for trading and financial assets designated upon initial recognition as at FVPL. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing 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 parent company statement of income. Interests earned on holding financial assets at FVPL are reported as interest income using the effective interest rate. Dividends earned on holding financial assets at FVPL are recognized in the parent company statement of income when the right of payment had been established.

Financial assets may be designated at initial recognition at FVPL if any of 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.

Financial assets and liabilities classified under this category are carried at fair value in the parent company balance sheet, with any gains or losses being recognized in the parent company 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 parent company 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 parent company statement of income with the corresponding adjustment from the hedged transaction (fair value hedge) or deferred in equity (cash flow hedge) presented under “Reserves” account.

As of December 31, 2010, the Company has conversion option asset classified as financial assets at FVPL (see Note 22).

Loans and Receivables. Loans and receivables are non-derivative 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 rate method, less impairment. The amortization is included as part of interest income in the parent company statement of income. Losses arising from impairment are recognized in the parent company statement of income. Loans and receivables are included in current assets if maturity is within twelve months after the end of reporting period, otherwise these are classified as noncurrent assets.

Loans and receivables include cash and cash equivalents, receivables, cash deposits, investments in preferred shares with mandatory redemption, and advances to and due from related parties (see Notes 5, 6, 8, 10 and 14).

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 and these include equity and debt securities. 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 that are quoted are subsequently measured at fair value. The unrealized gains and losses arising from the change in fair value of AFS financial assets are recognized as other comprehensive income in the "Reserves" account in the equity section of the parent company balance sheet until the investment is derecognized, at which time the cumulative gain or loss is recognized in other comprehensive income, or determined to be impaired at which time the cumulative loss is reclassified to the parent company statement of income and removed from the "Reserves" account. 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 parent company statement of income. Interest earned on holding AFS financial assets are reported as interest income using the effective interest rate method. Dividends earned on holding AFS financial assets are recognized in the parent company statement of income when the right of payment has been established. AFS financial assets that are unquoted are carried at cost less any impairment in value.

This category includes investments in unlisted shares of Landco Pacific Corporation (Landco), NE Pacific Shopping Center Corporation (NEPSCC) and investment in preferred shares of Beacon Electric Asset Holdings, Inc. (Beacon Electric) (see Notes 7 and 10).

Financial Liabilities

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. Any effects of restatement of foreign currency-denominated liabilities are recognized in the parent company 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, except for accrued retirement cost, deferred tax liabilities and other statutory liabilities, are classified as other financial liabilities (see Notes 12, 13 and 14).

Derivatives

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 remeasured 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 derivatives not designated as effective accounting hedges are recognized immediately in the parent company 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 and risks 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.

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.

Classification of Financial Instruments Between Liability and Equity

A financial instrument is classified as liability 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.

Determination of Fair Value
The fair value of financial instruments traded in active markets at the end of reporting period 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 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.

Amortized Cost
Amortized cost is computed using the effective interest rate method less any allowance for impairment and principal reduction. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are integral part of the effective interest rate.

"Day 1" Profit or Loss
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 or loss) in the parent company statement of income unless it qualifies for recognition as some other type of asset. In cases where data is not observable, the difference between the transaction price and model value is only recognized in the parent company 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 or loss amount.

Offsetting of Financial Instruments
Financial assets and financial liabilities are offset and the net amount reported in the parent company 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 parent company balance sheet.

Impairment of Financial Assets
The Company assesses at each end of reporting period whether a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Objective evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

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 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 parent company 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 had been realized or had been transferred to the Company. If a write-off is later recovered, any amount formerly charged is credited to the parent company statement of income.

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 parent company 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.

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 parent company statement of income. The asset 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, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the parent company statement of income.

AFS Financial Assets. For AFS financial assets, the Company assesses at each end of reporting period 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 parent company statement of income - is removed from reserves and recognized in the parent company statement of income. Impairment losses on equity investments are not reversed through the parent company statement of income. Increases in fair value after impairment are recognized directly in reserves.

Derecognition of Financial Instruments

Financial Assets. 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. In that case, the Company also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained. 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 parent company statement of income.

Real Estate for Sale
Real estate for sale represents the cost of lots and condominium units not yet sold. Real estate for sale is carried at the lower of cost and net realizable value (NRV). Cost includes the cost of land plus actual development costs incurred up to the end of reporting period. NRV is the selling price in the ordinary course of business less estimated costs to complete and make the sale.

Noncurrent Asset Held for Sale
Noncurrent asset held for sale are measured at the lower of carrying amount and fair value less costs to sell. Noncurrent assets and disposal groups are classified as held for sale if their carrying amounts will be recovered through a sale transaction other 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.

Investments in Subsidiaries and Associates and Interest in Joint Ventures
Investments in subsidiaries and associates and interest in joint ventures are accounted for under the cost method of accounting. 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 control or significant influence. A contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control and that control shall be contractually agreed must be present to account for an interest as joint venture. The investments are carried in the parent company balance sheet at cost less any impairment in value. The Company recognizes income from the investments only to the extent that the Company receives distributions from accumulated profits of the subsidiaries, associates and joint venture arising after the date of acquisition. Distributions received in excess of such profits are regarded as recovery of investment and are recognized as a reduction of the cost of the investment.

Property and Equipment
Property and equipment 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 and borrowing cost for long-term construction project when recognition criteria are met. When significant parts of property and equipment are required to be replaced at intervals, the Company recognizes such parts as individual assets with specific useful lives and depreciation, respectively. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the property and equipment as a replacement if the recognition criteria are satisfied.

Expenditures incurred after the property and equipment have been put into operation, such as repairs and maintenance, are normally recognized as expense in the period such costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional cost of the property and equipment.

Depreciation commences once the property and equipment are available for use and is computed on a straight line basis over the estimated useful lives of the assets (see Note 11).

The asset’s residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at each financial reporting period.

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 asset) is included in the parent company statement of income in the year the asset is derecognized.

Software Cost
Software cost (included as part of "Other noncurrent assets" account in the parent company balance sheet) includes 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, whether there is an indication that software cost maybe impaired.

Impairment of Nonfinancial Assets
The Company assesses at each end of reporting period whether there is an indication that the Company's investments in subsidiaries and associates and interest in joint venture, software costs and property and equipment 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, the asset is considered impaired and is written down to 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. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators. Impairment losses are recognized in the parent company statement of income.

An assessment is made at each end of reporting period 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 parent company statement of income. After such a reversal, the depreciation and amortization 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.

Convertible Bonds
Convertible bonds are separated into liability and equity components based on the terms of the contract. On issuance of the convertible bonds, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond. This amount is classified as a financial liability measured at amortized cost (net of transaction costs) until it is extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognized and included in equity. Transaction costs are deducted from bonds, net of

associated income tax. The carrying amount of the conversion option is not remeasured in subsequent years.

Transaction costs are apportioned between the liability and equity components of the convertible bonds based on the allocation of proceeds to the liability and equity components when the instruments are initially recognized.

Equity

Ordinary shares (common stock) are classified as equity and measured at par value for all shares issued. Incremental costs directly attributable to the issue of ordinary shares and share options are recognized as a deduction from equity, net of any tax effects. Proceeds and/or fair value of consideration received in excess of par value are recognized as additional paid-in capital.

Preference share capital (preferred share) is classified as equity if it is non-redeemable, or redeemable only at the Company's option, and any dividends are discretionary. Dividends thereon are recognized as distributions within equity upon approval by the Company's shareholders. Preference share capital is classified as a liability if it is redeemable on a specific date or at the option of the shareholders, or if dividend payments are not discretionary. Dividends thereon are recognized as interest expense in the parent company statement of income as accrued.

Retained earnings (deficit) represent accumulated earnings (losses) net of cumulative dividends declared, adjusted for the effects of equity restructuring.

Reserves comprise of equity transactions other than capital contributions such as equity component of a convertible financial instrument and share-based payment transactions or Executive Stock Option Plan (ESOP).

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. Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the parent company statement of income, net of any reimbursement. 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.

Operating Segments

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

Segment results that are reported to the chief operating decision maker include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly of corporate assets (primarily the Company's main office), main office expenses, and income tax assets and liabilities.

Segment capital expenditure is the total cost incurred during the period to acquire property and equipment, and intangible assets other than goodwill.

Revenue and Income 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, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment, excluding discounts, rebates, and sales taxes or duty. The Company assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Company has concluded that it is acting as a principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognized:

Dividend Income. Dividend income is recognized when the right to receive payment is established.

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

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

Management Fees. Fees are recognized when services are rendered.

Other Income. These are recognized when there are incidental economic benefits, other than the usual business operations, that will flow to the Company and that can be measured reliably.

Expenses Recognition
Expenses are decreases in economic benefits during the accounting period in the form of outflows or decrease of assets or incurrence of liabilities that result in decrease in equity, other than those relating to distributions to equity participants. Expenses other than the items mentioned below are recognized in the parent company statement of income as incurred.

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.

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

Retirement Benefits

Defined Contribution Plan. In 2010, retirement benefits of the Company's employees are provided through a defined contribution scheme. The Company operates a Retirement Plan which is a contributory plan wherein the Company undertakes to contribute a predetermined amount to the individual account of each employee and the employee gets whatever is standing to his credit upon separation from the Company. The Plan is managed and administered by a Retirement Committee and a trustee bank had been appointed to hold and invest the assets of the retirement fund in accordance with the provisions of the Plan. The Company record expenses for their contribution to the defined contribution plan when the employee renders service to the Company, essentially coinciding with their cash contributions to the plan.

Defined Benefit Plan. In 2009, the Company had unfunded, noncontributory retirement benefit plan covering all their eligible regular employees. The cost of providing benefits under the defined benefit plan was determined using the projected unit credit actuarial valuation method. Actuarial gains and losses were recognized as income or expense immediately in the year when it was incurred.

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

The defined benefit asset or liability was 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 was negative, the asset was 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.

Share-based Payment

The Company has an ESOP for eligible executives of the Company and subsidiaries 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 (cost of ESOP) 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 20. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the share price of the Company ("market conditions").

The cost of ESOP 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 cost of ESOP recognized for equity-settled transactions at each end of reporting period until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of awards that will ultimately vest at that date. The parent company statement of income credit or expense (recognized as employee benefits and presented as ESOP expense) and additional investment in subsidiaries (represent cost of ESOP apportioned to executives of subsidiaries) for a period represents the movement in cumulative cost of ESOP 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, the minimum cost of ESOP recognized is the cost of ESOP as if the terms had not been modified, if the original terms of the award are met. If 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 cost of ESOP 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.

Other Long-term Employee Benefits

The Company's Long Term Incentive Plan (LTIP) grants cash incentives to eligible key executives of the Company and certain subsidiaries. Liability under the LTIP is determined using the projected unit credit method. Employee benefit costs include current service costs, interest cost, actuarial gains and loss and past service costs. Past service costs and actuarial gains and losses are recognized immediately.

The long term employee benefit liability comprises the present value of the defined benefit obligation (using discount rate based on government bonds) at the end of the reporting period.

Foreign Currency Denominated Transactions and Translations
The parent company financial statements are presented in Philippine peso, which is the Company's functional and presentation 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 end of reporting period. All differences are taken to the parent company statement of income.

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 end of reporting period where the Company operates and generates taxable income.

Current income tax relating to items recognized directly in equity is recognized in equity and not in the parent company statement of income. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred Tax. Deferred tax is provided, using the balance sheet liability method, on all temporary differences at the end of reporting period 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, except (a) where the deferred tax liability arises from the initial recognition of goodwill or 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 income nor taxable income or loss; and (b) in respect of taxable temporary differences associated with investments in subsidiaries and associates and interest in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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 income 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 (a) 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 income nor taxable income or loss; and (b) in respect of deductible temporary differences associated with investments in subsidiaries and associates and interest in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable income will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each end of reporting period and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are measured at each end of reporting period and are recognized to the extent that it has become probable that future taxable income 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 end of reporting period.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in parent company statement of income or directly in equity.

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

Sales Tax

Revenues, expenses and assets are recognized net of the amount of sales tax (commonly referred to as “Value Added Tax”), except:

- Where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable.

- Receivables and payables that are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the parent company balance sheet.

Contingencies

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

Events after the Reporting Period

Post year-end events that provide additional information about the Company’s financial position at the end of reporting period (adjusting events), if any, are reflected in the parent company financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the parent company financial statements when material.

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

The preparation of the parent company financial statements in compliance with PFRS requires management to make judgments and estimates that affect the reported amounts of revenues, expenses, assets and liabilities, the disclosure of contingent liabilities and other significant disclosures. In preparing the parent company 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 parent company financial statements are based upon management’s evaluation of relevant facts and circumstances as of the date of the parent company 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, related impact and associated risks in the parent company 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 parent company 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 had 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.

Classification as Investment in an Associate or Joint Venture. As provided in PAS 28, "Investments in Associates," significant influence must be present and currently exercisable over an investee to account any interest in that investee as investment in an associate and under the equity accounting. Notwithstanding a less than 20.0% interest in the investee company, if significant influence can be clearly demonstrated, the investor cannot be precluded from accounting an interest in the investee company as investment in an associate, thus account for such investment under equity method.

PAS 31 also provides that a joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control and that control shall be contractually agreed.

In 2009, the Company classified and accounted for its 14.7% interest in Manila Electric Company (Meralco) as an investment in an associate by virtue of a Shareholders' Agreement entered into by the Company with PLDT Communication and Energy Ventures, Inc. (PCEV, formerly Pilipino Telephone Corporation) which defines the basic principles governing their conduct as common shareholders of Meralco and the exercise of their respective voting rights therein. In 2010, in exchange for the Meralco shares, the Company subscribed for 50.0% in the common shares of Beacon Electric and by virtue of the joint control arrangement with PCEV, the interest in Beacon Electric was accounted for as investment in joint venture.

The carrying value of the investment in Beacon Electric as of December 31, 2010 amounted to ₱23,129.9 million and the carrying value of the investment in Meralco as of December 31, 2009 amounted ₱24,540.3 million (see Note 10).

Noncurrent Asset Held for Sale and AFS Financial Assets. On June 18, 2009, the Company sold 17.0% of its 51.0% interest in Landco and consequently conceded control over Landco. Management intended to dispose the remaining 34.0% during 2010 and as of December 31, 2009, the investment in Landco was classified as a noncurrent held for sale after management 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 is committed to sell Landco and had entered into preliminary negotiations with a potential buyer as of December 31, 2009. Should negotiations with the party not lead to a sale, a number of potential buyers have been then identified.

- The BOD expects negotiations to be finalized and the sale to be substantially completed in 2010.

On August 24, 2010, the Company sold another 15.0% of Landco resulting in 19.0% remaining interest. The further reduction in interest resulted in a loss of significant influence over Landco, thus the investment is being accounted for as AFS financial assets in accordance with PAS 39. The Company intends to dispose the 19.0% remaining interest in Landco.

The carrying value of the investment in Landco accounted for as noncurrent asset held for sale as of December 31, 2009 amounted to ₱329.6 million. The carrying value of the investment in Landco as AFS financial assets as of December 31, 2010 amounted to ₱ 211.8 million
(see Notes 7 and 9).

Financial Assets not Quoted in an Active Market. Where fair value of financial assets recorded in the parent company balance sheet cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flows model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgment includes considerations of inputs such as liquidity risk, credit risk, and volatility. Change in assumptions about these factors could affect the reported fair value of financial instruments.

Unquoted financial assets of the Company include investments in unlisted shares classified as AFS financial assets. Aggregate carrying value of these unquoted AFS financial assets amounted to ₱8,458.5 million and ₱236.3 million as of December 31, 2010 and 2009, respectively
(see Notes 7, 9 and 10).

Operating Leases. The Company has entered into various lease agreements as a lessor and as a lessee. The Company has determined that the significant risks and rewards are retained by the lessor and accounts the lease as operating lease.

Rental income, included under the "Other income" account in the parent company statements of income, amounted to ₱0.1 million for the years ended December 31, 2010 and 2009.

Rental expense, included in "Operating expenses" account in the parent company statements of income, amounted to ₱6.2 million and ₱6.4 million for the years ended December 31, 2010 and 2009, respectively (see Note 16).

<u>Estimates and Assumptions</u>
The key assumptions concerning future and other key sources of estimation at the end of reporting period, 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. The Company based its assumptions and estimates on parameters available when the parent company financial statements were prepared. Existing circumstances and assumptions about future developments however, may change due to market changes or circumstances arising beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

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 develop 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 parent company statement of income or parent company statement of changes in equity (see Note 7).

Fair values of financial instruments are presented in Note 22.

Impairment of Loans and Receivables. The Company estimates the allowance for doubtful accounts related to receivables using a combination of specific and collective assessment. The amounts calculated in each level of impairment assessment are combined to determine the total amount of allowance. 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 allowance 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 allowances 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 receivables, net of allowance for doubtful accounts, amounted to ₱720.1 million and ₱11,818.5 million as of December 31, 2010 and 2009, respectively (see Note 6). The carrying value of due from related parties amounted to ₱1,370.3 million and ₱179.7 million as of December 31, 2010 and 2009, respectively (see Notes 10 and 14).

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 20.0% 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.

No impairment loss was recognized against "AFS financial assets" account for the years ended December 31, 2010 and 2009. The carrying value of AFS financial assets amounted to ₱8,458.5 million and ₱236.3 million as of December 31, 2010 and 2009, respectively (see Notes 7 and 10).

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 parent company 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.

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

	2010	2009
Investments in subsidiaries and associates and interest in joint venture (see Note 10)*	**₱49,639,418**	₱50,980,582
Software costs (included in "Other noncurrent assets")	**51,449**	19,908
Property and equipment (see Note 11)	**37,302**	34,814

**Excludes advances to Beacon Electric and MPC and investments in preferred shares of Beacon Electric as these were classified as loans and receivables and AFS financial asset, respectively.*

There were no impairment losses recognized in 2010 and 2009.

Estimating NRV of Real Estate for Sale. Real estate for sale is 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 real estate for sale are expected to be realized. A review of the items of real estate for sale is performed at each end of reporting period to reflect the accurate valuation of real estate for sale in the parent company financial statements.

The carrying value of real estate for sale amounted to ₱59.5 million as of December 31, 2010 and 2009 (see Note 9).

Estimated Useful Lives of Property and Equipment and Software Costs. The useful life of each of the item of the Company's property and equipment and software costs is 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 end of reporting period 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 property and equipment and software costs would increase the recorded depreciation and amortization and decrease the carrying values of property and equipment and software costs.

There was no change in the estimated useful lives of property and equipment and software costs in 2010 and 2009.

The carrying value of property and equipment amounted to ₱37.3 million and ₱34.8 million as of December 31, 2010 and 2009, respectively (see Note 11). The carrying value of software costs, recorded as part of "Other noncurrent assets" account in the parent company balance sheets, amounted to ₱51.4 million and ₱19.9 million as of December 31, 2010 and 2009, respectively.

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

The Company's assessment on the recognition of deferred tax assets on deductible temporary differences is based on the expected future results of operations.

Unrecognized deferred tax assets related to deductible temporary differences, MCIT and unused NOLCO amounted to ₱832.0 million and ₱425.8 million as of December 31, 2010 and 2009, respectively, since management believes that it is not probable that future taxable income will be available against which the deferred tax assets can be utilized (see Note 19).

Retirement Benefits. In 2010, the BOD approved the change in the retirement plan of the Company from defined benefit to defined contribution. The said change in the retirement is considered a change in method as opposed to a change in accounting policy and the effect of the change will be applied prospectively.

The contribution payable to a defined contribution plan is in proportion to the services rendered to the Company by the employees and is recorded as a retirement cost presented as "Personnel cost" under "Operating expenses" account in the parent company statement of income. Unpaid contributions are recorded as a liability presented under "Accrued expenses and other current liabilities" account in the parent company balance sheet.

In 2009, the cost of defined benefit plan and the present value of the retirement obligation were determined using actuarial valuations. An actuarial valuation involves making various assumptions which may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long term nature, a defined benefit obligation is highly sensitive to changes in these assumptions.

Accrued retirement cost under the defined contribution plan amounted to ₱6.2 million as of December 31, 2010. As of December 31, 2009, accrued retirement cost under defined benefit plan amounted to ₱9.1 million. Retirement cost amounted to ₱28.5 million and ₱1.3 million for the years ended December 31, 2010 and 2009, respectively (see Note 17).

Share-based Payments. The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payments requires determining the most appropriate valuation model for a grant of equity instruments, which is dependent on the terms and conditions of the grant. This also requires determining the most appropriate inputs to the valuation model including the expected life of the option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payments are disclosed in Note 20. The Company recognizes expenses based on the estimated number of grants that will ultimately vest and will require settlement. The Company's average turnover rate over the past few years is used to determine the attrition rate in computing the benefit expense and the estimated liability.

Cost of ESOP recognized in 2010 and 2009 amounted to ₱34.4 million and ₱50.0 million, respectively (see Notes 10, 16 and 20).

Other Long Term Incentives Benefits. The LTIP for key executives of the Company and certain subsidiaries was approved by the Executive Compensation Committee and the BOD which is based on profit targets for the covered Performance Cycle. The cost of LTIP is determined using the projected unit credit method based on prevailing discount rates and profit targets. While management's assumptions are believed to be reasonable and appropriate, significant differences in actual results or changes in assumptions may materially affect the Company's other long term incentives benefits.

LTIP expense and liability for the year ended and as of December 31, 2010 amounted to ₱71.5 million and ₱83.8 million, respectively (see Note 17).

4. **Operating Segment Information**

The basis for which the Company makes decisions on operating matters is the consolidated financial performance of the MPIC Group rather than stand-alone Parent Company.

As of December 31, 2010 and 2009, for management purposes, the Company is organized into five major business segments based on services and products namely water utilities, toll operations, power distribution, healthcare, and others. The Company also had business in real estate in 2008 which was discontinued in 2009.

<u>Water Utilities</u>
Water utilities primarily relate to the operations of DMCI-MPIC Water Company Inc. (DMWC) and Maynilad Water Services, Inc. (Maynilad) in relation to the provision of water and sewerage services.

<u>Toll Operations</u>
Toll operations primarily relate to operations and maintenance of toll facilities by Metro Pacific Tollways Corporation (MPTC) and its subsidiary Manila North Tollways Corporation (MNTC) and an associate Tollways Management Corporation (TMC).

<u>Power Distribution</u>
Power distribution primarily relate to the operations of Meralco in relation to the distribution and supply of electricity.

<u>Healthcare</u>
Healthcare primarily relates to operations and management of hospitals, nursing and medical school and such other enterprises that have similar undertakings.

<u>Others</u>
Others represent operations of subsidiaries involved in real estate, provision of services and holding companies. Real estate primarily relates to the operations of Metro Pacific Corporation (MPC) and Landco and its subsidiaries which are involved in the business of real estate of all kinds.

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

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

Management also assesses the performance of the operating segments based on a measure of recurring profit or core income contribution. This is measured as net income attributable to owners of the Company excluding core income adjustment from one-off transaction, foreign exchange gains or losses, asset impairment on noncurrent assets, net of tax effect of aforementioned adjustments and other nonrecurring gains or losses as defined by the Company's policy. Non-recurring items represents gains or losses that, through occurrence or size, are not considered usual operating items.

Segment revenues, segment expenses and segment results include transfers between business segments. These transfers are eliminated upon full consolidation.

The segment revenues, net income for the year, assets, liabilities, and other segment information of the Company's reportable operating segments as of and for the years ended December 31, 2010 and 2009 are as follows:

The following table presents information on revenue and income and certain assets and liabilities regarding business segments for the years ended December 31, 2010 and 2009:

	Year Ended December 31, 2010						
	Water Utilities	**Toll Operations**	**Healthcare**	**Power Distribution**	**Other Businesses**	**Eliminations**	**Consolidated**
Total revenue from external sales	₱12,049,524	₱5,858,494	₱656,460	₱–	₱–	₱–	₱18,564,478
Cost of sales	(3,982,963)	(2,575,831)	(227,028)	–	–	–	(6,785,822)
Gross Margin	8,066,561	3,282,663	429,432	–	–	–	11,778,656
Operating expenses	(1,618,902)	(652,740)	(367,624)	–	(543,136)	–	(3,182,402)
Other income (charges) - net	(399,480)	174,977	2,621	–	24,000	–	(197,882)
Profit before Financing Charges	6,048,179	2,804,900	64,429	–	(519,136)	–	8,398,372
Interest expense - net	(2,018,691)	(743,596)	(13,702)	–	(1,132,085)	–	(3,908,074)
Profit before Minority and Income Tax	4,029,488	2,061,304	50,727	–	(1,651,221)	–	4,490,298
Minority interests	(1,821,399)	(664,837)	(15,199)	–	(233)	–	(2,501,668)
Provision for (benefit from) income tax	185,986	(95,114)	(16,818)	–	22,043	–	96,097
Contribution from Subsidiaries	2,394,075	1,301,353	18,710	–	(1,629,411)	–	2,084,727
Equity in net income of associates and a joint venture	–	131,759	153,144	1,486,164	–	–	1,771,067
Contribution from Operation - Core	2,394,075	1,433,112	171,854	1,486,164	(1,629,411)	–	3,855,794
Non-recurring income (charges)	71,234	(273,644)	(19,823)	(821,423)	59,014	–	(984,642)
Segment Income (Loss)	₱2,465,309	₱1,159,468	₱152,031	₱664,741	(₱1,570,397)	₱–	₱2,871,152
EBITDA	₱7,878,894	₱3,445,958	₱118,004	₱–	(₱509,369)	₱–	₱10,933,487
EBITDA Margin	65%	59%	18%	–	–	–	59%
Non-recurring Income (Charges)	₱104,931	(₱176,002)	(₱33,384)	(₱821,423)	₱59,014	₱–	(₱866,864)
Provision for (benefit from) income tax	53,670	(239,917)	6,322	–	–	–	(179,925)
Minority	(87,367)	142,275	7,239	–	–	–	62,147
Net	₱71,234	(₱273,644)	(₱19,823)	(₱821,423)	₱59,014	₱–	(₱984,642)
Assets and Liabilities							
Segment assets	₱57,819,830	₱20,015,967	₱1,199,036	₱–	₱4,175,735	(₱833,646)	₱82,376,922
Investment in associates, at equity	–	673,699	2,152,427	32,012,741	32,790	–	34,871,657
Consolidated Total Assets	₱57,819,830	₱20,689,666	₱3,351,463	₱32,012,741	₱4,208,525	(₱833,646)	₱117,248,579
Segment Liabilities	₱36,770,566	₱10,908,950	₱829,047	₱–	₱15,245,242	(₱833,339)	₱62,920,466
Other Segment Information							
Capital expenditures -							
Service Concession Assets and Property and equipment	₱7,678,858	₱1,288,921	₱27,399	₱–	₱13,909	₱–	₱9,009,087
Depreciation and amortization	1,830,715	641,058	53,575	–	9,767	–	2,535,115
Provision for decline in value of assets	–	–	–	–	–	–	–

	Year Ended December 31, 2009						
	Water Utilities	Toll Operations	Healthcare	Power Distribution	Other Businesses	Eliminations	Consolidated
Total revenue from external sales	₱10,618,544	₱5,489,190	₱–	₱–	₱–	₱–	₱16,107,734
Cost of sales	(4,423,873)	(2,696,792)	–	–	–	–	(7,120,665)
Gross Margin	6,194,671	2,792,398	–	–	–	–	8,987,069
Operating expenses	(1,839,306)	(528,515)	–	–	(311,415)	–	(2,679,236)
Other income (charges) - net	(130,331)	109,396	–	–	4,852	(608)	(16,691)
Profit before Financing Charges	4,225,034	2,373,279	–	–	(306,563)	(608)	6,291,142
Interest expense - net	(1,848,799)	(657,189)	–	–	(851,660)	–	(3,357,648)
Profit before Minority and Income Tax	2,376,235	1,716,090	–	–	(1,158,223)	(608)	2,933,494
Minority interests	(1,113,257)	(531,653)	–	–	–	353	(1,644,557)
Provision for (benefit from) income tax	277,244	(38,177)	–	–	–	1,070	240,137
Contribution from Subsidiaries	1,540,222	1,146,260	–	–	(1,158,223)	815	1,529,074
Equity in net income of associates and a joint venture	–	132,428	173,813	211,877	–	–	518,118
Contribution from Operations - Core	1,540,222	1,278,688	173,813	211,877	(1,158,223)	815	2,047,192
Non-recurring income (charges)	781,353	(213,925)	47,276	(139,807)	(222,437)	–	252,460
Segment Income (Loss)	₱2,321,575	₱1,064,763	₱221,089	₱72,070	(₱1,380,660)	₱815	₱2,299,652
EBITDA	₱6,898,399	₱2,985,798	₱–	₱–	(₱299,346)	(₱608)	₱9,584,243
EBITDA Margin	65%	54%	–	–	–	–	60%
Non-recurring Income (Charges)	₱1,524,706	(₱325,246)	₱54,976	(₱139,807)	(₱247,730)	₱–	₱866,899
Provision for (benefit from) income tax	(181,437)	–	(7,700)	–	–	–	(189,137)
Minority	(561,916)	111,321	–	–	25,293	–	(425,302)
Net	₱781,353	(₱213,925)	₱47,276	(₱139,807)	(₱222,437)	₱–	₱252,460
Assets and Liabilities							
Segment assets	₱54,131,737	₱19,627,043	₱–	₱–	₱16,779,531	(₱1,314,453)	₱89,223,858
Investment in associates, at equity	–	677,510	2,055,230	24,366,978	270,305	–	27,370,023
Consolidated Total Assets	₱54,131,737	₱20,304,553	₱2,055,230	₱24,366,978	₱17,049,836	(₱1,314,453)	₱116,593,881
Segment Liabilities	₱36,488,778	₱10,506,002	₱–	₱–	₱20,907,350	(₱1,608,763)	₱66,293,367
Other Segment Information							
Capital expenditures -							
Service Concession Assets and Property and equipment	₱4,559,253	₱360,827	₱–	₱–	₱22,356	₱–	₱4,942,436
Depreciation and amortization	2,673,365	612,519	–	–	7,217	–	3,293,101
Provision for decline in value of assets	–	–	–	–	68,618	–	68,618

The following table shows the reconciliation of the Company's consolidated EBITDA to consolidated net income for the years ended December 31, 2010 and 2009.

	2010	2009
	(In Thousands)	
Consolidated EBITDA	**₱10,933,487**	₱9,584,243
Depreciation and amortization	**(2,535,115)**	(3,293,101)
Consolidated operating profit for the year	**8,398,372**	6,291,142
Interest income	**531,666**	499,221
Foreign exchange losses - net	**(8,150)**	(986,882)
Equity in net earnings of associates and joint ventures	**1,771,067**	399,535
Interest expense	**(4,439,740)**	(4,012,258)
Nonrecurring gains (losses) - net	**(1,038,637)**	2,216,431
Consolidated income before income tax	**5,214,578**	4,407,189
Provision for (benefit from) income tax	**96,097**	(37,326)
Consolidated net income	**₱5,310,675**	₱4,369,863

The following table shows the reconciliation of the Company's consolidated core income to Company's consolidated net income for the years ended December 31, 2010 and 2009.

	2010	2009
	(In Thousands)	
Consolidated core income for the year	**₱3,855,795**	₱2,047,192
Foreign exchange losses - net	**(8,150)**	(986,882)
Other nonrecurring income (losses)	**(1,038,637)**	2,216,431
Net tax effect of aforementioned adjustments	**62,144**	(977,089)
Net income for the year attributable to owners of the Parent Company	**2,871,152**	2,299,652
Net income for the year attributable to non-controlling interest	**2,439,523**	2,070,211
Consolidated net income for the year	**₱5,310,675**	₱4,369,863

The following table shows the reconciliation of consolidated amounts and the amounts reflected in the parent company financial statements as of and for the years ended December 31, 2010 and 2009.

		2010	
	Consolidated	**Subsidiaries and Associates**	**Parent Company**
		(In Thousands)	
Total revenues	**₱18,564,478**	**₱18,564,478**	**₱–**
Net income for the year	**2,871,152**	**2,552,206**	**318,946**
EBITDA for the year	**10,933,487**	**9,527,538**	**1,405,949**
EBITDA margin for the year	**59%**	**51%**	**–**
Core income for the year	**3,855,795**	**3,547,836**	**307,959**
Total assets	**117,248,579**	**54,517,297**	**62,731,282**
Total liabilities	**62,920,466**	**48,087,721**	**14,832,745**
Capital expenditures	**9,009,087**	**8,995,178**	**13,909**

	2009		
	Consolidated	Subsidiaries and Associates	Parent Company
		(In Thousands)	
Total revenues	₱16,107,734	₱16,107,734	₱–
Net income (loss) for the year	2,299,652	2,703,233	(403,581)
EBITDA for the year	9,584,243	9,132,601	451,642
EBITDA margin for the year	60%	57%	–
Core income for the year	2,047,192	1,643,611	428,191
Total assets	116,593,881	49,711,044	66,882,837
Total liabilities	66,293,367	46,805,843	19,487,524
Capital expenditures	4,942,436	4,920,080	22,356

5. **Cash and Cash Equivalents**

This account consists of:

	2010	2009
	(In Thousands)	
Cash on hand and in banks	**₱160,561**	₱13,926
Short-term deposits	**1,458,513**	2,910,266
	₱1,619,074	₱2,924,192

Cash in banks earns 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. Interest earned from cash and cash equivalents amounted to ₱93.3 million and ₱48.5 million for the years ended December 31, 2010 and 2009, respectively (see Note 18).

6. **Receivables**

This account consists of:

	2010	2009
	(In Thousands)	
Notes receivables	**₱686,987**	₱11,728,480
Interest receivables	**28,622**	77,331
Dividends receivable (Note 10)	**28,494**	7,841
Accounts receivable	**5,483**	2,214
Advances to employees	**1,300**	696
Other receivables	**5,614**	1,926
	756,500	11,818,488
Less allowance for doubtful accounts	**36,405**	–
	720,095	11,818,488
Less current portion	**444,486**	11,818,488
	₱275,609	₱–

Notes receivables include the following:

- Notes receivables as of December 31, 2010 include the new loan to AB Holdings Corporation (ABHC) or new ABHC Note amounting to ₱133.4 million subject to a 10.0% interest per annum and with maturity date of August 30, 2015, and a ₱175.0 million new loan to Landco subject to a 12.0% interest per annum and principal repayment in equal quarterly installments until December 31, 2014. As of December 31, 2009, the Company has an existing 10.0% interest-bearing ₱493.5 million loan to Landco which was settled in August 2010 as part of the agreement entered into with ABHC and Landco (see Note 9).

- Notes receivables also include investment in preferred shares of Landco with mandatory redemption feature and with carrying value of ₱348.6 million as of December 31, 2010 (see Note 9).

- Notes receivable as of December 31, 2009 mainly include a ₱11.2 billion short term note receivable from First Philippine Utilities Corporation (FPUC). The Note bears interest of 5.0% per annum and was collected on March 30, 2010 together with related interest of ₱194.9 million.

- The Company has a note receivable amounting to ₱45.0 million pertaining to a noninterest-bearing loan made to a certain individual, due on February 21, 2009 and subject to 12.0% interest per annum in case of default. On June 11, 2009, the Company collected ₱15.0 million reducing the balance to ₱30.0 million as of December 31, 2009. As of December 31, 2010, the remaining balance, including interest, was impaired at full amount of ₱36.4 million.

Interest receivable pertains to the interest earned from the various notes receivable and bank placements. Interest and other receivables are collectible within twelve months.

Accounts receivable and advances to employees are noninterest-bearing and subject to liquidation within twelve months from availment.

7. Available-for-sale Financial Assets

This account consists of:

	2010	2009
	(In Thousands)	
Shares of stock in:		
NEPSCC	**₱236,262**	₱236,262
Landco	**211,825**	–
	₱448,087	₱236,262

The Company's remaining interest of 19.0% in Landco with a carrying value of ₱184.2 million was classified to AFS financial assets and remeasured at fair value of ₱211.8 million, where a gain on remeasurement of ₱27.7 million was recognized and included under "Gain on disposal of investments" account in the 2010 parent company statement of income (see Note 9). The fair value was determined using the discounted cash flow method with the following assumptions:

	December 31, 2010
Discount rate	13.9%
Minority discount	10.8%
Marketability discount	30.0%

NEPSCC shares, which are unquoted, were transferred to the Company in 2009 in settlement of the ABHC Note. NEPSCC is engaged in leasing properties, more particularly mall spaces.

8. Other Current Assets

This account consists of:

	2010	2009
	(In Thousands)	
Cash deposits (see Note 13)	**₱267,709**	₱270,199
Input taxes	**6,418**	–
Other deposits and prepayments	**467,332**	28,810
	₱741,459	₱299,009

Cash deposits represent the Company's Debt Service Account (DSA) with the purpose of holding funds on reserve for debt service.

Other deposits and prepayments relate to the following:

- On November 12, 2010, the Company, entered into a Cooperation Agreement with Fil-Estate Corporation, Fil-Estate Properties, Inc. and Fil-Estate Management, Inc. (the "Fil-Estate Companies") relating to the Fil-Estate Companies' rights and interests in the MRT 3 companies consisting of Metro Rail Transit Holdings, Inc. ("MRTH"), Metro Rail Transit Holdings II, Inc. ("MRTH-II"), Metro Rail Transit Corporation ("MRTC") and Monumento Rail Transit Corporation ("MNRTC"). MPIC entered into a Cooperation Agreement with the following objectives: (i) explore solutions that will enable the expansion of the MRT 3 system through financially and legally viable means, and (ii) acquire the interests of the Fil-Estate Companies in MRTH, MRTH-II, MRTC ("MRT Companies") and MNRTC, subject to obtaining the necessary consents from the relevant parties. Under the Cooperation Agreement, the Fil-Estate Companies shall appoint MPIC as its attorney-in-fact in connection with the exercise of the rights and interests of the Fil-Estate Companies in the MRT Companies and MNRTC.

MPIC also entered into binding term sheets with Anglo Philippines Holdings Corporation ("APHC") and DBH Incorporated ("DBH") in connection with all the interests of APHC and DBH in MRTH and MNRTC. The execution of definitive agreements for the acquisition of the aforementioned MRTH and MNRTC shares by MPIC shall be subject to the condition that the necessary consents and waivers from relevant parties are obtained.

Total deposits made by the Company in 2010 in connection with the above agreements amounted to ₱462.5 million. Should the planned acquisitions push through, these deposits will form part of the acquisition price. Otherwise, these will be forfeited and expensed outright.

- Other deposits and prepayments of ₱4.8 million and ₱3.8 million in 2010 and 2009, respectively, mainly pertain to creditable withholding taxes, rental deposits and prepaid expenses. In 2009, other deposits and prepayments also include ₱25.0 million escrow fund for the Company's acquisition of Riverside Medical Center, Inc (RMCI).

9. Noncurrent Asset Held for Sale

Following a strategic review of the Company's businesses in 2008, and its focus on infrastructure, MPIC decided to divest its 51.0% interest in Landco. Landco is primarily engaged in all aspects of real estate business and was previously a separate reportable operating segment. Initially, the sale of 17% interest in Landco to ABHC was completed on June 18, 2009. Further, the Company recognized impairment loss amounting to ₱431.2 million for the year ended December 31, 2008 in view of the requirement of PFRS 5 to measure noncurrent asset (disposal group) held for sale at fair value less cost to sell.

On June 18, 2009, the BOD passed and approved resolutions for the execution of an agreement (the "Agreement") with ABHC, with the conformity of Landco, for ABHC to (i) acquire from MPIC 33.3% of MPIC's 51.0% shareholding in Landco representing 17.0% of the total issued shares of Landco and (ii) procure Landco to settle MPIC's outstanding loan to Landco in the principal amount of ₱500.0 million plus accrued interest (the "MPIC loan").

The Agreement was signed on June 19, 2009 and pursuant to the Agreement, ABHC shall pay to MPIC the amount of ₱203.3 million ("Share Purchase Price") which, together with the portion of the MPIC loan, was settled by end of 2009 through conveyance of certain assets, more particularly NEPSCC shares and certain property units worth ₱236.3 million and ₱59.5 million, respectively. The conveyed assets were initially recognized at fair value at the date of settlement and classified as "AFS financial assets" for the NEPSCC shares and "real estate for sale" for the properties in the parent company balance sheet.

With the sale, MPIC's interest in Landco was reduced from 51.0% to 34.0%. Notwithstanding the significant interest retained by MPIC, the sale of the 17.0% interest in Landco was accounted for as a disposal of a subsidiary and accordingly, Landco ceased to be a subsidiary of the Company.

MPIC's remaining 34.0% interest in Landco is continued to be carried at the lower of carrying value and fair value less cost to sell and classified as "Noncurrent assets held for sale" in the 2009 parent company balance sheet in accordance with PFRS 5 upon satisfying the criteria set forth therein. The carrying value of the said remaining interest amounted to ₱329.6 million as of December 31, 2009.

On August 24, 2010, the BOD signed an agreement with ABHC, Landco and a third party individual relating to the following which were carried out and implemented also during the year:

a. Settlement of the MPIC Loan, including advances, totaling ₱554.7 million via cash of ₱225.0 million and the balance of ₱329.7 million applied against the Company's subscription in preferred shares in Landco as further explained below;

b. Sale of 1,173,747 shares of common stock of Landco, representing 15.0% interest in Landco, owned by MPIC to ABHC at the price of ₱156.0 per share. The total consideration of ₱183.4 million was paid in cash of ₱50.0 million and an issuance of promissory note ("new ABHC Note") by ABHC with nominal amount of ₱133.4 million. Such Note bears interest of 10.0% per annum with the principal and cumulative interest payable on the fifth anniversary of the issuance of the Note. The sale resulted to a ₱38.0 million gain and was included in the "Gain on disposal of investments" account in the parent company statement of income. Payment of this loan is secured by a pledge over shares of ABHC in Landco;

c. New loan grant by MPIC to Landco in the principal amount of ₱175.0 million at 12.0% interest, with the principal to be repaid quarterly in equal amounts with the first principal repayment due on March 31, 2011 and the final principal repayment due on December 31, 2014.

d. Subscription of 379,658,618 redeemable preferred shares of Landco, representing 100.0% of preferred shares of Landco, at a subscription price of ₱1 per share, which is equal to par value, which total subscription price was paid ₱50.0 million in cash and the assignment of the MPIC Loans and advances as described above in the amount of ₱329.7 million. These preferred shares shall have the following features:

   i. Preferential cash dividends at the rate of 10.0% per annum, to be calculated based on the par value of such preferred shares;

   ii. Non-voting except in those cases under the law or any one of the conditions set out in the term sheet;

   iii. Mandatory redemption period of 10 years unless Landco, at its option and upon notice to MPIC, redeems all or a portion of the outstanding Landco preferred shares at a redemption price equal to the subscription price paid by MPIC therefore plus any accrued and unpaid dividends, at any time following the full settlement of all loans and advances granted to Landco by MPIC, its subsidiaries, affiliates and/or associates including, without limit, the new MPIC loan, plus any and all accrued interests and/or penalties thereon; and the new ABHC Note (as defined above), plus all accrued interests and/or penalties thereon; and

   iv. Convertible to Landco common shares at the option of MPIC at a conversion price of ₱156.27 per common share, if and only if, Landco undertakes initial public offering, ABHC gives notice of its intention to sell or dispose all or a portion of its shares pursuant to its obligations, or Landco issues additional common shares.

The Company accounted for the investment in Landco's preferred shares as loans and receivables in view of its mandatory redemption feature and assigned a value ₱31.7 million for the conversion option feature which is presented as "Derivative asset" in the parent company balance sheet as of December 31, 2010. Such derivative asset will be carried at cost (since the underlying Landco preferred shares are unquoted and there is no reliable basis for its fair value) until such time the option will be exercised or has expired.

The remaining interest of 19.0% with a carrying value of ₱184.2 million was reclassified to AFS financial assets and remeasured to ₱211.8 million in light of the sale. The Company recognized a gain on remeasurement of ₱27.7 million and was included in the "Gain on disposal of investments" account in the parent company statement of income.

10. Investments in Subsidiaries and Associates and Interest in Joint Ventures

Details of investments follow:

Investee	Principal Activity	Direct MPIC Ownership Interest 2010	2009
Subsidiaries:			
East Manila Hospital Managers Corporation (EMHMC)	Hospital operation	**100.0**	–
MPTC	Investment holding	**99.8**	99.8
MPC	Real estate	**96.6**	96.6
DMWC	Investment holding	**55.4**	55.4
Maynilad*	Utilities	**5.8**	5.8
RMCI	Hospital operation	**51.0**	–
Joint ventures:			
Beacon Electric	Investment holding	**50.0**	–
Manila North Harbour Port, Inc. (MNHPI)	Port operation	**–**	35.0
Associates:			
Medical Doctors, Inc. (MDI)	Hospital operation	**35.0**	34.8
Davao Doctors Hospital, Inc. (DDH)	Hospital operation	**34.9**	34.9
First Gen Northern Electric Corporation (FGNEC)	Power distribution	**33.3**	–
Meralco	Power distribution	**–**	14.7

** In 2010 and 2009, indirect ownership of the Company in Maynilad through DMWC is 56.8% and 58.0%, respectively.*

All of the above investees were incorporated in the Philippines.

The carrying value of the Company's investments follows:

	2010	2009
	(In Thousands)	
Investments in subsidiaries:		
EMHMC	**₱12,500**	₱–
MPTC	**12,331,057**	12,319,219
MPC	**230,132**	230,132
DMWC	**10,180,392**	10,180,392
Maynilad	**2,038,799**	2,029,213
RMCI	**275,621**	–
	25,068,501	24,758,956
Investments in associates:		
MDI	**927,923**	916,159
DDH	**512,865**	512,865
FGNEC	**250**	–
Meralco	–	24,540,310
Total (Carried Forward)	**1,441,038**	25,969,334

	2010	2009
	(In Thousands)	
Total (Brought Forward)	**₱1,441,038**	₱25,969,334
Interest in joint ventures:		
Beacon Electric	**23,129,879**	–
MNHPI	**–**	252,292
	23,129,879	252,292
Investment in Beacon Electric's preferred shares	**8,010,444**	–
Advances to Beacon Electric	**756,387**	–
Advances to MPC	**500,000**	–
	₱58,906,249	₱50,980,582

Movements of investments in subsidiaries and associates and interest in joint ventures follow:

	December 31, 2010			
	Subsidiaries	**Associates**	**Joint Venture**	**Total**
	(In Thousands)			
Balance at beginning of year	**₱24,758,956**	**₱25,969,334**	**₱252,292**	**₱50,980,582**
Acquisitions during the year	**288,121**	**12,014**	**471**	**300,606**
LTIP (Note 17)	**12,306**	**–**	**–**	**12,306**
ESOP (Note 20)	**9,118**	**–**	**–**	**9,118**
Transfer of investment in Meralco to Beacon Electric	**–**	**(24,540,310)**	**–**	**(24,540,310)**
Acquisition of Beacon Electric	**–**	**–**	**23,129,878**	**23,129,878**
Disposal during the year	**–**	**–**	**(252,762)**	**(252,762)**
	25,068,501	**1,441,038**	**23,129,879**	**49,639,418**
Investment in Beacon Electric's preferred shares	**–**	**–**	**8,010,444**	**8,010,444**
Advances to Beacon Electric	**–**	**–**	**756,387**	**756,387**
Advances to MPC	**500,000**	**–**	**–**	**500,000**
	₱25,568,501	**₱1,441,038**	**₱31,896,710**	**₱58,906,249**

	December 31, 2009			
	Subsidiaries	Associates	Joint Venture	Total
	(In Thousands)			
Balance at beginning of year	₱24,758,956	₱1,259,011	₱–	₱26,017,967
Acquisitions during the year	–	24,710,323	252,292	24,962,615
	₱24,758,956	₱25,969,334	₱252,292	₱50,980,582

EMHMC

EMHMC, a wholly owned subsidiary of MPIC, was incorporated on October 15, 2010, with an initial investment of ₱12.5 million, to operate and manage Our Lady of Lourdes Hospital ("OLLH"), a non-tertiary hospital previously managed by the Missionary Sister Servants of the Holy Spirit congregation (SSpS) through the Our Lady of Lourdes Hospital, Inc. ("OLLHI"). With the decision of SSpS to turn over the operations and management to a professional group, OLLHI has signed a 20-year lease of the hospital land and facilities in favor of EMHMC.

The agreement with OLLHI includes the commitment of EMHMC to spend at least ₱350.0 million on facilities and equipment for the hospital over the next five years.

MPTC
MPTC was acquired by MPIC in 2008. The acquisition also resulted in the Company's owning 100.0% of Metro Pacific Tollways Development Corporation (MPTDC), a wholly owned subsidiary of MPTC and an indirect ownership of 67.1% interest in MNTC, the concession holder of the North Luzon Expressway, and 46.0% indirect interest in TMC, through MPTDC.

In 2010 and 2009, the Company received dividends from MPTC aggregating to ₱1,189.9 million and ₱449.3 million, respectively.

The Company's shares in MPTC were pledged against the Company's ₱6.8 billion loan as of December 31, 2010 and 2009 (see Note 13).

MPC
MPC became a subsidiary of the Company in 2006 as a result of shares swap between MPHI, Metro Pacific Resources, Inc. (MPRI), Intalink B.V. and FPIL (see Note 15). MPC is engaged in the business of real estate investments and property development, investment holding and management services.

DMWC and Maynilad
In 2007, DMWC was incorporated as a joint venture by the Company and DMCI Holdings, Inc. to acquire and purchase, negotiate or otherwise deal with or dispose of stocks and bonds of Maynilad. By virtue of potential voting rights, DMWC became a subsidiary of the Company in 2008. In the same year, the Company also acquired 5.8% direct interest in Maynilad. Maynilad holds the exclusive concession granted by the Metropolitan Waterworks and Sewerage System, on behalf of the Philippine Government, to provide water and sewerage services in the area of West Metro Manila.

On October 12, 2010, Maynilad declared dividends amounting to ₱600.0 million. Consequently, on November 11, 2010, DMWC's BOD declared cash dividends amounting to ₱548.6 million out of its unrestricted retained earnings in proportion to its shareholders. The Company's share in the dividends from Maynilad amounting to ₱35.3 million and DMWC amounting to ₱304.0 million which was received on November 5, 2010 and November 22, 2010, respectively, are presented under "Dividend income" account in the 2010 parent company statement of income.

RMCI
On May 31, 2010, the Company completed the acquisition of 190,413 shares representing 51.0% of the total outstanding and issued shares of RMCI for a total consideration of ₱275.6 million. RMCI has a wholly-owned subsidiary, Riverside College, Inc., a nursing school.

Meralco and Beacon Electric
Meralco is the largest electric power distribution company and the largest private sector utility in the Philippines. It is incorporated in the Philippines and is subject to the rate-making regulations and regulatory policies of the Philippine Energy Regulatory Commission. Its subsidiaries are mainly engaged in engineering, construction and consulting services, information systems and technology, real estate, insurance and other electricity-related services.

From July 2009 through October 2009, the Company acquired a total of 163,602,961 common shares of Meralco for an aggregate purchase price of ₱24,540.3 million representing 14.7% of the issued and outstanding share capital of Meralco as of December 31, 2009, through a series of negotiated transactions and open market purchases. Details of acquisitions of Meralco shares are as follows:

- At various dates in July and August of 2009, MPIC acquired a total of 15,254,294 Meralco shares in open market for a total purchase price of ₱4,441.6 million, substantially all of which was financed through the incurrence of indebtedness under the Company's bridge financing facility (see Note 13).

- On October 2, 2009, MPIC entered into a Sale and Purchase Agreement to purchase 113,313,389 common shares of Meralco held directly by Philippine Long Distance Telephone Company (PLDT) Beneficial Trust Fund (BTF) and its wholly-owned subsidiary New Gallant Limited (Gallant). MPIC purchased the shares at ₱126.0 per share or for a total consideration of ₱14,277.5 million.

- At the same time, MPIC entered into a Sale and Purchase Agreement with Crogan Limited (Crogan), a corporation organized and existing under the laws of the British Virgin Islands and a subsidiary of FPC, to purchase 31,072,388 common shares of Meralco held directly by Crogan. MPIC agreed to purchase the shares at ₱126.0 per share or for a total consideration of ₱3,915.1 million.

- The acquisition of Meralco shares from BTF and Crogan was partially funded by MPIC from proceeds of share issuances made by it, as follows: (i) 3,159,162,337 MPIC common shares at ₱3.0 per share or a total of ₱9,477.5 million, in favor of BTF. Fair value of MPIC share at acquisition date was ₱3.2 per share and the total fair values of MPIC shares issued to BTF amounted to ₱10,109.3 million; and (ii) 1,305,040,296 MPIC's common shares at a subscription price of ₱3.0 per share in favor of MPHI.

- In addition, MPIC likewise entered into another agreement with Crogan to purchase additional 3,962,890 Meralco shares from the latter for ₱231.45 each and the purchase price amounting to ₱917.2 million was paid in cash on October 7, 2009.

The total consideration for the acquired interest in Meralco in 2009 amounted to ₱24,540.3 million as follows: (a) cash consideration of ₱10,158.9 million; (b) fair value of MPIC shares issued of ₱14,285.4 million; and (c) transaction costs of ₱96.0 million.

On September 2, 2009, MPIC entered into a Shareholders' Agreement (the "Agreement") with PCEV and such Agreement defined the basic principles governing their conduct as common shareholders of Meralco and the exercise of their respective voting rights therein. PCEV directly held a 20.0% interest of Meralco's then outstanding capital stock at that date and both PCEV and MPIC are affiliates of FPC, thus, related parties. With the Agreement, MPIC has the ability to exercise significant influence in Meralco and accordingly, MPIC accounted for its 14.7% interest in Meralco under equity method.

On October 29, 2009, Meralco declared ₱1.5 per share cash dividends, of which MPIC recognized its share amounting to ₱245.0 million.

On November 20, 2009, MPIC entered into and became a party to the Amended, Consolidated and Restated Cooperation Agreement (the "Agreement") covering certain shares of voting common stock in Meralco by the Lopez Group and PLDT Group (collectively referred to as the "Parties"). MPIC and PCEV are considered part of the PLDT Group for purposes of the amended Agreement. The Agreement provided among others a standstill arrangement, voting arrangement, right of first refusal and tag-along rights and governance provisions with respect to their shareholdings in Meralco.

Also on November 20, 2009, MPIC granted FPUC, a subsidiary of First Philippine Holdings, Inc. (FPHC), a short-term loan amounting to ₱11.2 billion. The loan was interest bearing and was to mature on June 30, 2010, and was included under "Receivables" in the parent company balance sheet as of December 31, 2009 (see Note 6). This loan was repaid by FPUC on March 30, 2010.

On November 5, 2009, FPHC agreed to grant to MPIC a Call Option relating to approximately 74,700,000 common shares of Meralco owned by FPHC (equivalent to 6.7% of the total outstanding common shares of Meralco) not later than January 15, 2010, and later extended to February 28, 2010. The Call Option was exercisable at any time from the date that the Call Option was granted until midnight of March 31, 2010. MPIC will pay to FPHC a distinct consideration for the Call Option to be determined and established using the Black-Scholes option pricing model in Bloomberg. On March 30, 2010, MPIC assigned the right to a Call Option to Beacon Electric pursuant to the Omnibus Agreement entered into by MPIC, PCEV and Beacon Electric. FPHC then granted Beacon Electric the Call Option.

As of December 31, 2009, the carrying value of the investment in Meralco amounted to ₱24,540.0 million while the market value, based on quoted price of ₱204.0 per share, amounted to ₱33,375.0 million. The Company's shares in Meralco were pledged against the Company's ₱11.2 billion loan as of December 31, 2009 (see Note 13).

On March 30, 2010, the Company sold and transferred all its investments in Meralco representing 163,602,961 common shares to Beacon Electric for a consideration of ₱24,540.0 million.

Transfer of MPIC Equity Interest in Meralco to Beacon Electric. On March 1, 2010, PCEV, MPIC and Beacon Electric, entered into an Omnibus Agreement, or OA. Beacon Electric, formerly known as Rightlight Holdings, Inc., was organized with the sole purpose of holding the respective shareholdings in Meralco of PCEV and MPIC. PCEV and MPIC are Philippine affiliates of First Pacific and both held equity shares in Meralco. Under the OA, PCEV and MPIC have agreed to set out their mutual agreement in respect of, among other matters, the capitalization, organization, conduct of business and the extent of their participation in the management of the affairs of Beacon Electric.

- *Investment in Beacon Electric.* Prior to the transactions contemplated under the OA, MPIC beneficially owned the entire outstanding capital stock of Beacon Electric consisting of 25,000 common shares of Beacon Electric, with a total par value of ₱25,000.

  On April 29, 2010, the SEC approved Beacon Electric's application to increase its authorized capital stock to ₱5.0 billion consisting of 3,000,000,000 common shares with par value of ₱1.0 per share and 2,000,000,000 preferred shares with par value of ₱1.0 per share. The preferred shares of Beacon Electric are non-voting, not convertible to common shares or any shares of any class of Beacon Elecric, have no pre-emptive rights to subscribe to any share or convertible debt securities or warrants issued or sold by Beacon Electric. The preference shareholder is entitled to liquidation preference and yearly cumulative dividends at the rate of 7.0% of the issue value subject to: (a) availability of unrestricted retained earnings; and (b) dividend payment restrictions imposed by Beacon Electric's bank creditors.

Under the OA, PCEV and MPIC each agreed to subscribe to 1,156.5 million common shares of Beacon Electric, for a subscription price of ₱20 per share or a total of ₱23,130 million. PCEV and MPIC also agreed that their resulting equity after such subscriptions and PCEV's purchase from MPIC of 12,500 Beacon Electric common shares will be 50% each of the outstanding common shares of Beacon Electric. MPIC additionally agreed to subscribe to 801.0 million shares of Beacon Electric's preferred stock for a subscription price of ₱10.0 per share or a total of ₱8,010.0 million.

The completion of the subscription of MPIC to 1,156.5 million common shares and 801.0 million preferred shares of Beacon Electric was subject to the following conditions, all of which have been satisfied: (a) approval of MPIC's BOD, which was obtained on March 1, 2010; (b) approval of the shareholders of FPC, which was obtained on March 30, 2010; and (c) full payment of the subscription price, which was made on March 30, 2010. Consequently, on March 30, 2010, MPIC completed its subscription to Beacon Electric's common and preferred shares for a consideration of: (1) the transfer of 163.6 million Meralco shares at a price of ₱150.0 per share, or ₱24,540.0 million in the aggregate; and (2) ₱6,600.0 million in cash, as further described below in "*Transfer of Meralco Shares to Beacon Electric*".

The completion of the subscription of PCEV to 1,156.5 million common shares of Beacon Electric was also subject to certain conditions, all of which have been satisfied.

The subscription price of PCEV's and MPIC's subscription to Beacon Electric shares was offset in full (in the case of PCEV) and in part (in the case of MPIC) against the consideration for the transfer of Meralco shares held by PCEV and MPIC as described in *"Transfer of Meralco Shares to Beacon Electric"* section below. In addition, MPIC settled its remaining balance in cash. On May 12, 2010, PCEV also completed the transfer from MPIC of 12,500 shares or 50.0% of the 25,000 Beacon Electric common shares originally owned by MPIC.

- *Transfer of Meralco Shares to Beacon Electric.* Alongside with the subscription to the Beacon Electric shares described above, Beacon Electric agreed to purchase the 154,200,000 and 163,602,961 Meralco shares, or the Transferred Shares from PCEV and MPIC, respectively, for a consideration of ₱150.0 per share or a total of ₱23,130.0 million for the PCEV Meralco shares and ₱24,540.0 million for the MPIC Meralco shares.

  The completion of the sale of the MPIC Meralco shares to Beacon Electric was subject to the following conditions, all of which have been satisfied: (a) approval of MPIC's BOD, which was obtained on March 1, 2010; (b) approval of the BOD of FPC, which was obtained on March 1, 2010; (c) approval of the shareholders of FPC, which was obtained on March 30, 2010; and (d) release of the pledge over the MPIC Meralco shares, which was completed on March 30, 2010. Consequently, on March 30, 2010, MPIC transferred 163,602,961 Meralco shares to Beacon Electric at a price of ₱150.0 per share for a total consideration of ₱24,540.0 million.

  The completion of the sale of the PCEV Meralco shares to Beacon Electric was also subject to certain conditions, all of which have been satisfied. Consequently, on May 12, 2010, PCEV transferred 154,200,000 Meralco shares to Beacon Electric at a price of ₱150 per share for a total consideration of ₱23,130.0 million.

  The transfer of legal title to the Meralco shares was implemented through a special block sale/cross sale in the Philippine Stock Exchange (PSE).

Subject to rights over certain property dividends that may be declared or distributed in respect of the 317,802,961 Transferred Shares, which will be assigned to FPHC if the Call Option (as discussed below), is exercised, the rights, title and interest transferred to Beacon Electric by MPIC and PCEV in respect of the 317,802,961 Transferred Shares includes: (a) all shares issued by Meralco by way of stock dividends on the Transferred Shares from March 1, 2010; (b) all property or cash dividends declared or paid on the Transferred Shares from March 1, 2010; (c) all other rights accruing on the Transferred Shares from March 1, 2010; and (d) the proceeds of all of the foregoing. PCEV may, at some future time and under such terms and conditions as may be agreed by PCEV and Beacon Electric, transfer to Beacon Electric its remaining 68.8 million Meralco common shares.

- *Call Option.* Under the OA, MPIC assigned its right to acquire the call option, or the Call Option, over 74.7 million common shares of Meralco held by FPHC, or the Option Shares, to Beacon Electric. As a result of this assignment, Beacon Electric and FPHC executed an Option Agreement dated March 1, 2010 pursuant to which FPHC granted the Call Option over the Option Shares to Beacon Electric.

  The Call Option is exercisable at the option of Beacon Electric during the period from March 15, 2010 until midnight of May 15, 2010. The exercise price for the Option Shares is ₱300 per share or an aggregate exercise price of ₱22,410.0 million. Beacon Electric exercised the Call Option on March 30, 2010 and FPHC transferred the 74.7 million shares of Meralco common stock to Beacon Electric in consideration of the payment by Beacon Electric of ₱22,410.0 million in cash on March 30, 2010. Subject to rights over certain property dividends that may be declared or payable in respect of the 74.7 million shares of Meralco common stock, which are retained by FPHC following the Call Option exercise, the rights, title and interest transferred to Beacon Electric by FPHC in respect of the Option Shares includes: (a) all shares issued by Meralco by way of stock dividends on the Option Shares from March 1, 2010; (b) all property or cash dividends declared or paid on the Transferred Shares from March 1, 2010; (c) all other rights accruing on the Transferred Shares from March 1, 2010; and (d) the proceeds of any sale or disposition of any of the foregoing.

- *Property Dividends.* With respect to the approximately 317.8 million Transferred Shares, the remaining 68.8 million Meralco common shares held by PCEV and the 74.7 million Option Shares transferred by FPHC to Beacon Electric pursuant to the Call Option, FPHC has the benefit of being assigned, or retaining in the case of the Option Shares, certain property dividends that may be declared on such shares.

- *Governance Arrangements.* Beacon Electric, PCEV and MPIC have also agreed on certain corporate governance matters, including Board composition, election of officers, shareholders' action, representation to the Meralco Board, nomination of the Meralco Board Committees, and nomination of Meralco officers. The corporate governance agreements and Beacon Electric equity structure resulted in a jointly-controlled entity.

On March 30, 2010, Beacon Electric also entered into an ₱18,000.0 million ten-year corporate notes facility with First Metro Investment Corporation and PNB Capital and Investment Corporation as joint lead arrangers and various local financial institutions as noteholders. The proceeds of the notes facility partially financed the acquisition of Meralco shares by Beacon Electric pursuant to its exercise of the Call Option. As at December 31, 2010, the amount drawn under this facility amounted to ₱16,200.0 million (₱16,027.0 million, net of debt issuance cost of ₱173.0 million); the remaining undrawn balance amounted to ₱1,800.0 million.

As of December 31, 2010, the carrying value of Beacon Electric's investment in Meralco of ₱73,285.0 million includes: (a) consideration for the Transferred Shares from PCEV of ₱23,130.0 million and from MPIC of ₱24,540.0 million; (b) consideration for the Option Shares from FPHC of ₱24,783.0 million, which include contingent consideration of ₱2,373.0 million; and (c) expenses of ₱942.0 million consisting of PSE crossing charges, expenses relating to the Option Shares, as well as professional and legal fees and other cost associated to the transferred Meralco shares all chargeable to Beacon Electric pursuant to an agreement between PCEV and MPIC; and (d) equity share in net income of Meralco of ₱2,618.0 million less (e) dividends received of ₱2,728.0 million from Meralco.

As at December 31, 2010, Beacon Electric held 392,502,961 Meralco common shares representing approximately 35.0% equity interest in Meralco with market value of ₱89,490.0 million based on a quoted price of ₱228.0 per share.

For the investment in Beacon Electric's preferred shares, the Company received dividends in the amount of ₱375.4 million for the year ended December 31, 2010.

The carrying value of the investments in Beacon's common shares and preferred shares amounted to ₱23,129.9 million and ₱8,010.4 million, respectively, as of December 31, 2010.

MNHPI

MNHPI, a joint venture between MPIC (35%) and Harbour Centre Port Terminal, Inc. (HCPTI) (65%) was incorporated on November 5, 2009 for the purpose of developing, maintaining and operating the Manila North Harbor and other port facilities. The authorized capital stock of MNHPI is ₱700.0 million, divided into 7,000,000 shares with the par value of ₱100.0 per share.

On June 28, 2010, upon inconclusive negotiation over the consortium, MPIC divested all of its shares of common stock of MNHPI representing 35.0% of the outstanding capital stock of MNHPI with prior approval from the Philippine Ports Authority. The Company recognized loss from the disposal in the amount of ₱7.8 million which is presented under "Gain on disposal of investments" account in parent company statement of income.

MDI

MDI owns and operates the Makati Medical Center, a tertiary hospital in Makati City. Through series of acquisitions that started in 2007 through 2009, the Company obtained 34.79% interest in MDI as of December 31, 2009.

From January through June 2010, the Company acquired a total of 12,004 additional shares of MDI at a purchase price of ₱980.0 per share or for a total purchase price of ₱11.8 million. This acquisition represents additional interest of 0.2%, bringing the Company's total ownership in MDI to 35.0%. Also for the first time in 2010, the Company recognized dividends from MDI amounting to ₱35.0 million, of which ₱17.5 million remain to be receivable as of December 31, 2010.

DDH

Through series of acquisitions that started in 2008 through 2009, the Company obtained 34.85% interest in DDH as of December 31, 2010 and 2009.

The Company recognized its share of dividends from DDH amounting to ₱20.4 million and ₱17.3 million for the years ended December 31, 2010 and 2009, respectively, of which ₱11.0 million and ₱7.8 million remain to be receivable as of December 31, 2010 and 2009, respectively.

FGNEC
MPIC subscribed for 250,000 common shares, representing 33.3% interest, at ₱1.0 per share of FGNEC on March 17, 2010. MPIC has participated in the bidding for the proposed sale of the 246 MW Angat Hydroelectric Power Plant through FGNEC, hence, the initial investment of ₱0.3 million. The investment in FGNEC is accounted for as an associate using equity accounting.

The bidding was completed but issues have been raised against the highest bidder giving FGNEC an opportunity to be awarded of the same, being the next highest bidder. The sale of the Angat Power Plant has currently been put on hold with the Supreme Court en banc confirming the status quo ante order of the same.

Dividends
Dividend income from the Company's subsidiaries, associates and joint ventures are as follows:

	2010	2009
	(In Thousands)	
Subsidiaries:		
MPTC	**₱1,189,916**	₱449,339
DMWC	**303,960**	–
Maynilad	**35,304**	–
Associates:		
MDI	**35,033**	–
DDH	**20,388**	17,251
Meralco	**–**	245,405
Joint Venture -		
Beacon Electric preferred shares	**375,378**	–
	₱1,959,979	₱711,995

11. **Property and Equipment**

The account consists of:

	December 31, 2009	**Additions**	**Disposals**	**December 31, 2010**
Cost:				
Transportation equipment	**₱30,540**	**₱5,679**	**(₱3,748)**	**₱32,471**
Leasehold improvements	**6,749**	**4,938**	**–**	**11,687**
Office equipment	**4,838**	**582**	**(9)**	**5,411**
Computer equipment	**2,557**	**1,797**	**(109)**	**4,245**
Furniture and fixtures	**3,958**	**913**	**–**	**4,871**
	48,642	**13,909**	**(3,866)**	**58,685**
Less accumulated depreciation:				
Transportation equipment	**8,591**	**6,091**	**(2,194)**	**12,488**
Leasehold improvements	**2,553**	**1,106**	**–**	**3,659**
Office equipment	**1,196**	**953**	**(4)**	**2,145**
Computer equipment	**743**	**758**	**(14)**	**1,487**
Furniture and fixtures	**745**	**859**	**–**	**1,604**
	13,828	**9,767**	**(2,212)**	**21,383**
	₱34,814	**₱4,142**	**(₱1,654)**	**₱37,302**

	December 31, 2008	Additions	Disposals	December 31, 2009
Cost:				
Transportation equipment	₱19,608	₱12,353	(₱1,421)	₱30,540
Leasehold improvements	2,726	4,023	–	6,749
Office equipment	2,428	2,415	(5)	4,838
Computer equipment	1,353	1,204	–	2,557
Furniture and fixtures	1,597	2,361	–	3,958
	27,712	22,356	(1,426)	48,642
Less accumulated depreciation:				
Transportation equipment	4,212	4,948	(569)	8,591
Leasehold improvements	1,770	783	–	2,553
Office equipment	576	620	–	1,196
Computer equipment	363	380	–	743
Furniture and fixtures	261	484	–	745
	7,182	7,215	(569)	13,828
	₱20,530	₱15,141	(₱857)	₱34,814

The Company's property and equipment are depreciated over a period of two to five years computed on a straight-line basis or for leasehold improvements, over the term of the lease, whichever is shorter.

12. Accrued Expenses and Other Current Liabilities

This account consists of:

	2010	2009
Accrued interest payable (see Note 13)	**₱279,858**	₱437,084
Accrued taxes and other payables	**23,456**	45,401
Accrued retirement cost (see Note 17)	**6,224**	–
Others	**25,698**	10,749
	₱335,236	₱493,234

Accrued interest payable pertains to the interest charges from long-term loan from a bank and is generally settled semi-annually.

Accrued taxes and other payables comprise of accruals for utilities, salaries, wages and allowances, various employee benefits and other statutory liabilities.

In 2010, the Company reversed accruals amounting to ₱22.2 million relating to excess accruals for certain obligations and payables, recognized in prior years, over actual settlements during the year, which is included under "Other income" account in the parent company statement of income.

13. **Long-term Debt**

The account consists of:

	2010	2009
Long-term debt	**₱6,648,750**	₱17,916,250
Less unamortized debt issue cost	**68,137**	303,585
	6,580,613	17,612,665
Less current portion of long-term debt - net of ₱9.1 million and ₱32.6 million debt issue cost for 2010 and 2009, respectively	**58,391**	154,914
	₱6,522,222	₱17,457,751

The movements in unamortized debt issue cost are as follows:

	2010	2009
Balance at beginning of year	**₱303,585**	₱83,947
Reversal of debt issue cost (see Note 10)	**(221,694)**	–
Amortization during the year charged to interest expense (see Note 18)	**(13,754)**	(10,395)
Debt issue cost incurred during the year	**–**	230,033
Balance at end of year	**₱68,137**	₱303,585

Repayment schedule of the long-term debt follows:

	2010	2009
Current	**₱67,500**	₱375,000
2012	**67,500**	487,500
2013	**67,500**	817,500
2014 and onwards	**6,446,250**	16,236,250
	₱6,648,750	₱17,916,250

₱6.8 Billion Loan. 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 ₱6.8 billion note (the "Note") for the purpose of partially financing its acquisition of MPTC 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 ₱85.0 million were recognized as debt issue costs and amortized using the effective interest method over the term of the Note. Amortization of debt issue cost, amounting to ₱8.3 million and ₱7.6 million is presented as part of "Interest expense" account in the parent company statements of income for the years ended December 31, 2010 and 2009, respectively.

As a continuing security for the due and punctual payment and performance of the Note, MPIC pledged the acquired MPTC shares.

The MPIC Omnibus Agreement also provides for the maintenance of a DSA 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 DSA amounting to ₱267.7 million and ₱270.2 million as of December 31, 2010 and 2009, respectively, is presented as part of "Other current assets" account in the parent company balance sheets (see Note 8).

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, 2010 and 2009, MPIC is in compliance with the required financial ratios.

As of December 31, 2010 and 2009, outstanding balance of this loan amounted to ₱6,648.8 million and ₱6,716.3 million, respectively.

Effective February 13, 2011, the interest rate on the Note was repriced to 9.2% from 10.7%.

₱12.0 Billion Loan. On November 6, 2009, the Company entered into a ₱12.0 billion Omnibus Agreement from various financing institutions for the purpose of partially financing the Company's series of acquisitions of Meralco common shares. The loan is available in two drawdowns, on which the first drawdown shall not be less than ₱11.0 billion while the second drawdown shall not exceed the loan amount. The loan shall be payable in semi-annual installments and bears an interest rate based on a spread of 2.5% over the benchmark rate. The benchmark rate is the interpolated 9-year rate to be determined by referring to 7 to 10 year bids from PDST-F.

On November 13, 2009, the Company made its first drawdown amounting to ₱11.2 billion. As of December 31, 2009, outstanding balance of the current and noncurrent portion of this loan amounted to ₱120.0 million and ₱11,080.0 million, respectively.

All legal and professional fees incurred in relation to the debt, totaling ₱230.0 million, were capitalized. Debt issue cost are amortized using the effective interest method. Amortization of debt issue cost attributed to this loan, amounting to ₱2.8 million for the year ended December 31, 2009, is presented as part of "Interest expense" account in the parent company statement of income (see Note 18).

The loan was secured by a pledge on Meralco shares owned by the Company or by any third party procured by the Company. The Company shall, from the date of the pledge over the Meralco shares maintain the loan to value ratio at 50%. As of December 31, 2009, the market value of the Company's investment in Meralco, based on quoted price of ₱204.0 per share, amounted to ₱33,375.0 million and MPIC is in compliance with the required ratio.

The Omnibus Agreement also provides for the maintenance of a DSA to be used by the Company to service interest and principal payments.

On March 30, 2010, however, the Company preterminated its ₱11.2 billion loan to be able to release its Meralco shareholdings from being pledged and transferred it to Beacon Electric in connection with the OA as discussed in Note 10. Unamortized debt issue cost of ₱221.7 million was reversed and charged to Beacon Electric pursuant to a Letter of Agreement. Interest expense incurred in 2010, including amortization of debt issue cost of ₱5.4 million, amounted to ₱310.2 million (see Note 18).

₱4.5 Billion Bridge Financing Facility. On August 3, 2009, MPIC incurred indebtedness of ₱4,500.0 million by drawing on the Bridge Financing (the "Promissory Note") obtained from local banks, in order to consummate the purchase of common shares of Meralco in the open market amounting to ₱4,441.6 million (see Note 10). The principal amounts of these promissory notes are payable in a single payment sixty days from the execution of the promissory notes or on October 3, 2009. Interest on the outstanding principal amount of the Promissory Note is payable monthly in arrears on each interest payment date for the interest period then ending at a fixed rate which shall be equal to the 30-day PDST-F rate prevailing on an Interest Rate Setting Date plus a spread of 3.5%. The Promissory Note is secured by a pledge of 48,385,278 shares of common stock of Meralco, of which 13,350,000 shares are owned by the MPHI and 35,035,278 shares are owned by Crogan, as a third party pledgor at that time. On September 28, 2009, the principal amount of the Promissory Note and any accrued interest therein were paid and the pledged shares of Meralco have been released.

14. 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 granting of noninterest-bearing cash advances with no fixed repayment terms. There have been no guarantees provided or received for any related receivables or payables.

As of December 31, amounts due to/from related parties are as follows:

	Relationship	**2010**	2009
Due from related parties:			
Metro Pacific Investments Foundation, Inc. (MPIF)	Affiliate	**₱106,579**	₱32,576
FPC	Ultimate Parent	**4,367**	1,230
Meralco	Affiliate	**335**	–
EMHMC	Subsidiary	**307**	–
MPTC	Subsidiary	**102**	1,161
Maynilad	Subsidiary	**33**	3
DMWC	Subsidiary	**3**	4,118
HCPTI	Affiliate	–	105,000
Landco	Affiliate	–	29,002
MNHPI	Affiliate	–	4,042
Others	Associates and affiliates	**2,182**	2,539
		₱113,908	₱179,671

	Relationship	2010	2009
Due to related parties:			
MPHI	Parent	**₱6,388,391**	₱16,667
MPC	Subsidiary	**578,521**	577,553
MPTDC	Subsidiary	**462,639**	462,639
DMWC	Subsidiary	**292,060**	307,753
PLDT	Affiliate	**11,222**	5,747
Others	Associates and affiliates	**842**	2,177
		7,733,675	1,372,536
Less: Current portion		**1,419,534**	1,372,536
		₱6,314,141	₱–

MPHI
The following are transactions with MPHI, a majority stockholder of MPIC, in 2010 and 2009:

- *The Company entered into a Placement and Subscription Agreements with MPHI on September 19, 2009 in order to raise capital (see Note 15).*

- *Also, refer to Note 15 for other transactions with MPHI.*

- *Issuance of Convertible Bonds.* On March 22, 2010, MPIC issued to MPHI Peso denominated bonds convertible to common shares of MPIC at ₱3.25 per share with total face value of ₱6.6 billion due after three years from date of issuance (the redemption date). The bonds pay fixed interest of 4.5%, payable semi-annually every March 31st and September 30th of each year commencing on September 30, 2010.

  Call Option. MPIC has the right to early redeem the bonds, in whole or in part; (except in the case described in item 2 below (in which case, MPIC must wholly redeem the bonds), anytime from the date immediately following the first anniversary of the issue date at the early redemption amount if (1) the volume weighted average price of MPIC's common shares for thirty (30) trading days prior to the date of the giving of the notice is at least 140% of the conversion price in effect on the last such trading day or (2) at least 90% in principal amount of the convertible bonds has already been converted, redeemed or purchased and cancelled. The early redemption amount, with respect to each convertible bond unit, on the interest payment date immediately preceding the intended early redemption date is as follows:

Interest Payment Date	Early Redemption Amount
March 30, 2011	₱101.01
September 30, 2011	101.54
March 30, 2012	102.08
September 30, 2012	102.64

Equity Conversion Option. MPHI, on other hand, has the option to convert the bonds for MPIC common shares based on the initial conversion price of ₱3.25 per share. Adjustments to initial conversion price would be made on the following instances:

- Consolidation, subdivision or reclassification
- Capitalization of profits or reserves by way of stock dividends or otherwise
- Capital distribution
- Right issues of common shares or option over common shares
- Modification of rights and conversion
- Other offers to holders of common shares

This option is exercisable after March 30, 2011 up to and including the 10th business day immediately preceding the redemption date.

The embedded call option is clearly and closely related to the bonds, therefore, was not bifurcated. On the other hand, the embedded equity conversion option is an equity instrument such that the initial carrying amount of the convertible bonds was allocated to its equity and liability components, where the equity component was assigned the residual amount after deducting from the initial fair value of the bonds the amount separately determined for the liability component. To separate the liability component from the equity component, the redemption amount of the bond as well as the future interest cash flows were discounted to arrive at its present value using MART 1 rate plus spread of 2.5%.

The present value of the bonds at the date of issuance amounted to ₱6,166.1 million and the assigned value to the equity component is ₱400.9 million, presented net of related tax of ₱120.3 million under "Reserves" account in the equity section of the 2010 parent company balance sheet (see Note 15). Related interest (including amortization of discount) for 2010 amounted to ₱371.6 million, of which ₱74.2 million is unpaid as of December 31, 2010 and presented as current portion of "Due to related parties" account in the parent company balance sheet. The carrying value of the bonds amounted to ₱6,314.1 million as of December 31, 2010.

On March 3, 2011, the BOD approved the amendment of the convertible bonds to allow allotment and issuance of MPIC common shares out of an increase in its authorized capital stock upon conversion by MPHI. Currently, the convertible bond requires that MPIC common shares will be available for issuance on conversion date. Thus, MPIC common shares must be allotted and issued out of unissued capital.

SEC requires that at least 25.0% of the intended increase in authorized capital stock must be subscribed and 25.0% of the subscription must be paid up. Subscription to the proposed increase in the authorized capital stock will be made by MPHI and will be paid through conversion of debt to equity.

MPC

The balance during the year represents the various advances made by the Company to pay documentary stamp taxes for its various loans and issuance of common shares, payment for software costs and advances to finance the Company's daily operations.

MTPDC
This pertains to the assumed obligation to pay the advances received by Benpres Holdings Corporation and First Philippine Holdings Corporation from MPTDC and MPTC as part of the purchase price for the acquisition of MPTC shares.

DMWC
In January 2009, DMWC extended noninterest-bearing cash advances to MPIC amounting to ₱307.8 million. As of December 31, 2010, the balance was reduced to ₱292.1 million.

PLDT
PLDT is an associate of FPC, thus a related party. 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. Rent expense and other fees accruing to PLDT amounted to ₱4.9 million and ₱7.8 million, respectively, for the period December 31, 2010.

HCPTI
HCPTI is a joint venture partner of MPIC in MNHPI. In 2009, MPIC extended noninterest-bearing advances amounting to ₱105.0 million and such amount is payable on demand. Upon the sale of its interest in the port consortium, the Company also collected the advances to HCPTI on June 28, 2010.

Others
Other transactions with related parties (MPIF, FPC, Meralco, EMHMC, MPTC, Maynilad and others) mainly relate to advances to finance various projects as well as intercompany charges for share in certain operating and administrative advances. These intercompany accounts are noninterest-bearing.

Also refer to Note 10 for other related parties transactions with respect to the Company's acquisition of Meralco shares and investment in Beacon Electric.

Compensation of Key Management Personnel
Compensation and benefits of key management personnel of the Company for the years ended December 31, 2010 and 2009 are as follows:

	2010	2009
Salaries and wages	**₱110,422**	₱32,253
ESOP expense (see Note 20)	**25,257**	50,036
Retirement cost (see Note 17)	**26,751**	1,108
LTIP expense (see Note 17)	**71,477**	–
Other employee benefits	**6,642**	162
	₱240,549	₱83,559

Directors' Remuneration
Annual remuneration of the directors amounted to ₱3.4 million and ₱4.4 million for the years ended December 31, 2010 and 2009, respectively.

Non-executive directors are entitled to a per diem allowance of ₱50.0 thousand for each attendance in the Company's Board meetings. The Company's By-Laws provide that an amount equivalent to 1.0% of net profit after tax of the Company shall be allocated and distributed among the directors of the Company who are not officers of the 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.

15. **Equity**

Details of authorized and issued capital stock follow:

	2010		2009	
	No. of Shares	**Amount**	No. of Shares	Amount
Authorized common shares -				
₱1 par value	**22,688,518,336**	**₱22,688,518**	22,688,518,336	₱22,688,518
Authorized preferred shares:				
Class A - ₱0.01 par value	**5,000,000,000**	**50,000**	5,000,000,000	50,000
Class B - ₱1 par value	**1,500,000,000**	**1,500,000**	1,500,000,000	1,500,000
	29,188,518,336	**₱24,238,518**	29,188,518,336	₱24,238,518
Issued - common shares:				
Balance at beginning of year	**20,128,154,522**	**₱20,128,155**	7,027,726,813	₱7,027,727
Exercise of stock option plan (see Note 20)	**27,310,000**	**27,310**	13,945,000	13,945
Issuance on existing subscriptions from MPHI	–	–	2,389,040,000	2,389,040
Additional subscriptions of MPHI	–	–	4,770,000,000	4,770,000
Conversion of advances/loan from MPHI to equity	–	–	672,129,584	672,130
Issuance on existing subscriptions from LAWL	–	–	791,110,491	791,110
Issuance in exchange for Meralco shares (see Note 10)	–	–	4,464,202,634	4,464,203
Balance at end of period	**20,155,464,522**	**₱20,155,465**	20,128,154,522	₱20,128,155
Issued - preferred shares:				
Conversion of advances from MPHI to equity (see Note 14)	**5,000,000,000**	**₱50,000**	5,000,000,000	₱50,000
Total number of stockholders	**1,380**	–	1,378	–

Authorized Capital Stock

MPIC was incorporated with original authorized capital stock of 100,000 common shares having par value of ₱1 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 ₱1 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 a Tender Offer, and as result of such Tender Offer made by the Company, 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.

In 2008, the SEC approved the increase in Company's authorized capital stock to ₱12.0 billion. On February 13, 2009, the SEC approved the increase in the Company's authorized capital stock from ₱12.0 billion to ₱21.5 billion divided into 20,000,000,000 common shares with a par value of ₱1.0 per share, 5,000,000,000 Class A preferred shares with a par value of ₱0.01 per share and 1,500,000,000 Class B preferred shares with a par value of ₱1.0 per share.

On May 28, 2009, the BOD approved the increase of the authorized capital stock from ₱21.6 billion to ₱31.6 billion, divided into 28,500,000,000 common shares with the par value of ₱1.0 per share, 5 billion Class A preferred shares with a par value of ₱0.01 per share and 3.0 billion Class B Preferred Shares at ₱1.0 par value per share.

On December 21, 2009, the SEC approved the increase of the authorized capital stock from ₱21.6 billion to ₱24.2 billion, divided into 22,688,518,336 common shares with the par value of ₱1.0 per share, 5 billion Class A preferred shares with a par value of ₱0.01 per share and 1.5 billion Class B Preferred Shares at ₱1.0 par value per share.

As of December 31, 2010, the application to increase the Company's authorized capital stock by an additional 5,811,481,664 common shares with par value of ₱1.0 per share and 1.5 billion Class B Preferred Shares at ₱1.0 par value per share is yet to be filed with and approved by the SEC.

Issued Common Shares
Issuances to MPHI during 2009 are as follows:

- On February 13, MPHI's deposit for future stock subscriptions amounting to ₱4.8 billion have been applied for payment of its subscription to 2,389,040,000 common shares from the increase in authorized capital stock as approved by SEC.

- On September 19, the Company undertook a re-launch of its shares and as a result, a total of 4,770,000,000 common shares were issued to MPHI. Information on the Re-launch of MPIC shares are provided below.

- On December 21, advances by MPHI to MPIC amounting to ₱2,016.4 million were also converted into and issued with 672,129,584 common shares at ₱3.00 per share. Detailed information related to the conversion are provided below.

Other issuances of the Company during 2009 are as follows:

- On July 9, the subscription of LAWL of 791,110,491 common shares of the Company for ₱2,029.2 million was likewise issued.

- On October 2, a total of 4,464,202,634 common shares were issued to BTF and Crogan/MPHI in exchange for certain Meralco shares held by BTF and Crogan (see Note 10).

Executive Stock Option Plan
At various dates in 2010 and 2009, the Company issued a total of 27,310,000 and 13,945,000 common shares, respectively, in connection with the Company stock option plan (see Note 20).

Issued Class A Preferred Shares

On July 29, 2009, the Company issued to MPHI 5,000,000,000 Class A Preferred Shares with a par value of ₱0.01 per share. The holders of the Class A Preferred Shares (the "Class A Preferred Shareholders") shall be entitled to vote and receive preferential cash dividends at the rate of ten percent (10.0%) per annum, to be calculated based on the par value of the Class A Preferred Shares, upon declaration made at the sole option of the BOD.

Dividends on the Class A Preferred Shares shall be paid out of the Company's unrestricted retained earnings. Such dividends shall be cumulative from and after the issue date of the Class A Preferred Shares, whether or not in any period the amount thereof is covered by available unrestricted retained earnings.

No dividends shall be paid or declared and set apart for payment, or other distribution made in respect of the common shares, unless the full accumulated dividends on all Class A Preferred Shares for all past dividend periods and for the then current dividend period shall have been paid or declared and set apart for payment by the Company. Class A Preferred Shareholders shall not be entitled to any participation or share in the retained earnings remaining after dividend payments shall have been made on the Class A Preferred Shares in accordance with the foregoing paragraphs.

As of December 31, 2010 and 2009, unrecognized cumulative dividends on Class A Preferred Shares amounted to ₱1.9 million and ₱2.5 million, respectively.

Class B Prefered Shares

Class B Preferred Shares may be issued from time to time in one or more series as the BOD may determine. The BOD shall establish and designate each particular series of Class B Preferred Shares, to fix the number of shares to be included in each of such series, and to determine the cash dividend rate, which in no case to exceed 10.0% per annum, the amount and the price, and the rate, period and manner of conversion and redemption, of the Class B Preferred Shares for each of such series. To the extent not set forth in the Article Seventh of the Company's Articles of Incorporation, the specific terms and restrictions of each series of the Class B Preferred Shares shall be specified in the "Enabling Resolutions" as may be adopted by the BOD. Dividends shall be cumulative from and after the date of issue of the Class B Preferred Shares, whether or not in any period the amount thereof is covered by available unrestricted retained earnings. No dividends shall be declared or paid on the common shares or Class A Preferred Shares unless the full accumulated dividends on all Class B Preferred Shares for all past dividend periods and for the then current dividend period shall have been declared and paid by the Company. The holders of Class B Preferred Shares shall not be entitled to any participation or share in the retained earnings remaining after dividend payments shall have been made on the Class B Preferred Shares.

Holders of Class B Preferred Shares may be convertible to common shares of the Company at such rate, in such manner and within such period as may be fixed in the Enabling Resolutions for such series.

Class B Preferred Shares shall be redeemable in such manner and within such period as may be fixed in the Enabling Resolutions for such series. Any and all Class B Preferred Shares redeemed, whether pursuant to a share conversion or otherwise, shall not be considered retired and may be re-issued by the Company.

In the event of liquidation, dissolution, bankruptcy or winding up of the affairs of the Company, the holders of Class B Preferred Shares shall be entitled to be paid in full or ratably to the extent that the remaining assets of the Company will permit, an amount equivalent to the issue price of such Class B Preferred Shares plus all accumulated and unpaid dividends up to the then current dividend period, before any assets of the Company shall be paid or distributed to the holders of the common shares or Class A Preferred Shares.

Deposit for Future Stock Subscriptions
This represents subscriptions from exercise of ESOP of which the corresponding shares were not issued as of December 31, 2010. Those shares were issued in January, 2011.

Equity Restructuring
On July 14, 2010, the SEC approved the equity restructuring of the Company to wipe out deficit amounting to ₱403.6 million as of December 31, 2009 subject to the condition that the remaining additional paid-in capital amounting to ₱27,456.4 million shall not be used to wipe out future losses without prior approval of the SEC.

Also, on December 17, 2009, the SEC approved the equity restructuring of the Company to wipe out the deficit amounting to ₱1,620.9 million as of December 31, 2008 subject to the condition that the remaining additional paid-in capital amounting to ₱4,132.9 million shall not be used to wipe out future losses without prior approval of the SEC.

Cash Dividends
On August 4, 2010, the BOD approved the declaration of a cash dividend of ₱0.01 per share to common shareholders on record as of August 19, 2010 and paid on September 16, 2010. Total dividend declared and paid to common shareholders amounted to ₱201.3 million and the dividend declaration was made on the basis of retained earnings of the Company as of the end of July 2010.

As required by Articles of Incorporation of the Company, on the same date, the BOD also declared a cash dividend in the aggregate amount of ₱5.7 million to the outstanding Class A Preferred Shares of the Company. The dividend was paid on September 16, 2010.

Reserves
This account consists of:

	2010	2009
Day 1 loss	**(₱286,122)**	(₱286,122)
Equity component of a financial instrument - net of tax (see Note 14)	**280,612**	–
Other reserve from ESOP (see Note 20)	**66,467**	46,827
	₱60,957	(₱239,295)

Day 1 loss relates to the convertible note issued to MPHI in 2007 which were converted to equity in 2008.

Transactions Related to Issuances of Shares

Conversion of Advances to Equity. Further to the resolutions of the BOD and stockholders passed on May 28, 2009 authorizing the increase in the capital stock of MPIC, the BOD of MPIC resolved to implement the capitalization and/or conversion by MPHI of its advances to MPIC in the amount of ₱2,016.4 million. On December 21, 2009, MPIC issued 672,129,584 common shares in favor of MPHI at a subscription price of ₱3.00 per share. Also on July 1, 2009, MPIC

issued 5,000,000,000 shares of Class A Preferred Shares with par value of ₱0.01 per share to MPHI as payment of the Company's ₱50.0 million advances from MPHI. Holder of Class A Preferred Shares shall be entitled to vote and receive preferential cash dividends at the rate of ten percent (10.0%) per annum, to be calculated based on the par value of the Class A Preferred Shares, upon declaration made at the sole option of the BOD.

Re-launch of MPIC shares. On September 19, 2009, the Company undertook a "Re-launch" of its shares. A ''Re-Launch'' is a public offering or an old-for-new share placement that would result in an offering to public shareholders of a minimum of 15.0% of the MPIC's fully diluted equity or US$100 million worth of shares (valued at the Re-launch Issue Price), whichever is lower, in the PSE. The Re-launch Price is ₱3.0 per share.

Placement and Subscription Agreement. In connection with the Re-launch of MPIC shares, the Company engaged into a Placement Agreement and Subscription Agreement, both dated September 19, 2009, with MPHI in order to raise capital. As stated in the Placement Agreement, MPHI shall offer its 4,150,000,000 MPIC Common Shares (the "Firm Shares") with a par value of ₱1.0 per share at ₱3.0 per share offer price to purchasers procured by CLSA Singapore Pte. Ltd. and UBS AG, the Lead Managers. In addition and by virtue of the Over-Allotment Option, the Lead Managers may require MPHI to sell an additional 620,00,000 MPIC Common Shares (the "Option Shares"). The 4,150,000,000 and the 620,000,000 MPIC Common Shares (aggregate total of 4,770,000,000 MPIC Common Shares) are referred to in the Placement Agreement as the "Offer Shares."

MPHI, pursuant to a Greenshoe Agreement dated September 19, 2009 (the "Greenshoe Agreement"), unconditionally and irrevocably granted the Lead Managers the Over-allotment Option to require MPHI to sell up to the number of Option Shares to the Lead Managers at the Offering Price (₱3.0/share) to purchasers procured by the Lead Managers.

With the proceeds of the Offer and pursuant to the Subscription Agreement, MPHI has conditionally agreed to subscribe for, and the Company has conditionally agreed to issue and sell, (i) new Common Shares in an amount equal to the aggregate number of Firm Shares sold by MPHI in the Offer and (ii) an additional number of new Common Shares in an amount agreed between the Company and MPHI, each at a price equivalent to the Offering Price of ₱3.0 per share.

The Subscription Agreement provides that MPIC will not directly receive any proceeds from the Offer, but MPHI has agreed to subscribe for, and the Company shall issue, new Common Shares in an amount equal to the aggregate number of Firm Shares sold by MPHI in the Offer (the "Subscription Shares") at a price equivalent to the Offering Price. Neither will MPIC receive any proceeds in the event that the Over-allotment Option is exercised. In the event, however, that the gross proceeds realized by MPIC from its issuance of the Subscription Shares is less than the Peso equivalent, as of the date of the Subscription Agreement, of US$300 million, MPHI has agreed to likewise subscribe for, and MPIC has agreed to issue, additional new Common Shares at the same Offering Price per Share (₱3.0), the number of which shall be up to but shall not exceed the aggregate number of Option Shares actually sold by MPHI as a result of the exercise by CLSA of its Over-allotment Option and the gross proceeds of which, when aggregated with the gross proceeds realized by MPIC from the Subscription Shares, shall not exceed the Peso equivalent, as of the date of the Agreement, of US$300 million (the "Additional Subscription Shares").

MPHI was able to sell through the Lead Managers the total Offer Shares of 4,770,000,000 MPIC common shares (4.15 billion Firm Shares and 620.0 million Option Shares). Likewise, failure to meet the condition as provided in the Subscription Agreement and as discussed above, MPHI subscribed for and MPIC issued to MPHI the same number of new MPIC common shares. The proceeds of ₱14,310.0 million, net of transaction costs of ₱561.2 million which were capitalized, add up to the capital of the Company. MPHI ownership interest in MPIC was reduced to 56.6% from 97.3% partly as a result of consummation of the aforementioned agreements.

Issuances in Relation to the Acquisition of Meralco Shares. In relation to the acquisition of the investment in Meralco, MPIC entered into separate subscription agreements with each of BTF and MPHI wherein they subscribed to 3,159,162,337 and 1,305,040,296 common shares of MPIC, respectively. Proceeds of said subscriptions were used to partially fund MPIC's acquisition of a certain number of Meralco common shares held by BTF/New Gallant and Crogan. The agreed subscription price was ₱3.0 per share but the subscription was recorded at ₱3.2 per share or for a total subscription price of ₱14,285.4 million which represents the fair value of MPIC shares on October 2, 2009, the acquisition date of the investment in Meralco (see Note 10).

16. **Operating Expenses**

This account consists of:

	2010	2009
Personnel costs	**₱268,332**	₱113,865
Public relation	**72,639**	15,962
Professional fees	**56,824**	63,890
Provision for corporate initiatives	**49,407**	87,790
Provision for doubtful accounts (see Note 6)	**36,405**	–
Insurance	**27,509**	42,016
Transportation	**24,936**	10,713
Outside services	**18,962**	39,059
Depreciation and amortization (see Note 11)	**9,767**	7,215
Taxes and licenses	**7,830**	12,952
Rental	**6,151**	6,382
Communication, light and water	**5,466**	4,668
Supplies	**3,807**	2,053
Representation	**3,725**	7,860
Seminars and conferences	**3,590**	3,368
Directors' fee	**3,397**	4,410
Repairs and maintenance	**1,044**	510
Membership dues	**987**	634
Others	**4,871**	5,698
	₱605,649	₱429,045

Personnel costs for the years ended December 31, 2010 and 2009 consist of:

	2010	2009
Salaries and wages	**₱133,136**	₱31,329
ESOP expense (see Note 20)	**25,257**	50,036
Retirement cost (see Note 17)	**28,508**	1,253
LTIP expense (see Note 17)	**71,477**	–
Others	**9,954**	31,247
	₱268,332	₱113,865

17. **Employee Benefits**

LTIP. On December 16, 2010, the MPIC's BOD approved, in principle, the broad outline of the MPIC's strategic plans for 2010 to 2012 focusing on the development of new revenue streams to drive future growth while protecting the existing core business. To ensure the proper execution of the three-year plan, particularly with respect to the manpower resources being committed to such plans, the 2010 to 2012 LTIP, upon endorsement of the Compensation Committee, was approved by the BOD to cover the period from January 1, 2010 to December 31, 2012, or the 2010 to 2012 Performance Cycle. The payment under the 2010 to 2012 LTIP was intended to be made at the end of the 2010 to 2012 Performance Cycle (without interim payments) and contingent upon the achievement of an approved target core income of the Company by the end of the 2010 to 2012 Performance Cycle.

Total amount of LTIP under this Plan is fixed upon achievement of the target Core Income and is not affected by changes in future salaries of the employees covered. The liability of the 2010 to 2012 LTIP was determined using the projected unit credit method. The long term employee benefit liability comprises the present value of the defined benefit obligation (using discount rate based on government bonds) at the end of the reporting period.

The total cost of the LTIP amounted to ₱83.8 million, of which ₱12.3 million was recognized as additional investments in subsidiaries representing the Company's share in the LTIP cost of the subsidiaries as per LTIP Plan and the balance of ₱71.5 million was presented under "Personnel cost" in the parent company statement of income (see Notes 10 and 16). The benefit expense was calculated using an internal valuation model. As of December 31, 2010, the details of accrued LTIP are as follows:

	Amount *(In Thousands)*
Beginning balance	₱–
Current provision	79,791
Interest	1,749
Actuarial loss	2,243
LTIP payable	₱83,783

Defined contribution retirement plan. In 2010, retirement benefits of the Company's employees are provided through a defined contribution scheme as approved by the BOD on August 4, 2010. The Company operates a Retirement Plan which is a contributory plan wherein the Company undertakes to contribute a predetermined amount to the individual account of each employee and the employee gets whatever is standing to his credit upon separation from the bank. The Plan is managed and administered by a Retirement Committee and a trustee bank had been appointed to hold and invest the assets of the retirement fund in accordance with the provisions of the Plan.

The Company's contributions to the plan are made based on the employee's monthly basic salary which is at 10.0%. Additionally, an employee has an option to make a personal contribution to the fund, at an amount not exceeding 40.0% of his monthly salary. The Company then provides an additional contribution to the fund which aims to match the employee's contribution but only up to a maximum of 5.0% of the employee's monthly salary. Although the plan has a defined contribution format, MPIC regularly monitor compliance with R.A. 7641, otherwise known as "The Retirement Pay Law." As of December 31, 2010, MPIC is in compliance with the requirements of R.A. 7641.

The plan's investment portfolio seeks to achieve regular income and long-term capital growth and consistent performance over its own portfolio benchmark. In order to attain this objective, the trustee's mandate is to invest in a diversified portfolio of bonds and equities, both domestic and international. There are three portfolios which an employee can choose from (i) 100.0% fixed income securities; (ii) 80.0% for debt and fixed income securities while 20.0% is allotted to equity securities; and (iii) 60.0% for debt and fixed income securities while 40.0% is allotted to equity securities. The portfolio mix is shown below:

	Aggressive	Moderate	Conservative
Investments in:			
Government securities	6.2%	7.8%	39.9%
Unit trust funds	23.6%	13.4%	–%
Investment in bonds	8.4%	5.9%	0.6%
Cash in banks	61.7%	72.8%	59.2%
Receivables and others	0.1%	0.1%	0.3%
	100.0%	100.0%	100.0%

The Company recognizes expenses for their contribution to the defined contribution plans when the employee renders service to the Company, essentially coinciding with their cash contributions to the plans. During the year, the Company recorded retirement expense under this scheme amounting to ₱28.5 million, which is included in "Personnel costs" under "Operating expenses" account in the parent company statement of income. The Company also initially set up a fund to a trustee bank in the amount of ₱31.4 million. Unfunded accrued retirement liability under this scheme as of December 31, 2010 amounted to ₱6.2 million.

MPIC currently expects to make approximately ₱22.0 million of cash contributions to its pension plan in 2011.

Defined benefit retirement plan. In 2009, the Company had an unfunded, noncontributory defined benefit retirement plan covering all of its regular and full time employees. The plan provides for a lump sum benefit payment upon retirement. Contributions and cost are determined in accordance with the actuarial study made for the plan which is normally obtained every two years.

Based on the latest actuarial valuation dated January 30, 2010, the present value of benefit obligation (PVBO) as of that date amounted to ₱9.1 million and presented as "Accrued retirement cost" account in the parent company balance sheet and the retirement cost during the year was recorded as part of personnel costs under "Operating expenses" account in the parent company statement of income (see Note 16).

Components of retirement cost:

	2010	2009
	(In Thousands)	
Current service cost	**₱–**	₱1,137
Interest cost	–	116
Retirement cost for the year*	**₱–**	₱1,253

**Included in personnel costs in Note 16.*

Accrued Retirement Cost:

	2010	2009
	(In Thousands)	
Balance at beginning of year	**₱9,090**	₱3,562
Retirement cost for the year	–	1,253
Actuarial loss	–	4,275
Reversal due to change in plan	**(9,090)**	–
Balance at end of year	**₱–**	₱9,090

Movement in the PVBO is as follows:

	2010	2009
	(In Thousands)	
Balance at beginning of year	**₱9,090**	₱3,562
Current service cost	–	1,137
Interest cost	–	116
Actuarial loss	–	4,275
Reversal due to change in plan	**(9,090)**	–
Balance at end of year	**₱–**	₱9,090

The principal assumptions used to determine retirement benefit obligation as of December 31, 2009:

	2009
Discount rate	10.1%
Rate of increase in compensation	8.1%

18. Interest Income and Interest Expense

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

	2010	2009
	(In Thousands)	
Interest income:		
Notes receivables (see Note 6)	**₱189,501**	₱117,962
Cash and cash equivalents (see Note 5)	**93,343**	48,549
	₱282,844	₱166,511
Interest expense:		
Long-term debt	**₱1,037,173**	₱949,030
Due to related parties (see Note 14)	**223,575**	45,389
Amortization of discount on convertible bonds (see Note 14)	**148,015**	–
Amortization of debt issue cost (see Note 13)	**13,754**	10,395
	₱1,422,517	₱1,004,814

19. Income Taxes

Current Tax

The provision for current income tax consists of:

	2010	2009
	(In Thousands)	
MCIT	**₱4,173**	₱–
Final tax on interest income	**18,075**	9,705
	₱22,248	₱9,705

Deferred Tax

a. The components of deferred tax liabilities recognized in 2010 follow:

	Amount
	(In Thousands)
Equity component of convertible bonds	₱93,123
ESOP shares granted to officers and directors of certain subsidiaries	912
LTIP for subsidiaries	1,230
	₱95,265

b. The details of the carryforward benefit of NOLCO, MCIT and other deductible temporary difference for which deferred tax assets, amounting to ₱832.0 million and ₱425.8 million, were not recognized as of December 31, 2010 and 2009, respectively, since management believes that it is not probable that future taxable income will be available against which the deferred tax assets can be utilized as follows:

	2010	2009
	(In Thousands)	
NOLCO	**₱2,631,038**	₱1,411,579
MCIT	**4,173**	–
Nondeductible expenses	**128,378**	7,681
	₱2,763,589	₱1,419,260

As of December 31, 2010, MCIT amounting ₱4.1 million that can be applied as tax credit against future income tax due under RCIT will expire in 2013.

As of December 31, 2010 and 2009, unrecognized NOLCO amounting to ₱2,631.0 million and ₱1,411.6 million, respectively, can be carried forward and claimed as deduction from regular taxable income as follows:

Year Incurred	Amount	Additions	Expirations	Balance	Expiry Year
		(In Thousands)			
2010	₱–	₱1,483,602	₱–	₱1,483,602	2013
2009	1,147,436	–	–	1,147,436	2012
2007	264,143	–	264,143	–	2010
	₱1,411,579	₱1,482,361	₱264,143	₱2,631,038	

The reconciliation between the Company's statutory income tax and the effective income tax on net income (loss) for the years ended December 31, 2010 and 2009 follows:

	2010	2009
Statutory income tax at 30%	**₱94,586**	(₱118,163)
Adjustments for:		
Dividend income exempted from final tax	**(587,994)**	(213,598)
Net change in unrecognized deferred tax assets	**508,057**	345,889
Income already subjected to final tax	**(28,003)**	(14,565)
Final tax on interest income	**18,075**	9,705
Gain on disposal of investments	**(17,374)**	(47,586)
Nondeductible expenses - net	**4,820**	48,023
MCIT	**4,173**	–
Effective income tax	**(₱3,660)**	₱9,705

20. **Share-based Payment**

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 5.0% 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 5.0% 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 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.

First Grant. The Company has granted on December 9, 2008 and March 10, 2009 options in respect of 123,925,245 common shares to its senior management. Details of the said tranches follow: (a) Tranche A for 61,000,000 shares, 50.0% of which vested immediately on January 2, 2009 with an exercise price of ₱2.12 per share and (b) Tranche B for 62,925,245 shares, 50.0% of which vested on March 10, 2009 with an exercise price of ₱2.73 per share. The remaining fifty percent (50.0%) of each said tranche will vest on the first (1st) anniversary of the initial vesting date. The share options automatically vest on their respective vesting schedules. The grantees of the said option may exercise in whole or in part their respective options at any time after vesting but prior to the expiration of three (3) years after all of the options shares for such tranche have vested.

ESOP expense for this First Grant included in "Personnel costs" under "Operating expenses" account in the parent company statements of income, amounted to ₱4.5 million and ₱50.0 million for the years ended December 31, 2010 and 2009, respectively (see Note 16).

The following table illustrates the number, exercise prices of, and movements in share options in 2009:

	Tranche A		Tranche B	
	Number of shares	Exercise price	Number of shares	Exercise price
Outstanding at January 1, 2009	61,000,000	₱2.12	–	₱–
Granted during the year	–	–	62,925,245	2.73
Exercised during the year*	7,365,000	2.12	6,580,000	2.73
Outstanding at December 31, 2009	53,635,000	2.12	56,345,245	2.73
Granted during the year	–	–	–	–
Exercised during the year*	17,310,000	2.12	15,000,000	2.73
Forfeited during the year	10,250,000	2.12	11,845,245	2.73

	Tranche A		Tranche B	
	Number of shares	Exercise price	Number of shares	Exercise price
Outstanding at December 31, 2010	26,075,000	₱2.12	29,500,000	₱2.73
Exercisable at December 31, 2009	23,135,000	₱2.12	24,882,623	₱2.73
Exercisable at December 31, 2010	26,075,000	₱2.12	29,500,000	₱2.73

**In 2010 and 2009, ₱13.8 million and ₱3.2 million, respectively of the total ESOP expense recognized under "Reserves" in the parent company balance sheet pertaining to the options exercises was transferred to additional paid-in capital.*

The weighted average remaining contractual life for the share options outstanding as of December 31, 2010 and 2009 is 1.4 year and 2.4 years, respectively.

The fair value of the options granted is estimated at the date of grant using Black-Scholes-Merton formula, taking into account the terms and conditions upon which the options were granted. The following tables list the inputs to the model used for the ESOP in 2009:

	Tranche A		Tranche B	
	50% vesting on January 2, 2009	50% vesting on January 2, 2010	50% vesting on March 10, 2009	50% vesting on March 10, 2010
Grant date	December 9, 2008		March 10, 2009	
Spot price	₱2.10	₱2.10	₱2.70	₱2.70
Exercise price	₱2.12	₱2.12	₱2.73	₱2.73
Risk-free rate	5.92%	6.60%	4.24%	4.82%
Expected volatility*	94.07%	58.10%	61.25%	66.43%
Term to vesting (in days)	24	389	61	365

** The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the options is indicative of future trends, which may also not necessarily the actual outcome.*

Second and Third Grant. In consideration of the SEC's current policy to exclude the independent directors from ESOP grant and pending MPIC's consequent position paper filed with the SEC maintaining the validity of the grant to independent directors, the Compensation Committee modified the resolution it adopted on July 2, 2010. The Compensation Committee approved a modified plan excluding the independent directors from ESOP grant, without prejudice to reinstatement, as approved by SEC on September 20, 2010.

In the modified plan, MPIC has allocated and set aside stock options relating to additional 145,000,000 common shares, of which (a) a total of 94,300,000 common shares was granted to its new directors and senior management officers, as well as, members of the management committees of certain MPIC subsidiaries at the exercise price of ₱2.73 per common share in July 2, 2010 (the "Second Grant") and (b) another 10,000,000 common shares was granted at the exercise price of ₱3.50 on December 21, 2010 to officers of MPIC's subsidiary (the "Third Grant").

ESOP expense for the second and third grants included in "Personnel costs" under "Operating expenses" account in the parent company statement of income, amounted to ₱20.8 million for the year ended December 31, 2010 (see Note 16).

ESOP granted to members of management committees of certain MPIC subsidiaries amounting to ₱9.1 million is presented as additional investment in those subsidiaries (see Note 10).

The second and third ESOP grants remain unvested and unexercisable as of December 31, 2010. The weighted average remaining contractual life for the share options outstanding as of December 31, 2010 for the second and third grant are 4.6 years and 5.0 years, respectively.

The fair value of the options granted is estimated at the date of grant using Black-Scholes-Merton formula, taking into account the terms and conditions upon which the options were granted. The following tables list the inputs to the model used for the ESOP in July 2010 and December 2010:

The Second Grant – July 2, 2010

	Tranche A			Tranche B	
	50% vesting on January 1, 2011	50% vesting on January 1, 2012	30% vesting on July 2, 2011	35% vesting on July 2, 2012	35% vesting on July 2, 2013
Grant date			**July 2, 2010**		
Spot price	₱2.65	₱2.65	₱2.65	₱2.65	₱2.65
Exercise price	₱2.73	₱2.73	₱2.73	₱2.73	₱2.73
Risk-free rate	4.16%	4.92%	4.61%	5.21%	5.67%
Expected volatility*	48.33%	69.83%	69.27%	67.52%	76.60%
Term to vesting (in days)	183	548	365	731	1,096

The Third Grant – December 21, 2010

	30% vesting on August 1, 2011	35% vesting on August 1, 2012	35% vesting on August 1, 2013
Grant date		**December 21, 2010**	
Spot price	₱3.47	₱3.47	₱3.47
Exercise price	₱3.5	₱3.50	₱3.50
Risk-free rate	1.62%	2.83%	3.73%
Expected volatility*	46.62%	68.23%	72.82%
Term to vesting (in days)	223	589	954

** The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the options is indicative of future trends, which may also not necessarily the actual outcome.*

Carrying value of the ESOP recognized under "Reserves" in the equity section of the parent company balance sheets amounted to ₱66.5 million and ₱46.8 million as of December 31, 2010 and 2009, respectively (see Note 15).

Total ESOP expense for 2010 and 2009 amounted to ₱25.3 million and ₱50.0 million, respectively, included in "Personnel Costs" under "Operating Expenses" account in the parent company statements of income (see Note 16).

21. Financial Risk Management Objectives and Policies

The Company's principal financial instruments consist mainly of borrowings from a related party, and third party lenders and creditors, 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, AFS financial assets, accrued expenses and other current liabilities, and other related party transactions which arise directly from the Company's operations.

The main risks arising from the Company's financial instruments are interest rate risk, liquidity risk and credit risk. The BOD reviews and approves policies of managing each of these risks and they are summarized below.

Interest Rate Risk
Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to interest rate risk relates primarily to its long-term debt. The fixed Peso borrowing locks in the Company's financing costs despite changes in market interest rates.

In light of the decrease in market interest rates in 2010, the interest rate on the note was repriced to 9.2% from 10.7% effective February 13, 2011. This rate, however, is still subject to significant progressions of market interest rates and may be increased as deemed appropriate by the lender.

Liquidity Risk
Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans and facilities and advances from related parties.

The Company monitors its cash position using a cash forecasting system. All expected collections, check disbursements and other cash payments are determined on a daily basis to arrive at the projected cash position to cover its obligations and ensuring that obligations are met as they fall due. The Company monitors its cash flow portion particularly the collections from receivables, receipts of dividends and the funding requirements of operations to ensure an adequate balance of inflows and outflows. The Company also has online facility with its depository banks wherein bank balances are monitored daily to determine the actual Company cash balances at any time. The Company has cash and cash equivalents amounting to ₱1,619.1 million and ₱2,924.2 million as of December 31, 2010 and 2009, respectively, that are allocated to meet the Company's short-term liquidity needs.

The Company's liquidity and funding management process include the following:

- Managing the concentration and profile of debt maturities;
- Maintaining debt financing plans; and
- Monitoring balance sheet liquidity ratios against internal and regulatory requirements.

The table below summarizes the maturity profile of the Company's financial liabilities at December 31, 2010 and 2009 based on contractual undiscounted payments.

	2010						
	On Demand	**Within 1 Year**	**1–2 Years**	**2–3 Years**	**3–4 Years**	**More than 4 Years**	**Total**
				(In Thousands)			
Accrued expenses and other current liabilities:							
Accrued interest payable	**₱279,858**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱279,858**
Accrued expenses*	**23,169**	–	–	–	–	–	**23,169**
Accounts payable	**11,537**	–	–	–	–	–	**11,537**
Due to related parties	**1,419,534**	–	**6,811,860**	–	–	–	**8,231,394**
Long-term debt	–	**67,500**	**135,000**	**1,721,250**	**2,700,000**	**2,025,000**	**6,648,750**
LTIP payable	–	–	–	**83,783**	–	–	**83,783**
	₱1,734,098	**₱67,500**	**₱6,946,860**	**₱1,805,033**	**₱2,700,000**	**₱2,025,000**	**₱15,278,491**

**Excluding statutory payables.*

	2009						
	On Demand	Within 1 Year	1–2 Years	2–3 Years	3–4 Years	More than 4 Years	Total
				(In Thousands)			
Accrued expenses and other current liabilities:							
Accrued interest payable	₱437,084	₱–	₱–	₱–	₱–	₱–	₱437,084
Accrued expenses*	41,522	–	–	–	–	–	41,522
Accounts payable	7,318	–	–	–	–	–	7,318
Due to related parties	1,372,536	–	–	–	–	–	1,372,536
Long-term debt	–	187,500	675,000	2,257,500	5,681,250	9,115,000	17,916,250
	₱1,858,460	₱187,500	₱675,000	₱2,257,500	₱5,681,250	₱9,115,000	₱19,774,710

**Excluding statutory payables.*

Credit Risk

Credit risk is the risk that the Company will incur a loss arising from customers, clients or counterparties that fail to discharge their contracted obligations. The Company manages and controls credit risk by setting limits on the amount of risk that the Company is willing to accept for individual counterparties and by monitoring exposures in relation to such limits.

The Company's exposure to credit risk is equal to the carrying amount of its financial assets. The Company has no concentration 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 and the net maximum exposure to credit risk of the Company considering the effects of collaterals, credit enhancements and other credit risk mitigation techniques.

	Maximum Exposure		Net Maximum Exposure	
	2010	2009	**2010**	2009
		(In Thousands)		
Financial assets at FVPL -				
Derivative asset	**₱31,713**	₱–	**₱31,713**	₱–
Loans and receivables:				
Cash and cash equivalents[(a)]	**1,478,852**	2,924,152	**1,478,852**	2,924,152
Receivables:				
Notes receivable	**656,987**	11,728,480	**523,384**	11,728,480
Interest receivable	**22,217**	77,331	**17,695**	77,331
Dividend receivable	**28,494**	7,841	**28,494**	7,841
Accounts receivable	**5,483**	2,214	**5,483**	2,214
Advances to employees	**1,300**	696	**1,300**	696
Other receivables	**5,614**	1,926	**5,614**	1,926
Due from related parties[(b)]	**1,370,295**	179,671	**869,780**	174,357
Cash deposits[(c)]	**267,709**	270,199	**267,709**	270,199
AFS financial assets[(b)]	**8,458,531**	236,262	**8,458,531**	236,262
	₱12,327,195	₱15,428,772	**₱11,688,555**	₱15,423,458

[(a)]Excludes cash on hand amounting to ₱140.2 million and ₱0.04 million as of December 31, 2010 and 2009, respectively.
[(b)]Includes advances to Beacon Electric and MPC and investments in preferred shares of Beacon Electric presented under "Investment in subsidiaries and associates and interest in joint ventures" account in parent company balance sheet.
[(c)]Included under "Other current assets" account in the parent company balance sheet.

As at December 31, the aging analysis of past due but not impaired financial assets is as follows:

	2010				
	Neither Past Due nor Impaired	**Past Due but not Impaired**			**Total**
		(In Thousands)			
		<30 Days	**30-120 Days**	**>120 Days**	
Financial assets at FVPL -					
Derivative asset	**₱31,713**	**₱–**	**₱–**	**₱–**	**₱31,713**
Loans and receivables:					
Cash and cash equivalents	**1,478,852**	**–**	**–**	**–**	**₱1,478,852**
Receivables:					
Notes receivable	**656,987**	**–**	**–**	**–**	**656,987**
Interest receivable	**6,806**	**–**	**12,838**	**2,573**	**22,217**
Dividend receivable	**28,494**	**–**	**–**	**–**	**28,494**
Accounts receivable	**2,129**	**84**	**2,206**	**1,064**	**5,483**
Advances to employees	**1,300**	**–**	**–**	**–**	**1,300**
Other receivables	**–**	**–**	**–**	**5,614**	**5,614**
Due from related parties[(a)]	**1,257,312**	**60**	**3,014**	**109,909**	**1,370,295**
Cash deposits[(b)]	**267,709**	**–**	**–**	**–**	**267,709**
AFS financial assets[(a)]	**8,458,531**	**–**	**–**	**–**	**8,458,531**
	₱12,189,833	**₱144**	**₱18,058**	**₱119,160**	**₱12,327,195**

[(a)] Includes advances to Beacon Electric and MPC and investments in preferred shares of Beacon Electric presented under "Investment in subsidiaries and associates and interest in joint ventures" account in parent company balance sheet.
[(b)] Included under "Other current assets" account in the parent company balance sheet.

	2009				
	Neither Past Due nor Impaired	Past Due but not Impaired			Total
		(In Thousands)			
		<30 Days	30-120 Days	>120 Days	
Loans and receivables:					
Cash and cash equivalents	₱2,924,152	₱–	₱–	₱–	₱2,924,152
Receivables:					
Notes receivable	–	11,205,000	–	523,480	11,728,480
Interest receivable	58,617	15,649	920	2,145	77,331
Dividend receivable	7,841	–	–	–	7,841
Accounts receivable	–	–	–	2,214	2,214
Advances to employees	696	–	–	–	696
Other receivables	926	–	1,000	–	1,926
Due from related parties	139,049	404	2,211	38,007	179,671
Cash deposits[(a)]	270,199	–	–	–	270,199
AFS financial assets	236,262	–	–	–	236,262
	₱3,637,742	₱11,221,053	₱4,131	₱565,846	₱15,428,772

[(a)]Included under "Other current assets" account in parent company balance sheet.

The Company also assesses each financial assets based on its credit quality.

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.

For the Company's other financial assets, 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.

The table below shows the credit quality per class of financial assets of the Company that were neither past due nor impaired.

	2010			
	High Grade	**Standard Grade**	**Sub-standard Grade**	**Total**
		(In Thousands)		
Financial assets at FVPL -				
Derivative asset	**₱31,713**	**₱–**	**₱–**	**₱31,713**
Loans and receivables:				
Cash and cash equivalents	**1,478,852**	**–**	**–**	**1,478,852**
Receivables:				
Notes receivable	**–**	**–**	**656,987**	**656,987**
Interest receivable	**2,284**	**–**	**4,522**	**6,806**
Dividend receivable	**28,494**	**–**	**–**	**28,494**
Accounts receivable	**2,129**	**–**	**–**	**2,129**
Advances to employees	**1,300**	**–**	**–**	**1,300**
Due from related parties[(a)]	**1,257,312**	**–**	**–**	**1,257,312**
Cash deposits[(b)]	**267,709**	**–**	**–**	**267,709**
AFS financial assets[(a)]	**8,458,531**	**–**	**–**	**8,458,531**
	₱11,528,324	**₱–**	**₱661,509**	**₱12,189,833**

[(a)] Includes advances to Beacon Electric and MPC and investments in preferred shares of Beacon Electric presented under "Investment in subsidiaries and associates and interest in joint ventures" account in parent company balance sheet.
[(b)] Included under "Other current assets" account in the parent company balance sheet.

	2009			
	High Grade	Standard Grade	Sub-standard Grade	Total
		(In Thousands)		
Loans and receivables				
Cash and cash equivalents	₱2,924,152	₱–	₱–	₱2,924,152
Receivables:				
Notes receivable	–	–	–	–
Interest receivable	58,617	–	–	58,617
Dividend receivable	7,841	–	–	7,841
Accounts receivable	–	–	–	–
Advances to employees	696	–	–	696
Other receivables	926	–	–	926
Due from related parties	139,049	–	–	139,049
Cash deposits[(a)]	270,199	–	–	270,199
AFS financial assets	236,262	–	–	236,262
	₱3,637,742	₱–	₱–	₱3,637,742

[(a)]Included under "Other current assets" account in parent company balance sheet.

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 Company ensures that it is compliant with all debt covenants. The Omnibus Agreement provides that the Company 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 (DSCR) is at a minimum of 1.3x. To be able to declare dividends, the Company shall achieve a DSCR of 1.5x. As of December 31, 2010, MPIC is in compliance with the required financial ratios and other loan covenants.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may obtain additional advances from 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, 2010 and 2009.

The Company monitors capital on the basis of debt-to-equity ratio. Debt-to-equity ratio is calculated as long-term debt over equity.

During 2010, the Company's strategy, which was unchanged from 2009, was to maintain a sustainable debt-to-equity ratio. The debt-to-equity ratio on December 31, 2010 and 2009 are as follows:

	2010	2009
	(In Thousands)	
Long-term debt	**₱6,580,613**	₱17,612,665
Equity	**47,898,537**	47,395,312
Debt-to-equity ratio	**1:7.3**	1:2.7

22. **Financial Assets and Financial Liabilities**

Carrying Values

The carrying values of the Company's financial assets and financial liabilities and reconciliations with the amounts in the parent company balance sheets as of December 31, 2010 and 2009 are as follows:

	2010								
	Financial Assets				Financial Liabilities				
	FVPL	Loans and Receivables	HTM	AFS Financial Assets	FVPL	Other Financial Liabilities	Total	Non-financial Assets/Liabilities	Total
	(In Thousands)								
ASSETS									
Cash and cash equivalents	**₱–**	**₱1,478,852**	**₱–**	**₱–**	**₱–**	**₱–**	**₱1,478,852**	**₱140,222**	**₱1,619,074**
Receivables - net	–	**720,095**	–	–	–	–	**720,095**	–	**720,095**
Real estate for sale	–	–	–	–	–	–	–	**59,537**	**59,537**
Due from related parties	–	**113,908**	–	–	–	–	**113,908**	–	**113,908**
AFS financial assets	–	–	–	**448,087**	–	–	**448,087**	–	**448,087**
Other current assets - net	–	**267,709**	–	–	–	–	**267,709**	**473,750**	**741,459**
Investments in subsidiaries and associates and interest joint ventures[(a)]	–	**1,256,387**	–	**8,010,444**	–	–	**9,266,831**	**49,639,418**	**58,906,249**
Property and equipment - net	–	–	–	–	–	–	–	**37,302**	**37,302**
Derivative asset	**31,713**	–	–	–	–	–	**31,713**	–	**31,713**
Other noncurrent assets	–	–	–	–	–	–	–	**53,858**	**53,858**
	₱31,713	**₱3,836,951**	**₱–**	**₱8,458,531**	**₱–**	**₱–**	**₱12,327,195**	**₱50,404,087**	**₱62,731,282**
LIABILITIES									
Accrued expenses and other current liabilities	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱314,564**	**₱314,564**	**₱20,672**	**₱335,236**
Income tax payable	–	–	–	–	–	–	–	**4,173**	**4,173**
Due to related parties	–	–	–	–	–	**7,733,675**	**7,733,675**	–	**7,733,675**
Long-term debt	–	–	–	–	–	**6,580,613**	**6,580,613**	–	**6,580,613**
Long-term incentive plan payable	–	–	–	–	–	**83,783**	**83,783**	–	**83,783**
Deferred tax liabilities - net	–	–	–	–	–	–	–	**95,265**	**95,265**
	₱–	**₱–**	**₱–**	**₱–**	**₱–**	**₱14,712,635**	**₱14,712,635**	**₱120,110**	**₱14,832,745**

(a) Includes advances to Beacon Electric and MPC classified as loans and receivables and investment in preferred shares of Beacon Electric classified as AFS financial assets.

	2009								
	Financial Assets				Financial Liabilities				
	FVPL	Loans and Receivables	HTM	AFS Financial Assets	FVPL	Other Financial Liabilities	Total	Non-financial Assets/Liabilities	Total
	(In Thousands)								
ASSETS									
Cash and cash equivalents	₱–	₱2,924,152	₱–	₱–	₱–	₱–	₱2,924,152	₱40	₱2,924,192
Receivables - net	–	11,818,488	–	–	–	–	11,818,488	–	11,818,488
Real estate for sale	–	–	–	–	–	–	–	59,537	59,537
Due from related parties	–	179,671	–	–	–	–	179,671	–	179,671
AFS financial assets	–	–	–	236,262	–	–	236,262	–	236,262
Noncurrent asset held for sale - net	–	–	–	–	–	–	–	329,570	329,570
Other current assets - net	–	270,199	–	–	–	–	270,199	28,810	299,009
Investments in subsidiaries and associates and interest in joint ventures	–	–	–	–	–	–	–	50,980,582	50,980,582
Property and equipment - net	–	–	–	–	–	–	–	34,814	34,814
Other noncurrent assets	–	–	–	–	–	–	–	20,712	20,712
	₱–	₱15,192,510	₱–	₱236,262	₱–	₱–	₱15,428,772	₱51,454,065	₱66,882,837
LIABILITIES									
Accrued expenses and other current liabilities	₱–	₱–	₱–	₱–	₱–	₱485,924	₱485,924	₱7,310	₱493,234
Due to related parties	–	–	–	–	–	1,372,536	1,372,536	–	1,372,536
Long-term debt	–	–	–	–	–	17,612,665	17,612,665	–	17,612,665
Accrued retirement cost	–	–	–	–	–	–	–	9,090	9,090
	₱–	₱–	₱–	₱–	₱–	₱19,471,125	₱19,471,125	₱16,400	₱19,487,525

Fair Values
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, 2010 and 2009 are as follows:

	2010		2009	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
		(In Thousands)		
Financial Assets				
Financial Assets at FVPL -				
Derivative asset	**₱31,713**	**₱31,713**	₱–	₱–
Loans and receivables:				
Cash and cash equivalents	**1,478,852**	**1,478,852**	2,924,152	2,924,152
Receivables:				
Notes receivable	**656,987**	**656,987**	11,728,480	11,728,480
Interest receivable	**22,217**	**22,217**	77,331	77,331
Dividend receivable	**28,494**	**28,494**	7,841	7,841
Accounts receivable	**5,483**	**5,483**	2,214	2,214
Advances to employees	**1,300**	**1,300**	696	696
Others	**5,614**	**5,614**	1,926	1,926
Due from related parties	**113,908**	**113,908**	179,671	179,671
Advances to Beacon Electric[(a)]	**756,387**	**756,387**	–	–
Advances to MPC[(a)]	**500,000**	**500,000**	–	–
Cash deposits[(b)]	**267,709**	**267,709**	270,199	270,199
	3,836,951	**3,836,951**	15,192,550	15,192,550
AFS financial assets:				
NEPSCC	**236,262**	**236,262**	236,262	236,262
Landco	**211,825**	**211,825**	–	–
Investments in preferred shares of Beacon Electric [(a)]	**8,010,444**	**8,010,444**	–	–
	8,458,531	**8,458,531**	236,262	236,262
	₱12,327,195	**₱12,327,195**	₱15,428,7722	₱15,428,772

[(a)] *Included under "Investment in subsidiaries and associates and interest in joint ventures" account in parent company balance sheet.*
[(b)] *Included under "Other current assets" account in parent company balance sheet.*

	2010		2009	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
		(In Thousands)		
Financial Liabilities				
Other liabilities:				
Accrued expenses and other current liabilities:				
Accrued interest payable	**₱279,858**	**₱279,858**	₱437,084	₱437,084
Accrued expenses[(a)]	**23,169**	**23,169**	41,522	41,522
Others	**11,537**	**11,537**	7,318	7,318
Due to related parties	**7,733,675**	**7,906,124**	1,372,536	1,372,536
Long term debt (current and noncurrent)	**6,580,613**	**7,781,728**	17,612,665	19,382,094
LTIP payable	**83,783**	**83,783**	–	–
	₱14,712,635	**₱16,086,199**	₱19,471,125	₱21,240,554

[(a)] *Excluding statutory payables.*

The fair value of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. 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, Receivables, Cash Deposits, and Accrued Expenses and Other Current Liabilities
Carrying values approximate the fair value at end of reporting period due to the short-term nature of the transactions.

Due to/from Related Parties
Estimated fair value is based on the present value of all future cash flows discounted using the prevailing PDST-F rate of interest of a similar instrument.

Long-term Debt
For both fixed rate and floating rate, estimated fair value is based on the discounted value of future cash flows using the prevailing interest rates ranging from 1.3% to 6.1% and 0.61% to 6.1% in 2010 and 2009, respectively.

AFS Financial Assets
Unquoted shares classified as AFS financial assets are carried at cost as there are no other reasonable basis for fair value.

Fair Value Hierarchy
The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

As of December 31, 2010, derivative asset carried at fair value amounting to ₱31.7 million is determined using the Level 2 of fair value hierarchy. As of December 31, 2009, the Company does not have financial instruments measured at fair value.

Derivative Financial Instruments
As discussed in Note 9, the Company bifurcated the conversion option in its investment in Landco's preferred shares which are classified as a liability instrument. The embedded derivative gives the Company the option to convert the preferred shares into common shares of Landco at a conversion price of ₱156.27 subject to occurrence of certain contingent events.

At initial recognition, the Company assigned a value amounting to ₱31.7 million to the conversion option. This amount is the residual after deducting from the value of the hybrid instrument the fair value of the host instrument (preferred shares without any embedded derivative) calculated as the present value of all future cash flows from the preferred shares discounted using credit adjusted interest rates ranging from 8.5% to 11.8%.

The conversion option is carried at cost in the parent company balance sheet since the underlying common shares of Landco are unquoted and there is no reliable basis for its fair value.

23. Events after the Reporting Period

Cash Dividends

On March 3, 2011, the BOD approved the declaration of cash dividends of ₱0.015 per common share in favor of the Company's stockholders of record as of record date of March 17, 2011, with payment date of April 12, 2011.

On same date, the BOD also approved the declaration of cash dividends of 10% based on the par value of Class A Preferred Shares or the amount of ₱3.0 million in favor of MPHI, the sole holder of Class A Preferred Shares.

24. Supplemental Cash Flow Information

	2010	2009
	(In Thousands)	
Noncash investing and financing activities:		
Transfer of investment in Meralco to Beacon Electric (see Note 10)	**₱24,540,310**	₱–
Subscription of Beacon Electric shares (see Note 10)	**(24,540,310)**	–
Acquisition of Meralco shares through issuance of MPIC shares (see Notes 10 and 14)	–	14,285,449
Conversion of advances from MPHI to equity (see Notes 14 and 15)	–	2,066,389
Increase in AFS financial asset from an exchange of note receivable (see Note 7 and 9)	–	236,262