Metro Pacific Investments Corporation

Parent Company Financial Statements
December 31, 2011 and 2010

and

Independent Auditors' Report

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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 statements of financial position as at December 31, 2011 and 2010, and the parent company statements of income, parent company statements of comprehensive income, parent company statements of changes in equity and parent company 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 fraud or error.

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, 2011 and 2010, 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 19-2011 and 15-2010

The supplementary information required under Revenue Regulations 19-2011 and 15-2010 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 19-2011 and 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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March 1, 2012

METRO PACIFIC INVESTMENTS CORPORATION

PARENT COMPANY STATEMENTS OF FINANCIAL POSITION

(Amounts in Thousands)

	December 31	
	2011	2010
ASSETS		
Current Assets		
Cash and cash equivalents (Note 5)	**₱8,593,477**	₱1,619,074
Receivables (Note 6)	**179,887**	444,486
Due from related parties (Note 12)	**80,793**	113,908
Other current assets (Notes 7, 9 and 23)	**1,046,321**	1,249,083
Total Current Assets	**9,900,478**	3,426,551
Noncurrent Assets		
Receivables (Note 6)	**965,110**	275,609
Investments in and advances to subsidiaries and associates and interest in a joint venture (Note 8)	**60,197,924**	58,906,249
Due from related parties (Note 12)	**363,064**	–
Other noncurrent assets (Notes 7, 9 and 23)	**1,281,715**	122,873
Total Noncurrent Assets	**62,807,813**	59,304,731
	₱72,708,291	₱62,731,282
LIABILITIES AND EQUITY		
Current Liabilities		
Accrued expenses and other current liabilities (Note 10)	**₱1,137,969**	₱335,236
Income tax payable (Note 17)	–	4,173
Due to related parties (Note 12)	**1,269,019**	1,419,534
Current portion of long-term debt (Note 11)	**57,277**	58,391
Total Current Liabilities	**2,464,265**	1,817,334
Noncurrent Liabilities		
Long-term debt - net of current portion (Note 11)	**6,465,257**	6,522,222
Due to related parties (Note 12)	–	6,314,141
Deferred tax liabilities (Note 17)	–	95,265
Long-term incentive plan payable (Note 15)	**176,696**	83,783
Total Noncurrent Liabilities	**6,641,953**	13,015,411
Total Liabilities	**9,106,218**	14,832,745
Equity (Note 13)		
Capital stock	**24,643,294**	20,205,465
Additional paid-in capital	**38,056,022**	27,221,886
Deposit for future stock subscriptions	–	12,125
Equity reserves	**107,090**	347,079
Retained earnings	**795,667**	111,982
Total Equity	**63,602,073**	47,898,537
	₱72,708,291	₱62,731,282

See accompanying Notes to Parent Company Financial Statements.

METRO PACIFIC INVESTMENTS CORPORATION
PARENT COMPANY STATEMENTS OF INCOME
(Amounts in Thousands Except Earnings Per Share)

	Years Ended December 31	
	2011	2010
REVENUES		
Dividend income (Note 8)	**₱2,431,543**	₱1,959,979
Interest income (Note 16)	**338,582**	282,844
	2,770,125	2,242,823
OPERATING EXPENSES (Note 14)	**(727,474)**	(605,649)
INTEREST EXPENSE (Notes 11 and 16)	**(771,828)**	(1,422,517)
GAIN ON DISPOSAL OF INVESTMENTS - Net (Notes 8 and 9)	–	57,913
OTHERS - Net (Note 16)	**8,674**	42,716
INCOME BEFORE INCOME TAX	**1,279,497**	315,286
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 17)		
Current	**53,059**	22,248
Deferred	**(10,558)**	(25,908)
	42,501	(3,660)
NET INCOME	**₱1,236,996**	₱318,946
EARNINGS PER SHARE (Note 19)		
Basic Earnings Per Common Share	**₱0.055**	₱0.016
Diluted Earnings Per Common Share	**₱0.054**	₱0.016

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	
	2011	2010
NET INCOME	**₱1,236,996**	₱318,946
OTHER COMPREHENSIVE INCOME	–	–
TOTAL COMPREHENSIVE INCOME	**₱1,236,996**	₱318,946

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, 2011 AND 2010
(Amounts in Thousands)

	Capital Stock (Notes 12 and 13)	Additional Paid-In Capital (Notes 13 and 23)	Deposit for Future Stock Subscriptions (Note 13)	Equity Reserves (Notes 13 and 23)	Retained Earnings (Deficit) (Note 13)	Total
At January 1, 2011	**₱20,205,465**	**₱27,221,886**	**₱12,125**	**₱347,079**	**₱111,982**	**₱47,898,537**
Total comprehensive income for the year	–	–	–	–	**1,236,996**	**1,236,996**
Issuance of new shares:						
Subscriptions (Note 13)	**2,400,000**	**6,240,000**	–	–	–	**8,640,000**
Conversion of convertible bonds (Notes 12 and 13)	**2,030,769**	**4,698,412**	–	**(280,612)**	–	**6,448,569**
Deposit for future stock subscriptions	**5,000**	**7,125**	**(12,125)**			–
Transaction costs	–	**(116,480)**	–	–	–	**(116,480)**
Executive Stock Option Plan (ESOP) (Note 18):						
Exercise of stock option	**2,060**	**5,079**	–	**(1,516)**	–	**5,623**
Cost of ESOP	–	–	–	**42,139**	–	**42,139**
Cash dividends declared (Note 13)	–	–	–	–	**(553,311)**	**(553,311)**
At December 31, 2011	**₱24,643,294**	**₱38,056,022**	**₱–**	**₱107,090**	**₱795,667**	**₱63,602,073**
At January 1, 2010	₱20,178,155	₱27,573,911	₱–	₱46,827	(₱403,581)	₱47,395,312
Total comprehensive income for the year	–	–	–	–	318,946	318,946
ESOP (Note 18):						
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 13)	–	(403,581)	–	–	403,581	–
Equity component of a financial instrument - net of tax (Note 12)	–	–	–	280,612	–	280,612
Cash dividends declared (Note 13)	–	–	–	–	(206,964)	(206,964)
At December 31, 2010	₱20,205,465	₱27,221,886	₱12,125	₱347,079	₱111,982	₱47,898,537

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	
	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱1,279,497**	₱315,286
Adjustments for:		
Dividend income (Note 8)	**(2,431,543)**	(1,959,979)
Interest expense (Note 16)	**771,828**	1,422,517
Interest income (Note 16)	**(338,582)**	(282,844)
Long-term incentive plan expense (Notes 14 and 15)	**79,266**	71,477
Provision for Executive Stock Option Plan (Notes 14 and 18)	**23,579**	25,257
Depreciation and amortization (Notes 9 and 14)	**22,059**	9,767
Loss on conveyance of real estate for sale (Note 16)	**10,792**	–
Foreign exchange gain - net (Note 16)	**(153)**	(15,583)
Gain on disposal of investments - net (Notes 8 and 9)	**–**	(57,913)
Loss on disposal of property and equipment (Note 16)	**–**	498
Operating loss before working capital changes	**(583,257)**	(471,517)
Decrease (increase) in:		
Receivables	**(9,700)**	46,048
Due from related parties	**(316,272)**	36,761
Other current assets	**(741,720)**	(467,450)
Increase (decrease) in:		
Accrued expenses and other current liabilities	**95,333**	(6,991)
Accrued retirement cost	**(5,829)**	(2,866)
Net cash used in operations	**(1,561,445)**	(866,015)
Dividends received	**2,460,038**	1,939,326
Interest paid	**(827,546)**	(1,343,730)
Interest received	**246,193**	134,791
Income tax paid	**(57,232)**	(18,075)
Net cash from (used in) operating activities	**260,008**	(153,703)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of:		
Investments in and advances to subsidiaries and associates and interest in a joint venture (Notes 8 and 22)	**(896,811)**	(7,910,311)
Property and equipment (Note 9)	**(49,482)**	(13,909)
Available-for-sale financial assets (Note 9)	**(32,000)**	–
Software costs (Note 9)	**(27,630)**	(31,541)
Issuance of notes receivables (Notes 6 and 9)	**–**	(50,000)

(Forward)

	Years Ended December 31	
	2011	2010
Collection of or proceeds from sale/disposal of:		
Notes receivables (Notes 6 and 8)	**₱10,938**	₱11,205,000
Interest in a joint venture (Note 8)	–	245,000
Noncurrent asset held for sale (Note 9)	–	50,000
Property and equipment	**731**	1,156
Interest received	**15,258**	196,762
Increase in other noncurrent assets	**(161,938)**	(1,605)
Net cash from (used in) investing activities	**(1,140,934)**	3,690,552
CASH FLOWS FROM FINANCING ACTIVITIES		
Receipt of or proceeds from:		
Issuance of shares (Notes 12, 13, 18 and 22)	**8,645,623**	65,523
Due to related parties	–	6,625,650
Deposit for future stock subscriptions (Note 13)	–	12,125
Payments of/for:		
Due to related parties	**(53,156)**	(37,210)
Long-term debt (Note 11)	**(67,500)**	(11,267,500)
Transaction costs on issuance of convertible bonds (Note 12)	–	(33,000)
Transaction costs related to issuance of shares (Note 13)	**(116,480)**	(482)
Dividends paid (Note 13)	**(553,311)**	(206,964)
Net cash from (used in) financing activities	**7,855,176**	(4,841,858)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**153**	(109)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**6,974,403**	(1,305,118)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**1,619,074**	2,924,192
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 5)	**₱8,593,477**	₱1,619,074

See accompanying 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 Securities and Exchange Commission (SEC) on March 20, 2006 as an investment holding company. MPIC's shares of stock are listed in and traded through the Philippine Stock Exchange (PSE).

MPIC is 59.05% owned by Metro Pacific Holdings, Inc. (MPHI). MPHI is a Philippine corporation whose stockholders are Enterprise Investment Holdings, Inc. (EIH) (60.0%), Intalink B.V. (26.7%) and First Pacific International Limited (13.3%). First Pacific Company Limited (FPC), a company incorporated in Bermuda and listed in Hong Kong, through its subsidiaries, holds 40% equity interest in EIH and an 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.

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 at and for the years ended December 31, 2011 and 2010 were approved and authorized for issuance by the Board of Directors (BOD) on March 1, 2012.

2. **Summary of Significant Accounting Policies**

Basis of Preparation
The separate or parent company financial statements are prepared on a historical cost basis, except for derivative financial instruments and certain available-for-sale (AFS) financial assets that are 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 parent company financial statements are prepared for submission to the Bureau of Internal Revenue and Philippine SEC.

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). The Company files its consolidated financial statements with the Philippine SEC.

Statement of Compliance
The parent company financial statements are 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 PFRS and Philippine Interpretations which became effective on January 1, 2011.

proportionate share of the acquiree's identifiable net assets. All other components are to be measured at their acquisition date fair value.

The Company adopted these improvements in its consolidated financial statements and changed its accounting policy accordingly as the amendment was issued to eliminate unintended consequences that may arise from the adoption of PFRS 3.

- PFRS 7, *Financial Instruments: Disclosures* — The amendment was intended to simplify the disclosures provided by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context. The Company reflects the revised disclosure requirements in Note 20.
- PAS 1, *Presentation of Financial Statements* — The amendment clarifies that an entity may present an analysis of each component of other comprehensive income maybe either in the statement of changes in equity or in the notes to the financial statements. The Company provides this analysis in the statement of changes in equity.

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

- PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards*
- PFRS 3, *Business Combinations*
- PAS 27, *Consolidated and Separate Financial Statements*
- PAS 34, *Interim Financial Reporting*
- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes*

Future Changes in Accounting Standards
The Company has not applied the following PFRS, Philippine Interpretations and amendments to existing standards which are not yet effective as of December 31, 2011:

- PAS 1, *Financial Statement Presentation* – Presentation of Items of Other Comprehensive Income (OCI) (effective for annual periods beginning on or after July 1, 2012) — The amendments change the grouping of items presented in OCI. Items that could be reclassified (or "recycled") to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and therefore will have no impact on the Company's financial position or performance.
- PAS 12, *Income Taxes* – Recovery of Underlying Assets (effective for annual periods beginning on or after July 1, 2012) — The amendment clarified the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in PAS 40, Investment Property, should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in PAS 16, Property, Plant and Equipment, always be measured on a sale basis of the asset. The amendment will have no impact on the Company's financial position or performance.
- PAS 19 (Amendment), *Employee Benefits* (effective for annual periods beginning on or after January 1, 2013) — This amendments range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The Company is currently assessing the impact of the amendment to PAS 19.

- PAS 27, *Separate Financial Statements* (effective for annual periods beginning on or after January 1, 2013) — As a consequence of the new PFRS 10, *Consolidated Financial Statements*, and PFRS 12, *Disclosure of Interests in Other Entities*, what remains of PAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. This amendment will have no impact on the Company's financial position or performance.

- PAS 28, *Investments in Associates and Joint Ventures* (effective for annual periods beginning on or after January 1, 2013) — As a consequence of the new PFRS 11, Joint Arrangements, and PFRS 12, PAS 28 has been renamed PAS 28, *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates. This amendment will have no impact on the Company's financial position or performance

- PFRS 7, *Financial Instruments: Disclosures* – Enhanced Derecognition Disclosure Requirements (effective for annual periods beginning on or after July 1, 2011) — This amendment requires additional disclosure about financial assets that have been transferred but not derecognized to enable the user of the Company's financial statements to understand the relationship with those assets that have not been derecognized and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognized assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognized assets. The amendment affects disclosures only and will have no impact on the Company's financial position or performance.

- PFRS 7, *Financial Instruments: Disclosures* – Offsetting Financial Assets and Financial Liabilities (retrospectively applied for annual periods beginning on or after January 1, 2013) — These amendments require an entity to disclose information about rights of set-off and related arrangements (such as collateral agreements). The new disclosures are required for all recognized financial instruments that are set-off in accordance with PAS 32, *Financial Instruments: Presentation*. These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or "similar agreement", irrespective of whether they are set-off in accordance with PAS 32. The amendments require entities to disclose, in a tabular format unless another format is more appropriate, the following minimum quantitative information. This is presented separately for financial assets and financial liabilities recognized at the end of the reporting period:

  a) The gross amounts of those recognized financial assets and recognized financial liabilities;
  b) The amounts that are set off in accordance with the criteria in PAS 32 when determining the net amounts presented in the statement of financial position;
  c) The net amounts presented in the statement of financial position;
  d) The amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in (b) above, including:
     i. Amounts related to recognized financial instruments that do not meet some or all of the offsetting criteria in PAS 32; and
     ii. Amounts related to financial collateral (including cash collateral); and
  e) The net amount after deducting the amounts in (d) from the amounts in (c) above.

  The amendment affects disclosures only and has no impact on the Company's financial position or performance.

- PFRS 10, *Consolidated Financial Statements* (effective for annual periods beginning on or after January 1, 2013) — PFRS 10 replaces the portion of PAS 27 that addresses the accounting for consolidated financial statements. It also includes the issues raised in Standards Interpretation Committee (SIC) - 12, *Consolidation - Special Purpose Entities*. PFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by PFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in PAS 27. The Company is currently assessing the impact of this standard to its consolidated financial statements.

- PFRS 11, *Joint Arrangements* (effective for annual periods beginning on or after January 1, 2013) — PFRS 11 replaces PAS 31, *Interests in Joint Ventures* and SIC-13, *Jointly-controlled Entities - Non-monetary Contributions by Venturers*. PFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. The application of this new standard will have no impact on the financial position of the Company as it currently accounts for its investment in a joint venture at cost in the Parent Company financial statements and under equity accounting in the consolidated financial statements.

- PFRS 12, *Disclosure of Involvement with Other Entities* (effective for annual periods beginning on or after January 1, 2013) — PFRS 12 includes all of the disclosures that were previously in PAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in PAS 31 and PAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required which will be disclosed by the Company in the consolidated financial statements upon adoption of the standard.

- PFRS 13, *Fair Value Measurement* (effective for annual periods beginning on or after January 1, 2013) — PFRS 13 establishes a single source of guidance under PFRS for all fair value measurements. PFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS when fair value is required or permitted. The Company is currently assessing the impact that this standard will have on its financial position and performance.

- 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, *Financial Instruments: Recognition and Measurement*, 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 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.

- Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate* — This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The 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. The SEC and the Financial Reporting Standards Council (FRSC) have deferred the effectivity of this interpretation until the final Revenue standard is issued by International Accounting Standards Board (IASB) and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed.

- Philippine Interpretation IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine* (effective for annual periods beginning on or after January 1, 2013) — This interpretation applies to waste removal costs that are incurred in surface mining activity during the production phase of the mine ("production stripping costs") and provides guidance on the recognition of production stripping costs as an asset and measurement of the stripping activity asset. This interpretation will have no impact on the Company's financial position or performance.

- PAS 32, *Financial Instruments: Presentation* – Offsetting Financial Assets and Financial Liabilities (retrospectively applied for annual periods beginning on or after January 1, 2014) — These amendments to PAS 32 clarify the meaning of "currently has a legally enforceable right to set-off" and also clarify the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. While the amendment is expected not to have any significant impact on the net assets of the Company, any changes in offsetting may impact leverage ratios. The Company is currently assessing impact of the amendments to PAS 32.

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 statement of financial position 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 at December 31, 2011 and 2010.

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

Financial Assets and liabilities at FVPL. Financial assets and liabilities at FVPL include financial assets and liabilities held for trading and those designated upon initial recognition as at FVPL. Financial assets and liabilities 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 and liabilities 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 liabilities or recognizing gains or losses on them on a different bases; 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 statement of financial position, 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) as other comprehensive income.

As at December 31, 2011 and 2010, the Company has conversion option asset classified as financial assets at FVPL (see Note 21).

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 12 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 from related parties (see Notes 5, 6, 7, 8, 9 and 12).

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 equity section of the parent company statement of financial position until the investment is derecognized or determined to be impaired at which time the cumulative gains and losses are reclassified to the parent company statement of income. When the Company holds more than one investment in the same security, these are deemed to be disposed of on a first-in, first-out basis. 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) and NE Pacific Shopping Center Corporation (NEPSCC), golf shares and investment in preferred shares of Beacon Electric Asset Holdings, Inc. (Beacon Electric) (see Notes 8 and 9).

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 are classified as other financial liabilities (see Notes 10, 11 and 12).

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 the 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 statement of financial position 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 statement of financial position.

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 what the amortized cost would have been had the impairment not been recognized at the date impairment is reversed. The amount of reversal shall be recognized in the parent company statement of income.

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. Such impairment loss shall not be reversed.

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 other comprehensive income 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 other comprehensive income.

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 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 and the recognition of a new liability, and the difference in the respective carrying amounts and any costs or fees incurred are 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.

Investments in Subsidiaries and Associates and Interest in a Joint Venture
Investments in subsidiaries and associates and interest in joint ventures are accounted for at cost. 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 statement of financial position at cost less any impairment in value. The Company recognizes dividend income from its subsidiaries, associates and joint venture when its right to receive the dividend is established.

Property and Equipment

Property and equipment (included as part of "Other noncurrent assets" account in the parent company statement of financial position) 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 9).

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 statement of financial position) 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 and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on software cost is recognized in the parent company statement of income in the operating expense category consistent with the function of the intangible assets.

Gains or losses arising from derecognition of software cost are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the parent company statement of income when the asset is derecognized.

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 a 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 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. The carrying amount of the conversion option is not remeasured in subsequent years.

On conversion of a convertible bond, the carrying amount of the liability component is transferred to equity without affecting profit or loss. The amount transferred to equity is the amortized cost at the date of conversion, as originally calculated on initial recognition, based on management's best estimate of the timing of conversion.

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.

Equity 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. For all financial instruments measured at amortized cost, interest income or expense is recorded using the effective interest rate (EIR), which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is presented in the parent company statement of income.

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.

<u>Expenses Recognition</u>
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 are recognized in the parent company statement of income as incurred.

<u>Leases</u>
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, net of aggregate benefit of lease incentives, are recognized as expense in the parent company statement of income on a straight-line basis over the lease term.

<u>Borrowing Costs</u>
Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the asset. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Retirement Benefits
Starting in 2010, retirement benefits of the Company's employees are provided through a defined contribution scheme instead of the defined benefit plan. 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.

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 18. 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 in the parent company statement of income.

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 have substantively been 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 liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

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 reporting date 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 reporting date 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 reporting date.

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 other comprehensive 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 statement of financial position.

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 and Estimates

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 and estimates used in the accompanying parent company financial statements are based upon management's evaluation of relevant facts and circumstances as at 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 and estimates, 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.

Classification as a Joint Venture. PAS 31 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 upon. In 2010, in exchange for the Manila Electric Company (Meralco) shares, the Company subscribed for 50.0% of Beacon Electric common shares and by virtue of the joint control arrangement with PLDT Communications and Energy Ventures, Inc. (PCEV), the interest in Beacon Electric was accounted for as investment in joint venture.

The carrying value of the investment in Beacon Electric as at December 31, 2011 and 2010 amounted to ₱23,129.9 million (see Note 8).

Financial Assets not Quoted in an Active Market. Where fair value of financial assets recorded in the parent company statement of financial position 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 and a bifurcated embedded derivative. Aggregate carrying value of these unquoted AFS financial assets amounted to ₱8,483.5 million and ₱8,458.5 million as at December 31, 2011 and 2010, respectively (see Notes 8 and 9). The carrying value of the embedded derivative amounted to ₱31.7 million as at December 31, 2011 and 2010 (see Note 9).

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

Rent 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, 2011 and 2010.

Rent expense, included in "Operating expenses" account in the parent company statements of income, amounted to ₱6.3 million and ₱6.2 million for the years ended December 31, 2011 and 2010, respectively (see Note 14).

Estimates

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 9).

Fair values of financial instruments are presented in Note 21.

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 ₱1,145.0 million and ₱720.1 million as at December 31, 2011 and 2010, respectively (see Note 6). The carrying value of due from related parties, including advances to Beacon Electric and MPC, amounted to ₱1,315.9 million and ₱1,370.3 million as at December 31, 2011 and 2010, respectively (see Notes 8 and 12).

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 12 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, 2011 and 2010. The carrying value of AFS financial assets amounted to ₱8,490.5 million and ₱8,458.5 million as at December 31, 2011 and 2010, respectively (see Notes 8 and 9).

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 that are expected to be generated from the continued use and ultimate disposition of such assets.

Certain subsidiaries and associates have contingencies, the outcome of which might have an impact on the recoverability of the investments.

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 as follows:

	2011	2010
	(In Thousands)	
Investments in subsidiaries and associates and interest in a joint venture (see Note 8)*	**₱51,315,408**	₱49,639,418
Software costs (see Note 9)**	**75,194**	51,449
Property and equipment (see Note 9)**	**67,879**	37,302

** Excludes advances to Beacon Electric and MPC and investments in preferred shares of Beacon Electric as these are classified as loans and receivables and AFS financial asset, respectively.*
*** Included under “Other noncurrent assets” account in the parent company statements of financial position.*

There were no impairment losses recognized in 2011 and 2010.

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 2011 and 2010.

The carrying value of property and equipment, recorded as part of "Other noncurrent assets" account in the parent company statements of financial position, amounted to ₱67.9 million and ₱37.3 million as at December 31, 2011 and 2010, respectively. The carrying value of software costs, recorded as part of "Other noncurrent assets" account in the parent company statements of financial position, amounted to ₱75.2 million and ₱51.4 million as at December 31, 2011 and 2010, respectively (see Note 9).

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 statement.

The carrying value of real estate for sale, recorded as part of "Other current assets" account in the parent company statements of financial position, amounted to ₱25.6 million and ₱59.5 million as at December 31, 2011 and 2010, respectively (see Note 7).

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 ₱1,224.0 million and ₱832.0 million as at December 31, 2011 and 2010, 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 17).

Share-based Payments. The Company measures the cost of cash and 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 18. 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.

Cost of ESOP recognized in 2011 and 2010 amounted to ₱41.2 million and ₱34.4 million, respectively (see Notes 8, 13 and 18).

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 at December 31, 2011 amounted to ₱79.3 million and ₱176.7 million, respectively. LTIP expense and liability for the year ended and as at December 31, 2010 amounted to ₱71.5 million and ₱83.8 million, respectively (see Notes 14 and 15).

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, 2011 and 2010, 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 relates 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.

Others

Others represent holdings companies and operations of subsidiaries involved in real estate, provision of services. Real estate primarily relates to the operations of Metro Pacific Corporation (MPC) and, until 2009, Landco Pacific Corporation (Landco) and its subsidiaries which are involved in the business of real estate of all kinds.

The Company's chief operating decision maker comprise of the BOD. They monitor the operating results of each business unit separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on: consolidated net income for the 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. This is measured as net income attributable to owners of the Company excluding the effects of foreign exchange and derivative gains or losses and non-recurring items, net of tax effect of aforementioned. Non-recurring items represent gains or losses that, through occurrence or size, are not considered usual operating items.

Segment expenses and segment results exclude transfers or charges between business segments. These transfers are also eliminated for purposes of the consolidated financial statements.

The segment revenues, net income for the year, assets, liabilities, and other segment information of the Company's reportable operating segments as at and for the years ended December 31, 2011 and 2010 are as follows:

The following table presents consolidated information on revenue and income and certain assets and liabilities regarding business segments for the years ended December 31, 2011 and 2010:

	Year Ended December 31, 2011						
	Water Utilities	**Toll Operations**	**Healthcare**	**Power Distribution**	**Other Businesses**	**Eliminations**	**Consolidated**
Total revenue from external sales	₱13,769,480	₱6,464,988	₱1,835,590	₱–	₱–	₱–	₱22,070,058
Cost of sales	(4,548,591)	(2,776,384)	(830,676)	–	–	–	(8,155,651)
Gross Margin	9,220,889	3,688,604	1,004,914	–	–	–	13,914,407
Operating expenses	(1,796,869)	(695,688)	(835,370)	–	(701,477)	–	(4,029,404)
Other income (charges) - net	(291,058)	182,020	30,617	–	(227,561)	–	(305,982)
Profit before Financing Charges	7,132,962	3,174,936	200,161	–	(929,038)	–	9,579,021
Interest expense - net	(1,834,194)	(649,112)	(52,789)	–	(415,981)	–	(2,952,076)
Profit before Non-controlling Interest and Income Tax	5,298,768	2,525,824	147,372	–	(1,345,019)	–	6,626,945
Non-controlling interest	(2,358,728)	(659,706)	(26,723)	–	–	–	(3,045,157)
Provision for (benefit from) income tax	160,557	(575,316)	(35,832)	–	(43,836)	–	(494,427)
Contribution from Subsidiaries	3,100,597	1,290,802	84,817	–	(1,388,855)	–	3,087,361
Equity in net income of associates and a joint venture	–	164,664	162,844	1,686,382	–	–	2,013,890
Contribution from Operations - Core	3,100,597	1,455,466	247,661	1,686,382	(1,388,855)	–	5,101,251
Non-recurring income (charges)	(212,007)	(194,490)	(10,814)	399,418	(23,922)	–	(41,815)
Segment Income (Loss)	₱2,888,590	₱1,260,976	₱236,847	₱2,085,800	(₱1,412,777)	₱–	₱5,059,436
EBITDA	₱9,414,986	₱3,855,376	₱341,340	₱–	(₱906,979)	₱–	₱12,704,723
EBITDA Margin	68%	61%	19%	–	–	–	58%
Non-recurring Income (Charges)	(₱434,790)	(₱297,032)	(₱41,384)	₱399,418	(₱23,922)	₱–	(₱397,710)
Provision for income tax	56,670	5,770	18,095	–	–	–	80,535
Non-controlling interests	166,113	96,772	12,475	–	–	–	275,360
Net Non-recurring Income (Charges)	(₱212,007)	(₱194,490)	(₱10,814)	₱399,418	(₱23,922)	₱–	(₱41,815)
Assets and Liabilities							
Segment assets	₱69,715,200	₱20,676,591	₱7,542,478	₱–	₱13,302,406	(₱1,685,585)	₱109,551,090
Investment in associates, at equity	–	660,478	2,225,379	33,819,653	60,311,499	(60,278,996)	36,738,013
Consolidated Total Assets	₱69,715,200	₱21,337,069	₱9,767,857	₱33,819,653	₱73,613,905	(₱61,964,581)	₱146,289,103
Segment Liabilities	₱45,103,196	₱10,842,427	₱4,555,479	₱–	₱10,132,705	(₱10,566)	₱70,623,241
Other Segment Information							
Capital expenditures - Service concession asset and property and equipment	₱9,032,345	₱378,495	₱253,557	₱–	₱77,112	₱–	₱9,741,509
Depreciation and amortization	2,282,024	680,440	141,179	–	22,059	–	3,125,702
Provision for decline in value of assets	–	–	22,579	–	110,953	–	133,532

	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 Non-controlling Interest and Income Tax	4,029,488	2,061,304	50,727	–	(1,651,221)	–	4,490,298
Non-controlling interest	(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	₱3,445,960	₱118,002	₱–	(₱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)
Non-controlling interest	(87,367)	142,275	7,239	–	–	–	62,147
Net non-recurring income (charges)	₱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	₱7,872,622	₱1,281,104	₱27,402	₱–	₱45,450	₱–	₱9,226,578
Depreciation and amortization	1,830,715	641,060	53,573	–	9,767	–	2,535,115

The following table shows the reconciliation of the Company's consolidated EBITDA to consolidated net income for the years ended December 31, 2011 and 2010.

	2011	2010
	(In Thousands)	
Consolidated EBITDA	**₱12,704,723**	₱10,933,487
Depreciation and amortization	**(3,125,702)**	(2,535,115)
Consolidated operating profit for the year	**9,579,021**	8,398,372
Adjustments to reconcile with consolidated net income:		
Interest income	**695,174**	531,666
Equity in net earnings of associates and joint ventures	**2,013,890**	1,771,067
Interest expense	**(3,647,250)**	(4,439,740)
Nonrecurring gains (losses) - net	**(397,710)**	(848,536)
Provision for (benefit from) income tax	**(413,892)**	(102,154)
Consolidated net income for the year	**₱7,829,233**	₱5,310,675

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, 2011 and 2010.

	2011	2010
	(In Thousands)	
Consolidated core income for the year	**₱5,101,251**	₱3,855,794
Foreign exchange gains (losses) - net	**(249,999)**	868
Other nonrecurring income (losses)	**127,649**	(787,259)
Net tax effect of aforementioned adjustments	**80,535**	(198,251)
Net income for the year attributable to owners of the Parent Company	**5,059,436**	2,871,152
Net income for the year attributable to non-controlling interest	**2,769,797**	2,439,523
Consolidated net income for the year	**₱7,829,233**	₱5,310,675

The following table shows the analysis and allocation of the consolidated results of operations of the Company to core and NRI, the manner by which the Company reports and assesses their performance, makes decision and allocates resources, for the years ended December 31, 2011, 2010 and is provided to reconcile the preceding consolidated segment information, amounts and balances with the consolidated statements of income:

	2011				2010			
	Core	NRI	Reclassification	Total	Core	NRI	Reclassification	Total
				(In Thousands)				
OPERATING REVENUES								
Water and sewerage services revenue	₱13,769,480	₱–	₱–	₱13,769,480	₱12,049,524	₱–	₱–	₱12,049,524
Toll fees	6,464,988	–	–	6,464,988	5,858,494	–	–	5,858,494
Hospital revenue	1,739,628	–	–	1,739,628	577,075	–	–	577,075
School revenue	95,962	–	–	95,962	79,385	–	–	79,385
	22,070,058	–	–	22,070,058	18,564,478	–	–	18,564,478
COST OF SALES AND SERVICES	(8,155,651)	(214,994)	–	(8,370,645)	(6,785,822)	(60,001)	–	(6,845,823)
GROSS PROFIT	13,914,407	(214,994)	–	13,699,413	11,778,656	(60,001)	–	11,718,655
GENERAL AND ADMINISTRATIVE EXPENSES	(4,029,404)	(176,891)	–	(4,206,295)	(3,182,402)	(462,325)	–	(3,644,727)
OTHER INCOME AND EXPENSES							–	
Construction revenue	8,865,737	–	–	8,865,737	8,931,922	–	–	8,931,922
Construction costs	(8,700,648)	–	–	(8,700,648)	(8,858,619)	–	–	(8,858,619)
Interest expense	(3,647,250)	(329,943)	–	(3,977,193)	(4,439,740)	(103,844)	–	(4,543,584)
Share in net earnings of associates and joint ventures	2,013,890	380,149	(281,890)	2,112,149	1,771,067	(897,176)	(375,378)	498,513
Foreign exchange gains (losses) - net	–	(249,999)	1,538,756	1,288,757	–	868	1,439,254	1,440,122
Interest income	695,174	48,053	–	743,227	531,666	42,716		574,382
Dividend income	–	–	280,369	280,369	–	–	375,378	375,378
Other income	457,160	531,803	–	988,963	435,535	998,745	–	1,434,280
Other expenses	(928,231)	(385,888)	(1,537,235)	(2,851,354)	(706,720)	(367,519)	(1,439,254)	(2,513,493)
	(1,244,168)	(5,825)	–	(1,249,993)	(2,334,889)	(326,210)	–	(2,661,099)
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAX	8,640,835	(397,710)	–	8,243,125	6,261,365	(848,536)	–	5,412,829
PROVISION FOR (BENEFIT FROM) INCOME TAX								
Current	(697,837)	(13,842)	–	(711,679)	(83,080)	(19,823)	–	(102,903)
Deferred	203,410	94,377	–	297,787	179,177	(178,428)	–	749
	(494,427)	80,535	–	(413,892)	96,097	(198,251)	–	(102,154)
INCOME FROM CONTINUING OPERATIONS AFTER INCOME TAX	8,146,408	(317,175)	–	7,829,233	6,357,462	(1,046,787)	–	5,310,675
INCOME FROM DISCONTINUED OPERATIONS NET OF TAX	–	–	–	–	–	–	–	–
NET INCOME	₱8,146,408	(₱317,175)	–	₱7,829,233	₱6,357,462	(₱1,046,787)	₱–	₱5,310,675
Net Income (Loss) Attributable to Owners of Parent Company from								
Continuing operations	₱5,101,251	(₱41,815)	–	₱5,059,436	₱3,855,794	(₱984,642)	–	₱2,871,152
Discontinued operations	–	–	–	–	–	–	–	–
	5,101,251	(41,815)	–	5,059,436	3,855,794	(984,642)	–	2,871,152
Non-controlling interest	3,045,157	(275,360)	–	2,772,797	2,501,668	(62,145)	–	2,439,523
	₱8,146,408	(₱317,175)	–	₱7,829,233	₱6,357,462	(₱1,046,787)	–	₱5,310,675

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, 2011 and 2010.

	2011		
	Consolidated	**Subsidiaries and Associates**	**Parent Company**
		(In Thousands)	
Total revenues	**₱22,070,058**	**₱22,070,058**	**₱–**
Net income for the year attributable to owners of the parent company	**5,059,436**	**3,822,440**	**1,236,996**
EBITDA core for the year	**12,811,154**	**11,019,451**	**1,791,703**
EBITDA core margin for the year	**58%**	**50%**	**–**
Core income for the year	**5,101,251**	**3,811,829**	**1,289,422**
Total assets	**146,289,103**	**73,581,169**	**72,707,934**
Total liabilities	**70,623,241**	**61,516,046**	**9,107,195**
Capital expenditures	**9,510,126**	**9,433,745**	**76,381**

	2010		
	Consolidated	Subsidiaries and Associates	Parent Company
		(In Thousands)	
Total revenues	₱18,564,478	₱18,564,478	₱–
Net income for the year attributable to owners of the parent company	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	3,855,794	3,547,835	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	9,202,854	9,188,945	13,909

For the years ended December 31, 2011 and 2010, no revenue transactions with single customer accounted for 10% or more of the Company's consolidated revenues.

5. Cash and Cash Equivalents

This account consists of:

	2011	2010
	(In Thousands)	
Cash on hand and in banks	**₱9,787**	₱160,561
Short-term deposits	**8,583,690**	1,458,513
	₱8,593,477	₱1,619,074

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 ₱259.4 million and ₱93.3 million for the years ended December 31, 2011 and 2010, respectively (see Note 16).

6. **Receivables**

This account consists of:

	2011	2010
	(In Thousands)	
Notes receivables	**₱1,062,222**	₱686,987
Interest receivables	**98,940**	28,622
Accounts receivable	**8,659**	5,483
Advances to employees	**5,967**	1,300
Dividends receivable (see Note 8)	–	28,494
Other receivables	**5,614**	5,614
	1,181,402	756,500
Less allowance for doubtful accounts	**36,405**	36,405
	1,144,997	720,095
Less current portion	**179,887**	444,486
	₱965,110	₱275,609

Notes receivables include the following:

a. Notes receivables as of December 31, 2011 and 2010 include loan to AB Holdings Corporation (ABHC) or 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 loan to Landco subject to a 12.0% interest per annum and principal repayment in equal quarterly installments until December 31, 2014. In 2011, MPIC and Landco enter into an agreement to restructure the terms of the loan. Under the structured terms, there shall be no more quarterly payments. Instead, the remaining principal balance of ₱164.1 million and interest which is compounded annually shall be paid in December 2014 upon its maturity. The outstanding balance for the Landco loan as of December 31, 2011 and 2010 amounted to ₱164.1 million and ₱175.0 million, respectively (see Note 9). Payment of this loan is secured by a pledge of Landco shares owned by ABHC (see Note 20).

b. Notes receivables also include investment in preferred shares of Landco with mandatory redemption feature and with carrying value of ₱350.4 million and ₱348.6 million as of December 31, 2011 and 2010, respectively (see Note 9). Payment of this loan is secured by a pledge of Landco shares owned by ABHC (see Note 20).

c. In 2010, the Company advanced to MPC an amount of ₱500.0 million which is presented as advances for equity under “Investments in subsidiaries and associates and interests in a joint venture” account in the parent company statement of financial position (see Note 8). MPC, in turn, advanced the same to a third party as an interest-bearing note. The note bears an interest 5% per annum and is payable monthly in five years until 2015. The loan was discounted using discount rate of 6.3%, and MPC recognized a Day-1 loss of ₱20.1 million and initially recognized the note at present value of ₱479.9 million.

   On December 31, 2011, MPC through a deed of assignment transferred its rights and interest in the notes receivable to MPIC, the carrying amount of which is to be offset against advances for equity under “Investments in subsidiaries and associates and interests in a joint venture” account in the parent company statement of financial position (see Note 8). No changes were made to the terms of the note. On the date of assignment, the carrying value of assigned notes receivable amounted to ₱384.3 million. The current and noncurrent portion of the notes amounted to ₱67.1 million and ₱317.2 million, respectively.

d. 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. The Company was able to recover ₱15.0 million in 2009 and the remaining balance, including interest, amounting to ₱36.4 million was fully impaired in 2010.

Interest receivable pertains to interests earned from the various notes receivable and bank placements and deposits. Interest and other receivables are collectible within 12 months.

Accounts receivable and advances to employees are noninterest-bearing and subject to liquidation within 12 months from availment.

7. Other Current Assets

This account consists of:

	2011	2010
	(In Thousands)	
Deposits (see Notes 8, 9 and 11)	**₱986,077**	₱730,204
Input taxes	**29,115**	6,418
Real estate for sale	**25,637**	59,537
Available-for-sale financial assets (see Note 9)	–	448,087
Other deposits and prepayments	**5,492**	4,837
	₱1,046,321	₱1,249,083

Deposits consist of the following:

- Cash deposits amounting to ₱231.3 million and ₱267.7 million as of December 31, 2011 and 2010, respectively, representing the Company's Debt Service Account (DSA) with the purpose of holding funds on reserve for debt service (see Note 11).

- Escrow deposits of ₱754.7 million are related to the Sale and Purchase Agreement entered into with Bumrungrad International Limited (BIL) on November 4, 2011 for the purchase of 100% of Bumrungad International Philippines Inc. (BIPI) and Neptune Stroika Holdings, Inc. (NSHI), which holds shares of stocks in Asian Hospital, Inc. (AHI). The amounts in escrow deposits represent mainly 20% and 100% of the purchase price of BIPI and NSHI, respectively, and 10% Vendor Creditor Interests (VCI) as discussed in Note 8. The 80% of the purchase price of NSHI shares was released to BIL on January 11, 2012 after all the conditions for closing has been met. The rest of the amount remains in Escrow as at March 1, 2012 (see Note 8).

Real estate held for sale represents developed lots and condominium units carried at cost. In 2011, certain condominium units with a carrying value of ₱33.9 million were conveyed in settlement for MPC's liability to a third party (see Note 12).

Other deposits and prepayments of ₱5.1 million and ₱4.8 million in 2011 and 2010, respectively, mainly pertain to creditable withholding taxes, rental deposits and prepaid expenses.

8. Investments in and advances to Subsidiaries and Associates and Interest in a Joint Venture

Details of investments follow:

Investee	Principal Activity	Direct MPIC Ownership Interest 2011	2010
Subsidiaries:			
Metro Pacific Light Rail Corporation (MPLRC)	Investment holding	**100.0**	–
MetroPac Water Investments Corporation (MPWIC)	Investment holding	**100.0**	–
BIPI*	Investment holding	**100.0**	–
NSH*	Investment holding	**100.0**	–
Colinas Verdes Hospital Managers Corporation(CVHMC)	Hospital operation	**100.0**	–
East Manila Hospital Managers Corporation (EMHMC)	Hospital operation	**100.0**	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**	51.0
Joint venture -			
Beacon Electric	Investment holding	**50.0**	50.0
Associates:			
Medical Doctors, Inc. (MDI)	Hospital operation	**34.6**	35.0
Davao Doctors Hospital, Inc. (DDH)	Hospital operation	**34.9**	34.9
First Gen Northern Electric Corporation (FGNEC)	Power distribution	**33.3**	33.3

** In 2011, BIPI and NSH have 27.5% and 24.4% direct interest in AHI, respectively, resulting to MPIC's 51.9% indirect ownership in AHI.*
*** In 2011 and 2010, indirect ownership of the Company in Maynilad through DMWC is 56.8%.*

All of the above investees were incorporated in the Philippines.

The carrying value of the Company's investments and advances follows:

	2011	2010
	(In Thousands)	
Investments in subsidiaries:		
MPTC	**₱12,343,293**	₱12,331,057
DMWC	**10,180,392**	10,180,392
Maynilad	**2,057,858**	2,038,799
BIPI	**731,951**	–
NSH	**601,494**	–
CVHMC	**300,000**	–
RMCI	**275,621**	275,621
MPC	**230,132**	230,132
EMHMC	**12,500**	12,500
MPLRC	**6,250**	–
MPWIC	**5,000**	–
	26,744,491	25,068,501
Investments in associates:		
MDI	**927,923**	927,923
DDH	**512,865**	512,865
FGNEC	**250**	250
	1,441,038	1,441,038

(Forward)

	2011	2010
	(In Thousands)	
Interest in a joint venture -		
Beacon Electric	**₱23,129,879**	₱23,129,879
Investment in Beacon Electric's preferred shares	**8,010,444**	8,010,444
Advances to Beacon Electric	**756,387**	756,387
Advances to MPC	**115,685**	500,000
	₱60,197,924	₱58,906,249

Movements of investments in subsidiaries and associates and interest in a joint venture follow:

	December 31, 2011			
	Subsidiaries	**Associates**	**Joint Venture**	**Total**
	(In Thousands)			
Balance at beginning of year	**₱25,068,501**	**₱1,441,038**	**₱23,129,879**	**₱49,639,418**
Acquisitions during the year	**1,644,695**	**–**	**–**	**1,644,695**
LTIP (see Note 15)	**13,647**	**–**	**–**	**13,647**
ESOP (see Note 18)	**17,648**	**–**	**–**	**17,648**
	26,744,491	**1,441,038**	**23,129,879**	**51,315,408**
Investment in Beacon Electric's preferred shares	**–**	**–**	**8,010,444**	**8,010,444**
Advances to Beacon Electric	**–**	**–**	**756,387**	**756,387**
Advances to MPC (Note 6)	**115,685**	**–**	**–**	**115,685**
	₱26,860,176	**₱1,441,038**	**₱31,896,710**	**₱60,197,924**

	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 (see Note 15)	12,306	–	–	12,306
ESOP (see Note 18)	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

<u>MPLRC</u>
On April 12, 2011, the Company incorporated MPLRC, with an authorized capital stock of 1.0 million shares at ₱100.0 par value shares. The Company subscribed and partially paid for the 250,000 shares, equivalent to 25% of the total authorized capital stock, amounting to ₱6.25 million. MPLRC was incorporated for the purpose of (a) engaging in the development, construction, operation, repair, maintenance, management and other allied business involving infrastructure projects, such as railways, railroads and other transport systems, airports, toll ways, piers and other public works except electrical energy projects, for the private and public sector; (b) investing in such projects whether as shareholder, partner or otherwise; and, (c) bidding and negotiating for such projects.

MPWIC
On August 17, 2011, the Company incorporated MPWIC, with an authorized capital stock of 200,000 at ₱100 par value share. The Company subscribed and paid for the 50,000 shares, equivalent to 25% of the total authorized capital stock, amounting to ₱5.0 million. MPWIC was incorporated to carry on the general business of operating, managing, maintaining and rehabilitating waterworks, sewerage and sanitation systems and services, and to invest, purchase, acquire or own and dispose property of every kind in a corporation engaged in business or activities with the same purpose as MPWIC.

CVHMC
On October 21, 2011, the Company entered into a Share Purchase Agreement (SPA) with MDI for the Company's purchase of all MDI's interests in CVHMC constituting 100% of the outstanding capital stock of CVHMC, for a purchase price of ₱300.0 million. CVHMC is the operator of the 237-bed tertiary hospital Cardinal Santos Medical Center. Part of the conditions for the SPA completion is the assumption by MPIC of MDI's guarantee obligations under the Guaranty Agreement dated February 27, 2009 between MDI and Philippine Realty Corporation (PRC). This condition was fulfilled when MPIC, MDI and the owner-lessor of CSMC entered into an Assumption and Release Agreement dated November 3, 2011. The SPA was accordingly completed on November 4, 2011.

As a result of the transaction, CVHMC became a direct and wholly-owned subsidiary of MPIC hospital group, enabling the Company to fully consolidate its financials. In addition, the acquisition generated a substantial amount of cash for MDI, enabling it to continue funding its major upgrade programs—facilities renovation, purchase of state-of-the-art medical equipment, environmentally friendly energy savings initiatives—to modernize and further improve Makati Medical Center. It will also free MDI from the need to possibly fund Cardinal Santos Medical Center's own expansion program.

BIPI, NSHI and AHI
On November 4, 2011, MPIC and Bumrungrad International Limited (BIL) executed a Sale and Purchase Agreement (SPA) wherein MPIC agreed to purchase and BIL agreed to sell its 100% interest in BIPI, 100% interest in NSHI and 4.587% interest in Asian Hospital, Inc. (AHI), collectively referred to as "Sale Shares". The purchase of 4.587% interest in AHI is conditional upon the exercise of right of first refusal (ROFR) by the other shareholders of AHI. BIPI and NSHI each have legal and beneficial ownership interest in AHI of 27.499% and 24.43%, respectively. Subject to the terms and conditions of the SPA, the BIPI Sale Shares is subject to First Closing A for a consideration of ₱731.9 million, NSHI Sales Shares to First Closing B for a consideration of ₱595.4 million and the AHI Sale Shares to Second Closing for a consideration of ₱123.4 million. Provided that the AHI shares are all purchased by the other shareholders of AHI in exercise of their ROFR, the number of AHI Sale Shares shall be zero, and the consideration apportioned in respect to the AHI Sale Shares shall be zero.

On the date of SPA, an individual is the legal and beneficial owner of the 300,000 common shares representing 60.0% of the capital stock of NSHI. Such share will also be acquired by MPIC for a consideration of ₱6.1 million. The consideration will also be deposited in the Escrow Account and will be paid at Closing subject to the terms and conditions of the Share Purchase Agreement, and shall be simultaneous with the BIL-NSHI Transaction Closing.

Subject to the terms and conditions of the SPA, BIL shall also assign to MPIC all the rights, title and interest of BIL in the VCI Amount subject to conditions of the Deed of Assignment at First Closing A. VCI constitute advances and loans to BIPI and NSHI by BIL in the amount of ₱68.6 million.

The Sale Shares Consideration and the VCI Amount shall be paid to BIL subject to the terms and conditions of the SPA and the Escrow Agreement that was entered into by the Parties and an Escrow Agent on or before the First Closing A. On First Closing A, MPIC shall pay 80% of the BIPI Sale Shares consideration and 90% of the VCI Amount and deposit in the relevant Escrow Account the 20% of the BIPI Sale Shares consideration, 100% of NSHI Sale Shares consideration and the 10% of the VCI amount. On First Closing B, the 80% of the NSHI Sale Share consideration will be released to BIL and the 20% will be retained in the Escrow Account. On Second Closing, MPIC will pay 80% of the AHI Sale Shares consideration and deposit the remaining 20% in the Escrow Account. The remaining escrowed amount will be released in accordance with the terms of the Escrow Agreement.

The First Closing A was completed on December 6, 2011 wherein MPIC paid for 80% or ₱585.6 million of the BIPI and and 90% or 61.8 million of the VCI Amount. The 20% of BIPI and 100% of NSHI Sale Shares consideration and the 10% of the VCI Amount totaling to ₱748.6 million were also put in the Escrow Account in compliance with the SPA. The First Closing B was completed on January 11, 2012 and the 80% or ₱476.3 million of the NSHI Sale Shares consideration was released from Escrow. The aforementioned 300,000 common shares from NSHI held by an individual were acquired and paid also at First Closing B. The Second Closing was completed on February 27, 2012. Total amount in escrow as at December 31, 2011 amounted to ₱754.7 million which is included in “Other current assets” and with corresponding liability set up of the same amount under “Accrued expenses and other current liabilities” account in the parent company statement of financial position.

With the acquisitions of BIPI and NSHI, MPIC effectively acquired 52.329% of AHI shares as of December 31, 2011 and the completion of the First Closing B prompted the Company to make a mandatory Tender Offer to the other shareholders of AHI, which will last until April 19, 2012. This mandatory tender offer was accounted for as a derivative (put option) but its value cannot be reliably measured as the underlying AHI shares are not quoted and no consideration are given for the option.

<u>EMHMC</u>

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.

<u>MPTC</u>

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, 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, MNTC was awarded the right to enter into a concession agreement with the Philippine Government, through Bases Conversion and Development Authority (BCDA), for the operation and maintenance of the 94-kilometer Subic-Clark-Tarlac Expressway (SCTEx). On July 20, 2011, BCDA and MNTC signed the Business and Operating Agreement (BOA) covering BCDA' s assignment to MNTC of its right, interests and obligations relating to the management operation and maintenance of the SCTEx. The BOA was the result of the amendments made to the previously signed Concession Agreement between BCDA and MNTC last November 2010. The operation and management of the SCTEX has not been turned over as of December 31, 2011.

Metro Strategic Investments Holdings, Inc., a subsidiary of MPTC, on the other hand, holds 2.7% interest in Citra Metro Manila Tollways Corporation (CMMTC). CMMTC is engaged primarily in the design, construction and financing of the Metro Manila Skyway (in three stages) and the proposed Metro Manila Tollways projects.

In 2011 and 2010, the Company received dividends from MPTC aggregating to ₱1,250.9 million and ₱1,189.9 million, respectively.

The Company's shares in MPTC were pledged against the Company's ₱6.8 billion loan as of December 31, 2011 and 2010 (see Note 11).

<u>MPC</u>
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. MPC is engaged in the business of real estate investments and property development, investment holding and management services. MPC is not currently active but holds investments in properties that have high market values based on latest appraisal and valuation report.

<u>DMWC and Maynilad</u>
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. The Company's share in the dividends from Maynilad amounting to ₱35.3 million and from 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.

On August 24, 2011, Maynilad declared dividends amounting to ₱1,500.0 million. Consequently, on September 26, 2011, DMWC's BOD declared cash dividends amounting to ₱1,400.0 million out of its unrestricted retained earnings. The Company's share in the dividends from Maynilad amounting to ₱88.4 million and from DMWC amounting to ₱775.7 million which were received on September 30, 2011 and are presented under "Dividend income" account in the 2011 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 nursing school subsidiary, Riverside College, Inc. In 2011, the Company received dividends from RMCI amounting to ₱5.0 million

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.

In 2009, the Company acquired a total of 163.6 million common shares of Meralco for an aggregate purchase price of ₱24,540.3 million representing 14.63% of the issued and outstanding share capital of Meralco as of December 31, 2009, through a series of negotiated transactions and open market purchases. Those acquisitions were funded by debt and proceeds from issuance of new MPIC shares.

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. PCEV and MPIC are related parties of through its affiliation with FPC. With the Agreement, MPIC has the ability to exercise significant influence in Meralco and accordingly, MPIC accounted for its 14.63% interest in Meralco under equity method.

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. On the same date, MPIC granted First Philippine Utilities Corporation (FPUC), a subsidiary of First Philippine Holdings Corporation (FPHC) of the Lopez Group, a short-term loan amounting to ₱11.2 billion. The loan was interest bearing and was repaid on March 30, 2010.

On November 5, 2009, FPHC agreed to grant to MPIC a Call Option relating to approximately 74.7 million common shares of Meralco owned by FPHC (equivalent to 6.7% of the total outstanding common shares of Meralco) at a distinct consideration 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.

On March 30, 2010, the Company sold and transferred all its investments in Meralco representing 163.6 million common shares to Beacon Electric for a consideration of ₱24,540.3 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 (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 million common shares with par value of ₱1.0 per share and 2,000 million 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 to be 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 ₱24,540.3 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 154.2 million and 163.6 million 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 163.6 million 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 154.2 million 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 317.8 million 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 317.8 million 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.

  On October 19, 2011, PCEV's Board of Directors approved the transfer to Beacon Electric of PCEV's remaining investment in 68.8 million Meralco common shares for a total consideration of ₱15,136.0 million. The transfer of the Meralco shares was implemented through a cross sale in the PSE on October 25, 2011.

- *Call Option.* Under the OA, MPIC assigned its right to acquire the call option (the Call Option) over 74.7 million common shares of Meralco held by FPHC (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.

<u>Beacon Electric's Acquisition of Additional Meralco Shares from Third Parties</u>
On various dates in 2011, Beacon Electric acquired from third parties additional 49.9 million Meralco common shares or an equivalent of approximately 4.4% effective ownership in Meralco at an aggregate cost of ₱14,310.0 million.

Out of the acquisitions from the third parties, 31.2 million Meralco common shares were purchased at a deferred payment scheme amounting to ₱8,980.5 million. The liability is payable in installments of ₱936.3 million in May and July 2011, with final payment due in July 2012.

As at December 31, 2011, Beacon Electric beneficially owns 511.2 million Meralco common shares representing approximately 45.4% beneficial ownership in Meralco with a carrying value of ₱104,091.9 million and market value of ₱126,277.2 million based on quoted price of approximately ₱247 per share. As at December 31, 2010, Beacon Electric beneficially owns 392.5 million Meralco common shares representing approximately 34.8% equity interest in Meralco with a carrying value of ₱73,322.2 million and market value of ₱89,490.7 million based on quoted price of ₱228 per share.

As at December 31, 2011 and 2010, the carrying value of the investment in Beacon Electric's common shares amounted to ₱23,129.9 million.

For the investment in Beacon Electric's preferred shares, the Company received dividends in the amount of ₱280.4 million in 2011 and ₱375.4 million in 2010. As at December 31, 2011 and 2010, the carrying value of investment in Beacon Electric's preferred shares amounted to ₱8,010.4 million. Investment in Beacon Electric's preferred shares is classified as "AFS financial assets."

On January 31, 2012, Beacon Electric acquired additional 30.0 million Meralco common shares from FPUC representing approximately 2.7% beneficial ownership in Meralco at ₱295.0 per share, increasing Beacon Electric's beneficial ownership interest in Meralco to 48.0%. FPUC will retain certain property dividends that may be declared on such shares. The acquisition was funded through an equity injection of ₱5.4 billion to which MPIC and PCEV subscribe equally and a ₱5.0 billion corporate notes facility arranged by First Metro Investment Corporation (FMIC) and PNB Capital and Investment Corporation (PNB Capital).

On February 27, 2012, Meralco declared property dividend equivalent to 51% equity participation in the outstanding issued common stock of Rockwell Land Corporation in favor of common stockholders of record as at March 23, 2012 payable five trading days after approval of the property dividend by the SEC and the registration of the Rockwell Land Corporation shares under the Securities Regulation Code and the listing thereof with the PSE.

Beacon Electric Financing

On March 22, 2010, Beacon Electric entered into an ₱18,000.0 million ten-year corporate notes facility with FMIC and PNB Capital as joint lead arrangers and various local financial institutions as noteholders. The facility amount comprises of tranches with the first tranche amounting to ₱11,800.0 million (at fixed rate based on spread of 2.5% over the 10-year PDST-F rate) and the second tranche amounting to ₱6,200.0 million (at floating rate based on a spread of 2.75% over the 6-month PDST-F rate). Beacon Electric made an initial drawdown of ₱16,200.0 million (₱16,031.5 million, net of debt issuance cost) under this notes facility to partially finance the acquisition of Meralco shares by Beacon Electric pursuant to its exercise of the Call Option in March 2010. On May 26, 2011, the remaining ₱1,800.0 million was drawn to partially finance the acquisition of the additional 49.9 million Meralco common shares, including shares purchased under a deferred payment scheme. The outstanding balance of the facility amounted to ₱17,834.8 million and ₱16,026.9 million as at December 31, 2011 and 2010, respectively.

On May 26, 2011, Beacon Electric entered into an ₱11,000.0 million 10-year corporate notes facility with FMIC and PNB Capital as joint lead arrangers and various local financial institutions as noteholders. The facility amount is divided into two drawdowns with the first drawdown amounting to ₱4,000.0 million (at interest rate based on a spread of 1.5% over the 10-year PDST-F rate) and the second drawdown amounting to ₱7,000.0 million (at interest rate based on a spread of 1.5% over the interpolated PDST-F rate based on the remaining life of the facility). The amount drawn under this facility amounted to ₱4,000.0 million and was also used to partially finance the acquisition of the additional 49.9 million Meralco common shares. The outstanding balance of the facility amounted to ₱3,896.9 million as at December 31, 2011. The undrawn amount of ₱7,000.0 million is earmarked for the final payment due in July 2012 arising from the deferred purchase made in May 2011.

On November 9, 2011, the Company entered into ₱5,000.0 million ten-year Corporate Notes Facility with FMIC and PNB Capital as joint lead arrangers and various local financial institutions as noteholders. The loan facility is divided into two tranches: fixed rate and floating rate tranches. Arranger's fees incurred in relation to this loan facility amounting to ₱40.3 million. Subsequently on February 1, 2012, said facility was fully drawn.

These loans shall be secured by a pledge on Meralco shares owned by Beacon Electric and shall, from the date of the pledge over the Meralco shares maintain the loan to value ratio at 50%. As at December 31, 2011 and 2010, Beacon Electric is in compliance with the required ratio. The loan agreements also provide for the maintenance of a Debt Service Account to be used by Beacon Electric to service interest and principal payments. Semi-annual interest payments are made every September and March for the first facility, every November and May for the second facility and every February and August for the third facility.

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 7.0 million shares with the par value of ₱100.0 per share.

On June 28, 2010, because of inconclusive negotiations 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 included under "Gain on disposal of investments" account in 2010 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 a 34.79% interest in MDI as of December 31, 2009.

In order to preserve its proportionate interest in MDI, 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 brought the Company's total ownership in MDI to 35.0%. As at December 31, 2011, the Company owns 1,094,771 MDI common shares representing 34.6% ownership interest in MDI.

In 2010, the Company recognized dividends from MDI amounting to ₱35.0 million, ₱17.5 million of which remain to be oustanding as of December 31, 2010 but subsequently collected on January 18, 2011. Moreover, on July 19, 2011, MDI declared cash dividend of ₱18.6 million which was collected on August 31, 2011.

DDH

The Company has a total of 34.85% interest in DDH as of December 31, 2011 and 2010. The Company recognized its share of dividends from DDH amounting to ₱12.5 million and ₱20.4 million for the years ended December 31, 2011 and 2010, respectively, of which ₱11.0 million remain to be outstanding as of December 31, 2010. There is no outstanding dividends receivable from DDH as of December 31, 2011.

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.

As of December 31, 2011, the bidding was completed but issues have been raised against the entitlement of the highest bidder to the award, giving FGNEC an opportunity to be awarded of the same, being the next highest bidder. Also, the sale of the Angat Power Plant has recently been put on hold with the Supreme Court en banc confirming the status quo ante order.

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

	2011	2010
	(In Thousands)	
Subsidiaries:		
MPTC	**₱1,250,926**	₱1,189,916
DMWC	**775,740**	303,960
Maynilad	**88,404**	35,304
RMCI	**4,950**	–
Associates:		
MDI	**18,611**	35,033
DDH	**12,546**	20,388
Joint Venture -		
Beacon Electric preferred shares	**280,366**	375,378
	₱2,431,543	₱1,959,979

9. Other Noncurrent Assets

This account consists of:

	2011	2010
	(In Thousands)	
Deposits	**₱619,706**	₱–
Available-for-sale financial assets (see Note 7)	**480,087**	–
Software cost	**75,194**	51,449
Property and equipment	**67,879**	37,302
Derivative asset	**31,713**	31,713
Others	**7,136**	2,409
	₱1,281,715	₱122,873

Deposits

Deposits 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 MPIC's acquisition of the aforementioned MRTH and MNRTC shares 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 and this was initially classified as "Other current assets". Should the planned acquisitions push through, these deposits will form part of the acquisition price. Otherwise, these will be forfeited and expensed outright. The amount is earmarked for investment and thus, reclassified to "Other noncurrent assets". As at March 1, 2012, there has been no update on the matter.

- On October 7, 2011, the Company entered into an Investment Management Agreement (IMA) with a certain bank for the opening of an account to fund the LTIP program (see Note 15). The LTIP fund amounting to ₱156.7 million will continue to accumulate for the LTIP target payout, which will only be after the 3-year performance cycle or in 2012. The investment portfolio of IMA is limited to the following: securities issued, directly or indirectly, or guaranteed by the Government; and time deposit and money market placements issued by any of the top ten (10) banks in the Philippines. For the year ended December 31, 2011, interest earned from LTIP fund amounted to ₱0.5 million which forms part of the LTIP fund.

Available-for-sale Financial Assets and Derivative Asset

Available-for-sale financial assets account consists of:

	2011	2010
	(In Thousands)	
Shares of stock in:		
NEPSCC	**₱236,262**	₱236,262
Landco	**211,825**	211,825
Pacific Global One Aviation Co., Inc. (PGOACI)	**25,000**	–
Manila Polo Club	**7,000**	–
	480,087	448,087
Less current portion	–	448,087
	₱480,087	₱–

Except for Manila Polo Club, these investments in equity instruments that are classified as AFS financial assets are carried at cost as there are no reliable sources and bases for subsequent fair value determination. As at December 31, 2010, these were classified as current assets with the management intention then to dispose these investments in 2011. However, these were not disposed of as at December 31, 2011 and management has no definite plan yet for its disposal, and thus these investments were reclassified as noncurrent assets.

<u>Landco and NEPSCC</u>
Landco is primarily engaged in all aspects of real estate business and was previously a separate reportable operating segment. Following a strategic review of the Company's businesses in 2008, and its focus on infrastructure, MPIC decided to divest its 51.0% controlling interest in Landco. Initially, the sale of 17% interest in Landco to ABHC was completed on June 18, 2009 and another 15% on August 24, 2010. The sale of the initial 17% interest in Landco, together with a certain loan of Landco, was settled through conveying certain assets, more particularly NEPSCC shares and certain property units worth ₱236.3 million and ₱59.5 million, respectively. The conveyed assets were classified as "AFS financial assets" for the NEPSCC shares and "real estate for sale" for the properties in the parent company statements of financial position. NEPSCC is engaged in leasing properties, particularly mall spaces.

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 in 2010:

a. Settlement of the MPIC Loan, including advances, totaling to ₱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. MPIC's sale of 1,173,747 shares of common stock of Landco, representing 15.0% interest to ABHC at the price of ₱156.0 per share. The total consideration of ₱183.4 million was paid ₱50.0 million in cash and issuance of a promissory note (new ABHC Note) by ABHC, with a 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 Note's issuance. The sale resulted to a ₱38.0 million gain and was included in the "Gain on disposal of investments" account in the 2010 parent company statement of income. The payment of this loan is secured by a pledge over shares of ABHC in Landco;

c. New loan granted by MPIC to Landco in the principal amount of ₱175.0 million at 12.0% interest. The principal will 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. In 2011, MPIC and Landco entered into an agreement to restructure the terms of the loan as discussed in Note 6.a.

d. Subscription of 379,658,618 redeemable preferred shares of Landco, representing 100.0% of Landco's preferred shares, 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 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 of ₱31.7 million for the conversion option feature which is presented as "Derivative asset" in Note 9. Such derivative asset is carried at cost (since the underlying Landco preferred shares are unquoted and there is no reliable basis for its subsequent fair value determination) until such time the option will be exercised or has expired (see Notes 6 and 8).

The remaining 19.0% interest 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 2010 parent company statement of income.

<u>PGOACI</u>
On September 26, 2011, the Company co-incorporated, PGOACI, with Philippine Long Distance Telephone Company, Meralco PowerGen Corporation, Philex Mining Corporation, MPTC and Jubilee Sky Limited. The Company subscribed and paid for 25,000,000 common shares of PGOACI at ₱1.0 per share, which is equivalent to its par value, amounting to ₱25.0 million for an equity ownership interest of 10%. PGOACI was incorporated to acquire, purchase, lease, construct, own, maintain, operate and dispose of aircraft of every kind or description and hangars, transportation deposit, lounge facilities, aircrafts service station and any other objects or services of similar nature which may be necessary, convenient or useful as an auxiliary to aircraft transportation and to carry on general business of carrier for the Company and for others.

<u>Manila Polo Club</u>
In 2011, the Company purchased golf share costing ₱7.0 million. As at December 31, 2011, fair value of golf share in Manila Polo Club amounted to ₱7.2 million.

Software Cost. Software cost represents costs of the Company's newly developed and implemented accounting and reporting system with estimated useful life of 5 years as follows:

	January 1, 2010	Additions	December 31, 2010	Additions/ Amortizations	December 31, 2011
Cost	₱19,908	₱31,541	₱51,449	₱27,630	₱79,079
Less accumulated amortization	–	–	–	3,885	3,885
	₱19,908	₱31,541	₱51,449	₱23,745	₱75,194

Property and Equipment

The account consists of:

	December 31, 2010	Additions/ Depreciation	Disposals	December 31, 2011
Cost:		*(In Thousands)*		
Transportation equipment	**₱32,471**	**₱21,245**	**(₱6,554)**	**₱47,162**
Leasehold improvements	**11,687**	**17,730**	**–**	**29,417**
Office equipment	**5,411**	**4,356**	**–**	**9,767**
Computer equipment	**4,245**	**5,418**	**–**	**9,663**
Furniture and fixtures	**4,871**	**733**	**–**	**5,604**
	58,685	**49,482**	**(6,554)**	**101,613**
Less accumulated depreciation:				
Transportation equipment	**12,488**	**9,611**	**(5,823)**	**16,276**
Leasehold improvements	**3,659**	**4,229**	**–**	**7,888**
Office equipment	**2,145**	**127**	**–**	**2,272**
Computer equipment	**1,487**	**3,156**	**–**	**4,643**
Furniture and fixtures	**1,604**	**1,051**	**–**	**2,655**
	21,383	**18,174**	**(5,823)**	**33,734**
	₱37,302	**₱31,308**	**(₱731)**	**₱67,879**

	December 31, 2009	Additions/ Depreciation	Disposals	December 31, 2010
Cost:		*(In Thousands)*		
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

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.

10. **Accrued Expenses and Other Current Liabilities**

This account consists of:

	2011	2010
	(In Thousands)	
Accrued interest payable (see Note 11)	**₱238,337**	₱279,858
Accrued taxes and other payables	**103,592**	23,456
Accrued retirement cost (see Note 15)	**395**	6,224
Others (see Note 8)	**795,645**	25,698
	₱1,137,969	₱335,236

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 in 2010. This reversal is included under "Others" account in the parent company statement of income.

Other current liabilities include portions of the considerations for the investments in and advances assumed from BIPI and NSH amounting to ₱747.9 million and ₱6.8 million, respectively, that were not yet paid but placed in Escrow deposits as of December 31, 2011 (see Note 8).

11. **Long-term Debt**

The account consists of:

	2011	2010
	(In Thousands)	
Long-term debt	**₱6,581,250**	₱6,648,750
Less unamortized debt issue cost	**58,716**	68,137
	6,522,534	6,580,613
Less current portion of long-term debt - net of ₱10.2 million and ₱9.1 million debt issue cost for 2011 and 2010, respectively	**57,277**	58,391
	₱6,465,257	₱6,522,222

The movements in unamortized debt issue cost are as follows:

	2011	2010
	(In Thousands)	
Balance at beginning of year	**₱68,137**	₱303,585
Reversal of debt issue cost (see Note 8)	–	(221,694)
Amortization during the year charged to interest expense (see Note 16)	**(9,421)**	(13,754)
Balance at end of year	**₱58,716**	₱68,137

Repayment schedule of the long-term debt follows:

	2011	2010
	(In Thousands)	
Current	**₱67,500**	₱67,500
2013	**67,500**	67,500
2014	**540,000**	67,500
2015 and onwards	**5,906,250**	6,446,250
	₱6,581,250	₱6,648,750

₱6.8 Billion Loan. On November 4, 2008, the Company 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) to partially finance 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 9% per annum. Effective February 13, 2011, the interest rate on the Note was repriced to 9.2% from 10.7%. Interest shall be paid semi-annually commencing on the Issue Date. The Note is payable in 20 consecutive semi-annual installments to commence at the end of the 9th month after Issue Date. After four 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 ₱9.4 million and ₱8.3 million is presented as part of “Interest expense” account in the parent company statements of income for the years ended December 31, 2011 and 2010, 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 full payment of all amounts due to the lenders for holding funds on reserve to service MPIC’s payments of the Notes. The DSA amounting to ₱231.3 million and ₱267.7 million as of December 31, 2011 and 2010, respectively, is presented as part of “Other current assets” account in the parent company statement of financial positions (see Note 7).

Moreover, the MPIC Omnibus Agreement requires the Company 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, 2011 and 2010, MPIC is in compliance with the required financial ratios.

As at December 31, 2011 and 2010, outstanding balance of this loan amounted to ₱6,581.2 million and ₱6,648.8 million, respectively.

₱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 of ₱11.2 billion was made on November 13, 2009. 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 March 30, 2010, 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 9. The 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 19).

12. Related Party Transactions

Enterprises and individuals that directly or indirectly, through one or more intermediaries, control, 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 family members 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 that consist mainly of granting 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	**2011**	2010
		(In Thousands)	
Due from related parties:			
CVHMC	Subsidiary	**₱254,725**	₱170
EMHMC	Subsidiary	**72,395**	307
NSH	Subsidiary	**58,630**	–
Metro Pacific Investments Foundation, Inc. (MPIF)	Affiliate	**34,108**	106,579
BIPI	Subsidiary	**10,524**	–
MPLRC	Subsidiary	**5,426**	–
MPTC	Subsidiary	**2,986**	102
FPC	40% investor	**1,879**	4,367
Meralco	Associate of Beacon Electric	**310**	335
Beacon Electric	Joint Venture	**287**	–
Maynilad	Subsidiary	**272**	33
MPWIC	Subsidiary	**136**	–
DMWC	Subsidiary	**7**	3
Others	Associates and affiliates	**2,172**	2,012
		443,857	113,908
Less current portion		**80,793**	113,908
		₱363,064	₱–

	Relationship	2011	2010
		(In Thousands)	
Due to related parties:			
MPC	Subsidiary	**₱513,294**	₱578,521
MPTDC	Subsidiary	**462,639**	462,639
DMWC	Subsidiary	**292,060**	292,060
PLDT	Associate of FPC	**184**	11,222
MPHI	Parent Company	**–**	6,388,391
Others	Associates and affiliates	**842**	842
		1,269,019	7,733,675
Less current portion		**1,269,019**	1,419,534
		₱–	₱6,314,141

MPHI
The following are transactions with MPHI, a majority stockholder of MPIC, in 2011 and 2010:

- *The Company entered into Placement and Subscription Agreements with MPHI on September 19, 2009 in order to raise capital (see Note 13, which also includes other transactions with MPHI).*

- *Issuance of Convertible Bonds.* On March 22, 2010, the Company issued to MPHI peso-denominated bonds convertible to common shares of the Company 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. The Company has the right to redeem the bonds early, in whole or in part (except in the case described in item 2 below in which the Company 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 the Company'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. The initial conversion price will be adjusted 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, and 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 on 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 "Equity Reserves" account in the equity section of the 2010 parent company statement of financial position (see Note 13). Transaction cost related to the issuance of the bonds amounted ₱33.0 million. Related interest (including amortization of discount) for 2010 amounted to ₱371.6 million, of which ₱74.2 million is unpaid as at December 31, 2010 and presented as current portion of "Due to related parties" account in the parent company statement of financial position. The carrying value of the bonds amounted to ₱6,314.1 million as at December 31, 2010.

On April 25, 2011 (the Conversion Date), the Company received a Notice of Conversion from MPHI in connection with the exercise of its conversion rights in respect of such convertible bonds into 2,030,769,230 common shares of MPIC (the Conversion Shares). Both MPIC and MPHI have acknowledged and agreed that said Conversion Shares are to be issued by the Company out of an increase in its authorized capital stock which was approved on May 31, 2011 by the SEC (see Note 16). The convertible bond had a carrying value of ₱6,364.7 million as at Conversion Date. The conversion resulted to the reclassification of the equity component amounting to ₱280.6 million from "Equity Reserves" to "Additional paid-in capital" account in the parent company statement of financial position.

MPC

The balance 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. In 2011, MPC, through a memorandum of agreement with MPIC, has caused MPIC to convey, transfer and cede all of its rights and interest over the real estate for sale with a selling price aggregating to ₱23.1 million to a certain bank in partial settlement of the MPC's Debt.

By way of offsetting, MPC's advances to the Company shall be partially settled to the extent of amount of the conveyed real estate for sale. The carrying value of the real estate for sale conveyed was ₱33.9 million, thus resulting to a loss on disposal of ₱10.8 million which was presented under "Others" account in the 2011 parent company statement of income (see Note 16).

MPTDC

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 the Company amounting to ₱307.8 million. As of December 31, 2011, the balance was reduced to ₱292.1 million.

PLDT
PLDT is an associate of FPC. The balance amounting to ₱0.2 million and ₱11.2 million as of December 31, 2011 and 2010, respectively, represents fees payable to PLDT for various kinds of administrative assistance extended to the Company. It also includes unpaid rent expense from lease of office space. The rent expense and other fees accruing to PLDT amounted to ₱4.9 million and ₱7.8 million, respectively, for the period December 31, 2011.

CVHMC
On November 4, 2011, the Company extended a ₱250.0 million loan to CVHMC, payable at maturity on November 4, 2013. The interest is 12% per annum payable every June 30th and December 31st until maturity date. The related interest on these advances amounting to ₱4.7 million, which is unpaid as of December 31, 2011, is presented as current portion of "Due from related parties" account in the parent company statement of financial position.

EMHMC
In 2011, the Company extended new loans to EMHMC which remain to be outstanding as of December 31, 2011 as follows:

- On July 1, 2011, an amount of ₱37.5 million payable in full at maturity on July 1, 2014 with 12% interest per annum, payable semi-annually every June 30th and December 31st until maturity date.

- On October 28, 2011, an amount of ₱25.0 million payable in full at maturity on October 28, 2014 with 12% interest per annum, payable semi-annually every June 30th and December 31st until maturity date.

Related interest on these advances amounting to ₱2.5 million, which is unpaid as of December 31, 2011, is presented as current portion of "Due from related parties" account in the parent company statement of financial position.

NSH and BIPI
Subject to the terms and conditions of the Sale and Purchase Agreement (SPA) executed on November 4, 2011 between BIL and MPIC, BIL assigned its rights pertaining to the loans and advances amounting to ₱68.6 million through a Deed of Assignment (VCI Assignment) signed on December 6, 2011. These loans and advances are as follows:

- BIPI Shareholder Advances, which represents the amount owed by BIPI to BIL in relation to shareholder advances from BIL for working capital purposes and outstanding consulting fees amounting to ₱10.5 million;

- NSH Shareholder Advances, which represents the amount owed by NSH to BIL in relation to shareholders advances from BIL for working capital purposes amounting to ₱8.1 million; and

- NSH Shareholder Loan pertain to an interest-bearing loan in the principal amount of ₱30.0 million owed by NSH to BIL under the Omnibus Loan and Pledge Agreement dated February 18, 2005 between NSH, Augusto Gan and BIL (as amended and supplemented by an Amendment Agreement dated January 30, 2008). The loan interest as of December 31, 2011 amounted to ₱20.4 million.

The BIPI and NSH Shareholder Advances are noninterest-bearing and currently collectible. On the other hand, the NSH Shareholder Loan is subject to 10% interest per annum with a maturity date seven years from the date of loan. The loan principal and interest are payable on the maturity date and the terms are based on the original Loan and Pledge Agreement. Accordingly, management determined that the NSH loan will not be settled within the next year and thus, classified as noncurrent.

On December 6, 2011 (the First Closing A), 90% of the VCI amount or ₱61.8 million was paid by the Company to BIL (First Closing A Payment), while the remaining 10% or ₱6.9 million was deposited in the escrow account (Second Escrowed Amount) and shall be released upon fulfillment of certain conditions subject to the terms of Escrow Agreement (see Notes 7 and 8).

Others

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

Compensation of Key Management Personnel

The compensation and benefits of the Company's key management personnel for the years ended December 31, 2011 and 2010 are as follows:

	2011	2010
	(In Thousands)	
Short-term employee benefits	**₱358,107**	₱117,064
Share-based payment (see Note 18)	**23,579**	25,257
Post employment benefits - Retirement cost (see Note 15)	**21,540**	26,751
Other employee benefits - LTIP expense (see Note 15)	**79,265**	71,477
	₱482,491	₱240,549

Directors' Remuneration

Annual remuneration of the directors amounted to ₱9.5 million and ₱3.4 million for the years ended December 31, 2011 and 2010, respectively.

Non-executive directors are entitled to a per diem allowance of ₱50,000 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 BOD may deem proper. No accrual was made with respect to this scheme for the years ended December 31, 2011and 2010. There are no other special arrangements pursuant to which any director will be compensated.

13. **Equity**

Details of authorized and issued capital stock follow:

		Common shares		**Preferred Shares – Class A**		**Preferred Shares – Class B**	
		No. of Shares	**Price per share**	No. of Shares	**Price per share**	No. of Shares	**Price per share**
Authorized Capital Stock (ACS):							
Date	**Activity**						
March 20, 2006	Incorporation	100,000	₱1.0				
June 5, 2006	Increase in ACS	4,599,900,000	1.0				
As at December 31, 2007 and 2006		4,600,000,000	1.0				
August 12, 2008	Increase in ACS	7,350,000,000	1.0	5,000,000,000	₱0.1		
As at December 31, 2008		11,950,000,000	1.0	5,000,000,000	0.1		
February 13, 2009	Increase in ACS	8,050,000,000	1.0	–	–	1,500,000,000	₱1.0
December 21, 2009	Increase in ACS	2,688,518,336	1.0	–	–	–	–
As at December 31, 2010 and 2009		22,688,518,336	1.0	5,000,000,000	0.1	1,500,000,000	1.0
May 31, 2011	Increase in ACS	5,811,481,664	1.0	–	–	–	–
As at December 31, 2011		28,500,000,000	₱1.0	5,000,000,000	₱0.1	1,500,000,000	₱1.0
Issued and Outstanding:							
Date	**Activity**						
September 6, 2006	Original subscription of MPIC's majority shareholders	968,820,495	₱1.0	–	–	–	–
October 23, 2006	Issuance of shares to MPC majority owners in exchange for MPIC shares	181,290,038	1.0	–	–	–	–
November 8, 2006	Tendered shares of MPC minority shareholders in exchange for MPIC shares	48,841,989	1.0	–	–	–	–
As at December 31, 2006		1,198,952,522		–	–	–	–
December 31, 2007	Tendered shares of MPC minority shareholders in exchange for MPIC shares	143,966,271	1.0	–	–	–	–
As at December 31, 2007		1,342,918,793		–	–	–	–
June 30, 2008	Additional subscription of MPIC's majority shareholders	3,791,525,175	2.0	–	–	–	–
June 30, 2008	Conversion of loan from MPHI to equity	1,893,282,845	1.0	–	–	–	–
As at December 31, 2008		7,027,726,813		–	–	–	–
February 13, 2009	Issuance on existing subscriptions from MPHI	2,389,040,000	2.0	–	–	–	–
July 9, 2009	Issuance on existing subscriptions from LAWL Pte. Ltd (LAWL)	791,110,491	2.6	–	–	–	–
July 29, 2009	Conversion of advances from MPHI to equity			5,000,000,000	₱0.1	–	–
October 2, 2009	Issuance in exchange for Meralco shares	4,464,202,634	3.2	–	–	–	–
September 19, 2009	Additional subscriptions of MPHI	4,770,000,000	3.0	–	–	–	–
December 21, 2009	Conversion of advances/loan from MPHI to equity	672,129,584	3.0	–	–	–	–
Various	Exercise of stock option plan	13,945,000		–	–	–	–
As at December 31, 2009		20,128,154,522		5,000,000,000	0.1	–	–
Various	Exercise of stock option plan	27,310,000		–	–	–	–
As at December 31, 2010		20,155,464,522		5,000,000,000	0.1	–	–
May 31, 2011	Conversion of advances/loan from MPHI to equity	2,030,769,230	3.25	–	–	–	–
July 13, 2011	Additional subscriptions of MPHI	2,400,000,000	3.60	–	–	–	–
Various	Exercise of stock option plan	7,060,000	2.73	–	–	–	–
As at December 31, 2011		24,593,293,752		5,000,000,000	–	–	–

	2011	2010
Total number of stockholders	**1,376**	1,380

<u>Authorized Capital Stock</u>
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.

The SEC approved on May 31, 2011 the increase in the authorized capital stock of the Company from ₱24.2 billion to ₱30.0 billion, divided into 28.5 billion common shares with a par value of ₱1.0 per share, 5.0 billion Class A Preferred Shares with a par value of ₱0.01 per share and 1.5 billion Class B Preferred Shares with a par value of ₱1.0 per share.

<u>Issued Common Shares</u>
Issuances to MPHI in 2011 are as follows:

- In connection with SEC approval on the increase of authorized capital stock in 2011, MPIC likewise issued to MPHI a total of 2,030,769,230 common shares out of the increase in MPIC authorized capital stock. These shares are issued to MPHI as a result of the conversion by MPHI of the ₱6.6 Billion convertible bonds issued by MPIC to MPHI on March 30, 2010 (see Note 12).

- On July 7, 2011, the BOD authorized the Company to conduct an equity fund raising through (i) a placing and subscription transaction involving up to 1,250,000,000 common shares of the Company at a price of at least ₱3.57 per share and (ii) a private placement with MPHI subscribing, and the Parent Company issuing, (the "Subscription") 1,191,111,000 common shares out of MPIC's current authorized and unissued capital stock (the Subscription Shares) at the issue price of ₱3.60 per share.

  Pursuant to the foregoing approval and in respect of the placing and subscription transaction, MPIC, together with MPHI, entered into a placement agreement on July 8, 2011, in respect of the offer and sale by MPHI of 1,208,889,000 common shares of MPIC (the Offer Shares) at the Offer Price of P3.60 per share (the "Offer"). MPIC likewise entered into a subscription agreement with MPHI wherein MPIC agreed to issue to MPHI, and MPHI agreed to subscribe to, new common shares of MPIC in an amount equal to the aggregate number of Offer Shares sold by MPHI pursuant to the placement agreement described above (Subscription Shares) and at a price equivalent to the Offer Price or ₱3.60 per share.

  Pursuant to the same approval and in respect of the private placement of shares with MPHI, MPIC entered into another subscription with MPHI wherein MPIC agreed to issue to MPHI, and MPHI agreed to subscribe to, 1,191,111,000 additional common shares out of MPIC's current authorized and unissued capital stock at the issue price of ₱3.60 per share (the "Private Placement Shares").

<u>Executive Stock Option Plan</u>
At various dates in 2011 and 2010, the Company issued a total of 7.1 million and 27.3 million common shares, respectively, in connection with the Company stock option plan (see Note 18).

<u>Issued Class A Preferred Shares</u>
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, 2011 and 2010, unrecognized cumulative dividends on Class A Preferred Shares amounted to ₱1.8 million and ₱1.9 million, respectively.

<u>Class B Preferred Shares</u>
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.

<u>Deposit for Future Stock Subscriptions</u>
This represents subscriptions from exercise of ESOP of which the corresponding 5.0 million 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.

Cash Dividends
On August 4, 2011, the BOD approved the declaration of cash dividends of ₱0.01 per common share in favor of the Company's stockholders of record as of record date of August 18, 2011, with payment date of September 15, 2011. On the same date, the BOD also approved the declaration of cash dividends of 10% based on the par value of Class A Preferred Shares. The total dividend declared and paid to common and Class A Preferred shareholders amounted to ₱245.9 million and ₱2.1 million, respectively.

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. Total dividend declared and paid to common and Class A Preferred shareholders amounted to ₱302.4 million and ₱2.9 million, respectively.

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.

Equity Reserves
This account consists of:

	2011	2010
	(In Thousands)	
Other reserve from ESOP (see Note 18)	**₱107,090**	₱66,467
Equity component of a financial instrument - net of tax (see Note 12)	–	280,612
	₱107,090	₱347,079

14. **Operating Expenses**

This account consists of:

	2011	2010
	(In Thousands)	
Personnel costs	**₱462,503**	₱268,332
Outside services	**69,602**	18,962
Professional fees	**58,141**	56,824
Public relation	**36,375**	72,639
Transportation	**26,539**	24,936
Depreciation and amortization (see Note 9)	**22,059**	9,767
Seminars and conferences	**11,825**	3,590
Directors' fee	**9,494**	3,397
Communication, light and water	**6,444**	5,466
Rent	**6,333**	6,151
Supplies	**4,822**	3,807
Taxes and licenses	**4,675**	7,830
Membership dues	**1,558**	987
Insurance	**1,539**	27,509
Repairs and maintenance	**1,310**	1,044
Representation	**1,282**	3,725
Provision for corporate initiatives	–	49,407
Provision for doubtful accounts (see Note 6)	–	36,405
Others	**2,973**	4,871
	₱727,474	₱605,649

Personnel costs for the years ended December 31, 2011 and 2010 consist of:

	2011	2010
	(In Thousands)	
Salaries and wages	**₱318,260**	₱133,136
LTIP expense (see Note 15)	**79,266**	71,477
ESOP expense (see Note 18)	**23,579**	25,257
Retirement cost (see Note 15)	**21,540**	28,508
Others	**19,858**	9,954
	₱462,503	₱268,332

15. **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 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.

The 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 is 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 ₱92.9 million and ₱83.8 million, of which ₱13.7 million and ₱12.3 million were recognized as additional investments in subsidiaries representing the Company's share in the LTIP cost of the subsidiaries as per LTIP Plan. The balance of ₱79.3 million and ₱71.5 million were presented under "Personnel cost" in the parent company statement of income (see Notes 8 and 14) as at and for the year ended December 31, 2011 and 2010, respectively. As at December 31, 2010, the details of accrued LTIP are as follows:

	2011	2010
	(In Thousands)	
Beginning balance	**₱83,783**	₱–
Current provision	**86,053**	79,791
Interest	**3,525**	1,749
Actuarial loss	**3,335**	2,243
LTIP payable	**₱176,696**	₱83,783

On October 7, 2011, the Company entered into an Investment Management Agreement (IMA) with a certain bank for the opening of an account to fund the LTIP program. The LTIP fund will be expected to continue accumulating for the LTIP target payout, which will only be after the three-years performance cycle or in 2012. The investment portfolio of IMA is limited to the following: securities issued, directly or indirectly, or guaranteed by the Government; and time deposit and money market placements issued by any of the top 10 banks in the Philippines. Initially, the Company earmarked and placed the amount of ₱156.7 million to the trustee bank awaiting finalization of the IMA. The Company is contemplating to change the IMA to an Irrevocable Trust Agreement, the effectivity of which is expected to be in 2012 (see Note 9).

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, the Company regularly monitors compliance with R.A. 7641, otherwise known as "The Retirement Pay Law." As at December 31, 2011, the Company 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. 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 (a) 100.0% fixed income securities; (b) 80.0% for debt and fixed income securities while 20.0% is allotted to equity securities; and (c) 60.0% for debt and fixed income securities while 40.0% is allotted to equity securities.

The Parent Company's trust fund comprises of the following as at December 31, 2011 and 2010:

	2011	2010
	(In Thousands)	
Fund assets	**₱86,213**	₱37,834
Fund liabilities	**(76)**	(20)
Net fund assets	**₱86,137**	₱37,814

The allocations of the fair value of the fund assets for the Parent Company's pension plan as at December 31, 2011 and 2010 are as follows:

	2011			
	Total	**Aggressive**	**Moderate**	**Conservative**
Investments in:				
Government securities	**54.9%**	**44.6%**	**56.0%**	**64.1%**
Unit trust funds	**15.3%**	**29.9%**	**15.9%**	**–**
Bonds	**8.8%**	**4.4%**	**1.7%**	**20.4%**
Stocks	**3.7%**	**3.7%**	**3.6%**	**3.9%**
Cash in banks	**6.1%**	**8.6%**	**6.7%**	**3.1%**
Receivables and others	**11.2%**	**8.8%**	**16.1%**	**8.5%**
	100.0%	**100.0%**	**100.0%**	**100.0%**

	2010			
	Total	Aggressive	Moderate	Conservative
Investments in:				
Government securities	18.0%	6.2%	7.8%	39.9%
Unit trust funds	12.3%	23.6%	13.4%	
Bonds	4.9%	8.4%	5.9%	0.6%
Cash in banks	64.6%	61.7%	72.8%	59.2%
Receivables and others	0.2%	0.1%	0.1%	0.3%
	100.0%	100.0%	100.0%	100.0%

The Company records 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. In 2011 and 2010, the Company recorded retirement expense under this scheme amounting to ₱21.5 million and ₱28.5 million, respectively, which is included in "Personnel costs" under "Operating expenses" account in the parent company statement of income. Unfunded accrued retirement liability under this scheme as at December 31, 2011 and 2010 amounted to ₱0.4 million and ₱6.2 million, respectively (see Note 10).

The Company currently expects to make approximately ₱29.7 million of cash contributions to their pension plan in 2012.

16. **Interest Income, Interest Expense and Others**

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

	2011	2010
	(In Thousands)	
Interest income:		
Notes receivables (see Note 6)	**₱79,167**	₱189,501
Cash and cash equivalents (see Note 5)	**259,415**	93,343
	₱338,582	₱282,844
Interest expense:		
Long-term debt (see Note 11)	**₱636,009**	₱1,037,173
Due to related parties (see Note 12)	**75,765**	223,575
Amortization of discount on convertible bonds (see Note 12)	**50,633**	148,015
Amortization of debt issue cost (see Note 11)	**9,421**	13,754
	₱771,828	₱1,422,517
Others - net:		
Management fee (see Note 12)	**₱18,068**	₱5,431
Loss on conveyance of real estate for sale (see Notes 7 and 12)	**(10,792)**	–
Reversal of excess accruals (see Note 10)	**1,126**	22,200
Foreign exchange gain - net	**153**	15,583
Loss on disposal of property and equipment	**–**	(498)
Others	**119**	–
	₱8,674	₱42,716

17. **Income Taxes**

Current Tax

The provision for current income tax consists of:

	2011	2010
	(In Thousands)	
MCIT	**₱1,176**	₱4,173
Final tax on interest income	**51,883**	18,075
	₱53,059	₱22,248

Deferred Tax

a. No deferred tax liability was recognized as at December 31, 2011. Below are the components of deferred tax liabilities recognized as at December 31, 2010:

	2010
	(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 ₱1,118.8 million and ₱832.0 million, were not recognized as of December 31, 2011 and 2010, 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:

	2011	2010
	(In Thousands)	
NOLCO	**₱3,412,632**	₱2,631,038
MCIT	**5,349**	4,173
Nondeductible expenses	**298,817**	128,378
	₱3,716,798	₱2,763,589

The carryforward benefits of MCIT amounting to ₱5.3 million and ₱4.2 million as at December 31, 2011 and 2010, respectively, can be claimed as tax credit against future income taxes payable as follows:

Year Incurred	Amount	Applied	Expired	Balance	Expiry Year
2011	₱1,176	₱–	₱–	₱1,176	2014
2010	4,173	–	–	4,173	2013
	₱5,349	₱–	₱–	₱5,349	

As at December 31, 2011 and 2010, unrecognized NOLCO amounting to ₱3,737.3 million and ₱2,631.0 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)			
2011	₱–	₱781,594	₱–	₱781,594	2014
2010	1,483,602	–	–	1,483,602	2013
2009	1,147,436	–	–	1,147,436	2012
	₱2,631,038	₱781,594	₱–	₱3,412,632	

The reconciliation between the Company's statutory income tax and the effective income tax on net income (loss) for the years ended December 31, 2011 and 2010 follows:

	2011	2010
	(In Thousands)	
Statutory income tax at 30%	**₱383,849**	₱94,586
Adjustments for:		
Dividend income exempted from final tax	**(729,463)**	(587,994)
Net change in unrecognized deferred tax assets	**294,937**	508,057
Income already subjected to final tax	**(77,825)**	(28,003)
Final tax on interest income	**51,883**	18,075
Nondeductible expenses - net	**114,706**	4,820
Loss on conveyance of real estate for sale	**3,238**	–
MCIT	**1,176**	4,173
Gain on disposal of investments	–	(17,374)
Effective income tax	**₱42,501**	(₱3,660)

18. **Share-based Payment**

On June 24, 2007, the Company's shareholders approved a share option scheme (the Plan) under which its directors may, at their discretion, invite the Company's executives upon the regularization of employment of eligible executives, to take up share option of the Company to obtain an ownership interest in it and for the purpose of long-term employment motivation. The scheme became effective on June 14, 2007 and is valid for 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 options that may be granted under the Plan shall not exceed 5.0% of the issued shares of the Company on June 14, 2007 or 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: (1) the closing price of the shares for one or more board lots of such shares on the PSE on the option offer date; (2) the average closing price of the shares for one or more board lots of such shares on the PSE for the 5 business days on which dealings in the shares are made immediately preceding the option offer date; and (3) the par value of the shares.

First Grant. The Company 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: (1) 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 (2) 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 50.0% of each said tranche will vest on the first 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 years after all of the options shares for such tranche have vested.

The 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 for the year ended December 31, 2010, respectively (see Note 14).

The following table illustrates the number, exercise prices of, and movements in share options in 2011:

	Tranche A		Tranche B	
	Number of Shares	Exercise Price	Number of Shares	Exercise Price
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
Outstanding at December 31, 2010	26,075,000	2.12	29,500,000	2.73
Granted during the year	–	–	–	–
Exercised during the year*	–	–	500,000	–
Forfeited during the year	–	–	–	–
Outstanding at December 31, 2011	26,075,000	₱2.12	29,000,000	₱2.73
Exercisable at December 31, 2010	26,075,000	₱2.12	29,500,000	₱2.73
Exercisable at December 31, 2011	26,075,000	₱2.12	29,000,000	₱2.73

** In 2011 and 2010, ₱0.4 million and ₱13.8 million, respectively, of the total ESOP expense recognized under "Equity Reserves" in the parent company statement of financial position pertaining to the options exercises was transferred to additional paid-in capital.*

For the years ended December 31, 2011 and 2010, the weighted average share price of the Company's common share is ₱3.45 and ₱3.17 per share, respectively. The weighted average remaining contractual life for the share options outstanding as of December 31, 2011 and 2010 is 0.4 year and 1.4 years, respectively.

The fair value of the options granted is estimated on the date of the grant using Black-Scholes-Merton formula, taking into account the terms and conditions upon which the options were granted. The following table lists 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
Call price	₱0.20	₱0.55	₱0.27	₱0.75

** 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 be the actual outcome.*

Second and Third Grants. In consideration of the SEC's current policy to exclude the independent directors from the ESOP grant and pending the Company'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 the ESOP grant, without prejudice to reinstatement, as approved by the SEC on September 20, 2010.

In the modified plan, the Company has allocated and set aside stock options relating to additional 145,000,000 common shares, of which (1) 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 subsidiaries of the Company at the exercise price of ₱2.73 per common share on July 2, 2010 (the "Second Grant") and (2) another 10,000,000 common shares was granted at the exercise price of ₱3.50 on December 21, 2010 to officers of the Company's subsidiary (the "Third Grant A").

On March 8, 2011, 1,000,000 common shares was granted at the exercise price of ₱3.53 to MPIC officer (the "Third Grant B") and on April 14, 2011, another 3,000,000 common shares was granted at the exercise price of ₱ 3.66 to senior management of Maynilad (the "Third Grant C").

The 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 ₱23.6 million and ₱20.8 million for the years ended December 31, 2011 and 2010, respectively (see Note 14).

The ESOP granted to members of management committees of certain MPIC subsidiaries amounting to ₱13.6 million and ₱9.1 million as at December 31, 2011 and 2010, respectively, is presented as additional investment in those subsidiaries (see Note 8).

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

	Tranche A		Tranche B	
	Number of Shares	Exercise Price	Number of Shares	Exercise Price
Outstanding at January 1, 2010	–	₱–	–	₱–
Granted during the year	62,500,000	2.73	31,800,000	2.73
Exercised during the year*	–	–	–	–
Forfeited during the year	–	–	–	–
Outstanding at December 31, 2010	62,500,000	2.73	31,800,000	2.73
Granted during the year	–	–	–	–
Exercised during the year*	–	–	1,560,000	2.73
Forfeited during the year	–	–	–	–
Outstanding at December 31, 2011	62,500,000	₱2.73	30,240,000	₱2.73
Exercisable at December 31, 2010	–	₱–	–	₱–
Exercisable at December 31, 2011	31,250,000	₱2.73	9,540,000	₱2.73

* *In 2011, ₱1.1 million of the total ESOP expense recognized under "Equity reserves" in the parent company statement of financial positions pertaining to the options exercises were transferred to additional paid-in capital.*

The third ESOP grants mostly unvested and unexercisable as of December 31, 2011 and 2010. The weighted average remaining contractual life for the outstanding share options as of December 31, 2011 for the second and third grants is 4.6 years and 5.0 years, respectively.

The fair value of the options granted is estimated on the date of grant using the 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
Call price	₱0.35	₱0.91	₱0.73	₱1.03	₱1.39

** 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 be the actual outcome.*

The Third Grant A - 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	₱3.50	₱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
Call price	₱0.46	₱1.20	₱1.62

** 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 be the actual outcome.*

The Third Grant B - March 8, 2011

	30% Vesting on March 8, 2012	35% Vesting on March 8, 2013	35% Vesting on March 8, 2014
Grant Date		**March 8, 2011**	
Spot price	₱3.53	₱3.53	₱3.53
Exercise price	₱3.53	₱3.53	₱3.53
Risk-free rate	2.56%	4.38%	5.01%
Expected volatility*	39.32%	61.39%	64.42%
Term to vesting (in days)	366	731	1,096
Call price	₱0.58	₱1.28	₱1.62

** 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 be the actual outcome.*

The Third Grant C - April 14, 2011

	50% Vesting on April 14, 2012	50% Vesting on April 14, 2013
Grant date	**April 14, 2011**	
Spot price	₱3.66	₱3.66
Exercise price	₱3.66	₱3.66
Risk-free rate	2.05%	3.83%
Expected volatility*	39.13%	60.76%
Term to vesting (in days)	366	731
Call price	₱0.60	₱1.30

** 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 be the actual outcome.*

The carrying value of the ESOP recognized under "Equity Reserves" in the equity section of the parent company statement of financial positions amounted to ₱107.1 million and ₱66.5 million as of December 31, 2011 and 2010, respectively (see Note 13).

The total ESOP expense for 2011 and 2010 amounted to ₱23.6 million and ₱25.3 million, respectively, included in "Personnel Costs" under "Operating Expenses" account in the parent company statements of income (see Note 14).

19. **Earnings Per Share**

The calculation of earnings per share for the years ended December 31 follows:

		2011	2010
		(In Thousands, Except for Per Share Amounts)	
Net income		**₱1,236,996**	₱318,946
Effect of dividends on preference equity holders of the Parent Company		**(5,000)**	(5,000)
	(a)	**₱1,231,996**	₱313,946
Outstanding common shares at the beginning of the year		**20,155,465**	20,128,155
Effect of issuance of common shares during the year		**2,320,713**	7,130
Weighted average number of common shares for basic earnings per share	(b)	**22,476,178**	20,135,285
Effects of potential dilution from ESOP		**66,065**	28,446
Weighted average number of common shares adjusted for the effects of potential dilution	(c)	**22,542,243**	20,163,731
Basic earnings per share	(a/b)	**₱0.055**	₱0.016
Diluted earnings per share	(a/c)	**₱0.055**	₱0.016

The weighted average number of issued and outstanding shares is derived by multiplying the number of shares outstanding at the beginning of the year, adjusted by the number of shares issued during the year, with a time-weighting factor. The time-weighting factor is the number of days that the common shares are outstanding as a proportion to the total number of days in the year.

In 2011 and 2010, the ESOP is considered in the computation of the diluted earnings and certain grants were considered dilutive. The convertible bonds issued by the Company have antidilutive effect for the years ended December 31, 2011 and 2010.

20. **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, as well as other related party transactions that 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 Company's exposure to foreign currency risk on its financial instruments is not significant. 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. As of December 31, 2011 and 2010, the Company is not subject to interest rate risk as all its borrowings bear fixed interest rates and it has no interest bearing financial instruments that are carried at fair value.

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 as well as 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 position 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 an 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 ₱8,593.5 million and ₱1,619.1 million as of December 31, 2011 and 2010, respectively, which 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 maturity profile of debt maturities;
- Maintaining debt financing plans; and
- Monitoring statement of financial position liquidity ratios against internal and regulatory requirements.

The table below summarizes the maturity profile of the Company's financial assets and financial liabilities as at December 31, 2011 and 2010 based on contractual undiscounted payments.

	2011						
	On Demand	**Within 1 Year**	**1–2 Years**	**2–3 Years**	**3–4 Years**	**More than 4 Years**	**Total**
				(In Thousands)			
Financial Assets							
Cash and cash equivalents*	**₱9,747**	**₱8,583,690**	**₱–**	**₱–**	**₱–**	**₱–**	**₱8,593,437**
Receivables	–	**179,888**	**659,185**	**305,924**	–	–	**1,144,997**
Cash deposits**	**754,748**	–	–	–	–	–	**754,748**
Due from related parties	–	**80,793**	**363,064**	–	–	–	**443,857**
AFS financial assets	–	–	–	–	–	**480,087**	**480,087**
	₱764,495	**₱8,844,371**	**₱1,022,249**	**₱305,924**	**₱–**	**₱480,087**	**₱11,417,126**

* *Excluding cash on hand.*
** *Included under "Other current assets" and "Other noncurrent assets" accounts in the parent company statement of financial position*
*** *Excluding statutory payables.*

	2011						
	On Demand	**Within 1 Year**	**1–2 Years**	**2–3 Years**	**3–4 Years**	**More than 4 Years**	**Total**
				(In Thousands)			
Financial Liabilities							
Accrued expenses and other current liabilities:							
Accrued interest payable	**₱238,337**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱238,337**
Accrued expenses***	**102,719**	**–**	**–**	**–**	**–**	**–**	**102,719**
Accounts payable	**17,107**	**–**	**–**	**–**	**–**	**–**	**17,107**
Other payable	**754,748**	**–**	**–**	**–**	**–**	**–**	**754,748**
Due to related parties	**1,269,019**	**–**	**–**	**–**	**–**	**–**	**1,269,019**
Long-term debt	**–**	**672,683**	**666,460**	**1,132,737**	**1,702,423**	**5,580,657**	**9,754,960**
	₱2,381,930	**₱672,683**	**₱666,460**	**₱1,132,737**	**₱1,702,423**	**₱5,580,657**	**₱12,136,890**

* *Excluding cash on hand.*
** *Included under "Other current assets" and "Other noncurrent assets" accounts in the parent company statement of financial position*
*** *Excluding statutory payables.*

	2010						
	On Demand	Within 1 Year	1–2 Years	2–3 Years	3–4 Years	More than 4 Years	Total
				(In Thousands)			
Financial Assets							
Cash and cash equivalents*	₱20,339	₱ 1,458,513	₱–	₱–	₱–	₱–	₱1,478,852
Receivables	–	106,858	87,500	525,737	–	–	720,095
Due from related parties	–	113,908	–	–	–	–	113,908
AFS financial assets	–	448,087	–	–	–	–	448,087
	₱20,339	₱2,127,366	₱87,500	₱525,737	₱–	₱–	₱2,760,942
Financial Liabilities							
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	–	6,674,250	–	–	–	8,093,784
Long-term debt	–	778,132	770,899	763,666	1,228,933	7,524,610	11,066,240
	₱1,734,098	₱778,132	₱7,445,149	₱763,666	₱1,228,933	₱7,524,610	₱19,474,588

**Excluding cash on hand.*
***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, except for those presented in the following table. 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 after considering the effects of collaterals, credit enhancements and other credit risk mitigation techniques.

2011

	Gross Maximum Exposure (a)	**Fair Value of Collateral or Credit Enhancement (b)**	**Net Exposure (c) = (a) – (b)**	**Financial Effect of Collateral or Credit Enhancement (d) = (a) – (c)**
		(In Thousands)		
Cash and cash equivalents*	**₱8,593,437**	**₱2,033**	**₱8,591,404**	**₱2,033**
Receivables	**1,144,997**	**293,840**	**851,157**	**293,840**
Due from related parties**	**1,315,929**	**116,277**	**1,199,652**	**116,277**
	₱11,054,363	**₱412,150**	**₱10,642,213**	**₱412,150**

2010

	Gross Maximum Exposure (a)	Fair Value of Collateral or Credit Enhancement (b)	Net Exposure (c) = (a) – (b)	Financial Effect of Collateral or Credit Enhancement (d) = (a) – (c)
		(In Thousands)		
Cash and cash equivalents*	₱1,478,852	₱3,409	₱1,475,443	₱3,409
Receivables	720,095	293,840	426,255	293,840
Due from related parties**	1,370,295	116,277	1,254,018	116,277
	₱3,569,242	₱413,526	₱3,155,716	₱413,526

* *Excludes cash on hand amounting to ₱0.04 million and ₱140.2 million as of December 31, 2011 and 2010, respectively.*
** *Includes advances to Beacon Electric and MPC presented under "Investment in subsidiaries and associates and interest in a joint venture" account in parent company statement of financial position.*

The fair value of credit enhancement relating to cash and cash equivalents pertains to insured deposits in banks as prescribed by Philippine Deposit Insurance Corporation. The fair value of collateral covering certain receivables represents first-ranking pledge of Landco common shares in favor of the Company. For due from related parties, credit enhancement represents payable to the same counter-party that the Company is not paying until collection of the receivables.

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

	2011				
	Neither Past Due nor Impaired	**Past Due but not Impaired**			
		<30 Days	**30–120 Days**	**>120 Days**	**Total**
			(In Thousands)		
Loans and receivables:					
Cash and cash equivalents[a]	**₱8,593,437**	**₱–**	**₱–**	**₱–**	**₱8,593,437**
Receivables:					
Notes receivable	**1,032,222**	**–**	**–**	**–**	**1,032,222**
Interest receivable	**79,247**	**–**	**5,635**	**7,653**	**92,535**
Dividend receivable	**–**	**–**	**–**	**–**	**–**

(Forward)

	2011				
	Neither Past Due nor Impaired	**Past Due but not Impaired**			**Total**
		<30 Days	**30–120 Days**	**>120 Days**	
			(In Thousands)		
Accounts receivable	**₱8,659**	**₱–**	**₱–**	**₱–**	**₱8,659**
Advances to employees	**5,967**	**–**	**–**	**–**	**5,967**
Other receivables	**–**	**–**	**–**	**5,614**	**5,614**
Due from related parties[b]	**1,315,929**	**–**	**–**	**–**	**1,315,929**
Cash deposits[c]	**1,143,288**	**–**	**–**	**–**	**1,143,288**
	₱12,178,749	**₱–**	**₱5,635**	**₱13,267**	**₱12,197,651**

[a] *Excluding cash on hand.*
[b] *Includes advances to Beacon Electric and MPC presented under "Investment in subsidiaries and associates and interest in joint ventures" account in parent company statement of financial position.*
[c] *Included under "Other current assets" account in the parent company statement of financial position.*

	2010				
	Neither Past Due nor Impaired	Past Due but not Impaired			Total
		<30 Days	30–120 Days	>120 Days	
			(In Thousands)		
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[b]	1,257,312	60	3,014	109,909	1,370,295
Cash deposits[c]	267,709	–	–	–	267,709
	₱3,699,589	₱144	₱18,058	₱119,160	₱3,836,951

[a] *Excluding cash on hand.*
[b] *Includes advances to Beacon Electric and MPC presented under "Investment in subsidiaries and associates and interest in joint ventures" account in parent company statement of financial position.*
[c] *Included under "Other current assets" account in the parent company statement of financial position.*

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 that 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. If there is no bank deposit rating, those with a 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 relates to those financial assets that 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 relates to financial assets that are collected on their due dates if 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.

	2011			
	High Grade	**Standard Grade**	**Sub-standard Grade**	**Total**
		(In Thousands)		
Loans and receivables:				
Cash and cash equivalents[a]	**₱8,593,437**	**₱–**	**₱–**	**₱8,593,437**
Receivables:				
Notes receivable	**384,315**	–	**647,907**	**1,032,222**
Interest receivable	**16,687**	–	**62,560**	**79,247**
Dividend receivable	–	–	–	–
Accounts receivable	**8,659**	–	–	**8,659**
Advances to employees	**5,967**	–	–	**5,967**
Due from related parties[b]	**1,315,929**	–	–	**1,315,929**
Cash deposits[c]	**1,143,288**	–	–	**1,143,288**
	₱11,468,282	**₱–**	**₱710,467**	**₱12,178,749**

[a] *Excluding cash on hand.*
[b] *Includes advances to Beacon Electric and MPC presented under "Investment in subsidiaries and associates and interest in joint ventures" account in parent company statement of financial position.*
[c] *Included under "Other current assets" account in the parent company statement of financial position.*

	2010			
	High Grade	Standard Grade	Sub-standard Grade	Total
		(In Thousands)		
Loans and receivables:				
Cash and cash equivalents[a]	₱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[b]	1,257,312	–	–	1,257,312
Cash deposits[c]	267,709	–	–	267,709
	₱3,038,080	₱–	₱661,509	₱3,699,589

[a] *Excluding cash on hand.*
[b] *Includes advances to Beacon Electric and MPC presented under "Investment in subsidiaries and associates and interest in joint ventures" account in parent company statement of financial position.*
[c] *Included under "Other current assets" account in the parent company statement of financial position.*

Capital Management

The primary objective of the Company's capital management policies is to ensure that the Company maintains a strong statement of financial position and healthy capital ratios 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 at December 31, 2011, the Company 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 new debt or redeem of existing debt. No changes were made in the objectives, policies or processes during the years ended December 31, 2011 and 2010.

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 2011, the Company's strategy, which was unchanged from 2010, was to maintain a sustainable debt-to-equity ratio. The debt-to-equity ratio on December 31, 2011 and 2010 are as follows:

	2011	2010
	(In Thousands)	
Long-term debt (gross of unamortized debt issue costs)	**₱6,522,534**	₱6,580,613
Equity	**63,600,739**	47,898,537
Debt-to-equity ratio	**1:9.8**	1:7.3

21. **Financial Assets and Financial Liabilities**

Categories of Financial Instruments

Categories of the Company's financial assets and financial liabilities and reconciliations with the amounts in the parent company statement of financial positions as at December 31, 2011 and 2010 are as follows:

	2011				
	Financial Assets			Financial Liabilities	
	FVPL	Loans and Receivables	AFS Financial Assets	Other Financial Liabilities	Total
			(In Thousands)		
ASSETS					
Cash and cash equivalents	**₱–**	**₱8,593,477**	**₱–**	**₱–**	**₱8,593,477**
Receivables - net	**–**	**1,144,997**	**–**	**–**	**1,144,997**
Due from related parties	**–**	**443,857**	**–**	**–**	**443,857**
Other current assets - net	**–**	**986,077**	**–**	**–**	**986,077**
Investments in subsidiaries and associates and interest joint ventures[a]	**–**	**872,072**	**8,010,444**	**–**	**8,882,516**
Other noncurrent assets	**31,713**	**157,211**	**480,087**	**–**	**669,011**
	₱31,713	**₱12,197,691**	**₱8,490,531**	**₱–**	**₱20,719,935**
LIABILITIES					
Accrued expenses and other current liabilities	**₱–**	**₱–**	**₱–**	**₱1,112,911**	**₱1,112,911**
Due to related parties	**–**	**–**	**–**	**1,269,019**	**1,269,019**
Long-term debt	**–**	**–**	**–**	**6,522,534**	**6,522,534**
	₱–	**₱–**	**₱–**	**₱8,904,464**	**₱8,904,464**

[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.*

	2010				
	Financial Assets			Financial Liabilities	
	FVPL	Loans and Receivables	AFS Financial Assets	Other Financial Liabilities	Total
			(In Thousands)		
ASSETS					
Cash and cash equivalents	₱–	₱1,619,074	₱–	₱–	₱1,619,074
Receivables - net	–	720,095	–	–	720,095
Due from related parties	–	113,908	–	–	113,908
Other current assets - net	–	267,709	–	–	267,709
Investments in subsidiaries and associates and interest joint ventures[a]	–	1,256,387	8,010,444	–	9,266,831
Other noncurrent assets	31,713	–	448,087	–	479,800
	₱31,713	₱3,977,173	₱8,458,531	₱–	₱12,467,417
LIABILITIES					
Accrued expenses and other current liabilities	₱–	₱–	₱–	₱314,563	₱314,563
Due to related parties	–	–	–	7,733,675	7,733,675
Long-term debt	–	–	–	6,580,613	6,580,613
	₱–	₱–	₱–	₱14,628,851	₱14,628,851

(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.

Fair Values
The comparison of the carrying values and fair values of all of the Company's financial instruments (those with carrying amounts that are not equal to its fair value) as of December 31, 2011 and 2010 are as follows:

	2011		2010	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
		(In Thousands)		
Financial Assets				
Loans and receivables -				
Receivables	**₱1,144,997**	**₱1,466,486**	₱720,095	₱743,266
AFS financial assets	**480,087**	**480,287**	448,087	448,087
	₱1,625,084	**₱1,946,773**	₱1,168,182	₱1,191,353
Financial Liabilities				
Due to related parties	**₱1,269,019**	**₱1,269,019**	₱7,733,675	₱7,906,124
Long term debt (current and noncurrent)	**6,522,534**	**7,562,744**	6,580,613	7,781,728
	₱7,791,553	**₱8,831,763**	₱14,314,288	₱15,687,852

The fair value of the financial assets and liabilities are determined as 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 instruments for which it is practicable to estimate such value:

Cash and Cash Equivalents, Due from Related Parties, 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.

Receivables
Estimated fair value is based on the discounted value of future cash flows using the prevailing peso interest rates that are specific to the tenor of the instruments' cash flows at the of each reporting period.

Due to Related Parties
In 2011, fair value of due to related parties approximates their carrying amounts due to the short-term maturities of these instruments. Estimated fair value of due from related parties and due to related parties in 2010 is based on the present value of all future cash flows discounted using the prevailing PDST-F rate of interest.

Long-term Debt
Estimated fair value is based on the discounted value of future cash flows using the prevailing interest rates ranging from 2.2% to 5.9% and 1.3% to 6.1% in 2011 and 2010, respectively.

AFS Financial Assets
Unquoted shares classified as AFS financial assets are carried at cost as there are no reliable basis for determining fair value, while quoted shares classified as AFS financial assets are carried at fair value based on their quoted market prices

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 that 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.

Derivative Financial Instruments
As discussed in Note 9, the Company bifurcated the conversion option in its investment in Landco's preferred shares that are classified as a debt 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 of ₱31.7 million to the conversion option. This amount is the residual amount 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%.

After bifurcation at inception, the conversion option is carried at cost in the parent company statement of financial position since the underlying common shares of Landco are unquoted and there is no reliable basis to determine its fair value.

22. **Supplemental Cash Flow Information**

	2011	2010
	(In Thousands)	
Noncash investing and financing activities:		
Conversion of advances from MPHI to equity (see Note 12)	**₱6,729,182**	₱–
Acquisition of investments in BIPI and NSHI (see Notes 7 and 8)	**761,613**	–
Assignment of note receivable from MPC (see Note 6 and 8)	**384,315**	–
Partial settlement of advances to MPC by way of conveyance of certain real estate for sale (see Note 12)	**23,108**	–
Transfer of investment in Meralco to Beacon Electric (see Note 8)	**–**	24,540,310
Subscription of Beacon Electric shares (see Note 8)	**–**	(24,540,310)

23. Reclassification and Aggregation

Certain accounts in the statement of financial position as of December 31, 2010 are aggregated to enhance and improve the presentation taking into account the significance and materiality of these accounts. Certain account was also reclassified to conform to the current year presentation. The reclassification is either only within the same classification or not material to require a third statement of financial position.

	2010 (As previously presented)	Reclassification/ Aggregation	2010 (As reclassified)
		(In Thousands)	
Current Assets			
Cash and cash equivalents	₱1,619,074	₱–	₱1,619,074
Receivables	444,486	–	444,486
Real estate held for sale	59,537	(59,537)	–
Due from related parties	113,908	–	113,908
Available-for-sale financial assets	448,087	(448,087)	–
Other current assets	741,459	507,624	1,249,083
Total current assets	₱3,426,551	₱–	₱3,426,551
Noncurrent Assets			
Receivables	₱275,609	₱–	₱275,609
Investments in and advances to subsidiaries and associates and interest in a joint venture	58,906,249	–	58,906,249
Property and equipment	37,302	(37,302)	–
Derivative assets	31,713	(31,713)	–
Other noncurrent assets	53,858	69,015	122,873
Total noncurrent assets	₱59,304,731	₱–	₱59,304,731
Equity			
Capital stock	₱20,205,465	₱–	₱20,205,465
Additional paid-in capital	27,508,008	(286,122)	27,221,886
Deposit for future stock subscriptions	12,125	–	12,125
Equity reserves	60,957	286,122	347,079
Retained earnings	111,982	–	111,982
Total Equity	₱47,898,537	₱–	₱47,898,537

24. Events after the Reporting Period

Additional Subscription in Beacon Electric Common Shares

On January 20, 2012, MPIC entered into a subscription agreement with Beacon Electric whereby, in addition to its existing 50% common shareholdings, MPIC agreed to subscribe for additional 135.0 million common shares of Beacon Electric at ₱20.0 per share for a total subscription price of ₱2.7 billion. The subscription and the payment of the total subscription price was mainly conditioned upon the due execution and performance by the relevant contracting parties of their respective obligations with respect to the acquisition of additional 30.0 million common shares of Meralco from FPUC, which acquisition was completed on January 31, 2012.

The aforementioned additional subscription in Beacon Electric did not cause MPIC's respective interest in Beacon Electric to change since PCEV, the joint venture partner, also entered into and executed similar subscription agreement with Beacon Electric.

Tender Offer on AHI Shares
On February 27, 2012, the Company completed the acquisition of additional 4.59% interest in AHI bringing MPIC's total interest in AHI to 56.51%. Consequently, MPIC has obtained SEC's approval to launch a tender offer for the 43.5% stake held by AHI's non-controlling investors valued at ₱1.17 billion. MPIC is offering to acquire 842.4 million shares of AHI at ₱1.3941 apiece. The tender offer will run from March 5 to April 19, 2012 and settlement date will start April 26, 2012.

Cash Dividends
On March 1, 2012, the BOD approved the declaration of cash dividends of ₱0.015 per common share in favor of the Parent Company's stockholders of record as of the record date of March 16, 2012, with a payment date of April 16, 2012.

On the same date, the BOD also approved the declaration of cash dividends of 10.0% based on the par value of Class A Preferred Shares or the amount of ₱1.8 million in favor of MPHI, the sole holder of Class A Preferred Shares.