Metro Pacific Investments Corporation

Parent Company Financial Statements
December 31, 2013 and 2012

and

Independent Auditors' Report

Building a better working world

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BOA/PRC Reg. No. 0001,
December 28, 2012, valid until December 31, 2015
SEC Accreditation No. 0012-FR-3 (Group A),
November 15, 2012, valid until November 16, 2015

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, 2013 and 2012, and the parent company statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Parent Company Financial Statements

Management is responsible for the preparation and fair presentation of these parent company financial statements in accordance with Philippine Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of parent company financial statements that are free from material misstatement, whether due to 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, 2013 and 2012, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

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

The supplementary information required under Revenue Regulations 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 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, As Amended (2011). Our opinion on the basic financial statements is not affected by the presentation of the information in a separate schedule.

SYCIP GORRES VELAYO & CO.

Wilson P. Tan

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PTR No.4225223, January 2, 2014, Makati City

March 19, 2014

METRO PACIFIC INVESTMENTS CORPORATION
PARENT COMPANY STATEMENTS OF FINANCIAL POSITION
(Amounts in Thousands)

	December 31		January 1
	2013	2012 (Restated - Note 2)	2012 (Restated - Note 2)
ASSETS			
Current Assets			
Cash and cash equivalents (Notes 5, 20 and 21)	**₱4,529,313**	₱1,255,317	₱8,593,477
Receivables (Notes 6, 20 and 21)	**573,341**	247,231	179,887
Due from related parties (Notes 12, 20 and 21)	**260,249**	86,281	80,793
Other current assets (Note 7)	**290,081**	531,875	1,046,321
Total Current Assets	**5,652,984**	2,120,704	9,900,478
Noncurrent Assets			
Receivables (Notes 6, 20 and 21)	**588,462**	750,131	965,110
Investments and advances (Note 8)	**77,862,958**	73,624,838	60,197,924
Due from related parties (Notes 12, 20 and 21)	**51,474**	53,959	363,064
Other noncurrent assets (Note 9)	**1,456,327**	1,112,826	1,281,715
Total Noncurrent Assets	**79,959,221**	75,541,754	62,807,813
	₱85,612,205	₱77,662,458	₱72,708,291
LIABILITIES AND EQUITY			
Current Liabilities			
Note payable (Notes 8, 11, 20 and 21)	**₱–**	₱4,700,000	₱–
Accrued expenses and other current liabilities (Notes 10, 15, 20 and 21)	**564,841**	1,278,084	1,137,977
Income tax payable (Note 17)	**2,088**	–	–
Due to related parties (Notes 12, 20 and 21)	**361,654**	595,659	1,269,019
Current portion of long-term debt (Notes 11, 20 and 21)	**64,800**	63,235	57,277
Total Current Liabilities	**993,383**	6,636,978	2,464,273
Noncurrent Liabilities			
Long-term debt - net of current portion (Notes 11, 20 and 21)	**6,382,800**	6,446,250	6,465,257
Deferred tax liability (Note 17)	**24,798**	695	–
Long-term incentive plan payable (Note 15)	**147,728**	–	176,696
Total Noncurrent Liabilities	**6,555,326**	6,446,945	6,641,953
Total Liabilities	**7,548,709**	13,083,923	9,106,226
Equity (Note 13)			
Capital stock	**26,075,974**	24,663,824	24,643,294
Additional paid-in capital	**42,933,309**	38,097,337	38,056,022
Equity reserves	**80,516**	108,063	107,090
Other comprehensive income reserve	**200,232**	6,615	(7)
Retained earnings	**8,773,465**	1,702,696	795,666
Total Equity	**78,063,496**	64,578,535	63,602,065
	₱85,612,205	₱77,662,458	₱72,708,291

See accompanying Notes to Parent Company Financial Statements.

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

	Years Ended December 31	
	2013	2012 (Restated - Note 2)
REVENUES		
Dividend income (Note 8)	**₱9,554,004**	₱3,205,939
Interest income (Note 16)	**211,375**	316,273
	9,765,379	3,522,212
OPERATING EXPENSES (Note 14)	**(1,237,037)**	(995,917)
INTEREST EXPENSE (Notes 11 and 16)	**(606,838)**	(631,745)
OTHER INCOME (EXPENSES) - Net (Note 16)	**91,397**	(274,891)
INCOME BEFORE INCOME TAX	**8,012,901**	1,619,659
PROVISION FOR CURRENT INCOME TAX (Note 17)	**26,896**	44,197
NET INCOME	**7,986,005**	1,575,462
OTHER COMPREHENSIVE INCOME		
Items that will not be reclassified subsequently to profit and loss-		
Actuarial gains/(losses) on defined benefit plans (Note 15)	**(3,603)**	2,318
Income tax effect (Note 17)	**696**	(696)
	(2,907)	1,622
Items that may be reclassified subsequently to profit and loss-		
Change in fair value of available-for-sale financial assets (Note 9)	**221,322**	5,000
Income tax effect (Note 17)	**(24,798)**	–
	196,524	5,000
	193,617	6,622
TOTAL COMPREHENSIVE INCOME	**₱8,179,622**	₱1,582,084
EARNINGS PER SHARE (Note 19)		
Basic Earnings Per Common Share	**₱0.308**	₱0.064
Diluted Earnings Per Common Share	**₱0.307**	₱0.064

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, 2013 and 2012

(Amounts in Thousands)

				Other Comprehensive Income Reserve				
	Capital Stock (Note 13)	Additional Paid-in Capital (Note 13)	Equity Reserves from ESOP (Note 13)	Change in Fair Value of Available-for-sale Financial Assets (Note 9)	Actuarial Gain /(Loss) (Notes 2 and 15)	Total	Retained Earnings (Notes 2 and 13)	Total
At January 1, 2013	**₱24,663,824**	**₱38,097,337**	**₱108,063**	**₱5,000**	**₱–**	**₱5,000**	**₱1,702,698**	**₱64,576,922**
Effect of adoption of PAS19R (Note 2)	–	–	–	–	**1,615**	**1,615**	**(2)**	**1,613**
At January 1, 2013, as restated	**24,663,824**	**38,097,337**	**108,063**	**5,000**	**1,615**	**6,615**	**1,702,696**	**64,578,535**
Total comprehensive income for the year:								
Net income	–	–	–	–	–	–	**7,986,005**	**7,986,005**
Other comprehensive income	–	–	–	**196,524**	**(2,907)**	**193,617**	–	**193,617**
Equity raising	**1,330,000**	**4,788,000**	–	–	–	–	–	**6,118,000**
Executive Stock Option Plan (ESOP) (Note 18):								
Exercise of stock option	**82,150**	**188,269**	**(45,753)**	–	–	–	–	**224,666**
Cost of ESOP	–	–	**18,206**	–	–	–	–	**18,206**
Transaction costs	–	**(140,297)**	–	–	–	–	–	**(140,297)**
Cash dividends declared (Note 13)	–	–	–	–	–	–	**(915,236)**	**(915,236)**
At December 31, 2013	**₱26,075,974**	**₱42,933,309**	**₱80,516**	**₱201,524**	**(₱1,292)**	**₱200,232**	**₱8,773,465**	**₱78,063,496**
At January 1, 2012	₱24,643,294	₱38,056,022	₱107,090	₱–	₱–	₱–	₱795,667	₱63,602,073
Effect of adoption of PAS19R (Note 2)	–	–	–	–	(7)	(7)	(1)	(8)
At January 1, 2012, as restated	24,643,294	38,056,022	107,090	–	(7)	(7)	795,666	63,602,065
Total comprehensive income for the year:								
Net income	–	–	–	–	–	–	1,575,462	1,575,462
Other comprehensive income	–	–	–	5,000	1,622	6,622		6,622
Executive Stock Option Plan (ESOP) (Note 18):								
Exercise of stock option	20,530	41,418	(12,424)	–	–	–	–	49,524
Cost of ESOP	–	–	13,397	–	–	–	–	13,397
Transaction costs	–	(103)	–	–	–	–	–	(103)
Cash dividends declared (Note 13)	–	–	–	–	–	–	(668,432)	(668,432)
At December 31, 2012, as restated	₱24,663,824	₱38,097,337	₱108,063	₱5,000	₱1,615	₱6,615	₱1,702,696	₱64,578,535

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	
	2013	2012 (Restated - Note 2)
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱8,012,901**	₱1,619,659
Adjustments for:		
Dividend income (Note 8)	**(9,554,004)**	(3,205,939)
Interest expense (Note 16)	**606,838**	631,745
Interest income (Note 16)	**(211,375)**	(316,273)
Long Term Incentive Plan (LTIP) expense (Note 14)	**178,498**	120,167
Refinancing cost (Note 16)	**66,103**	331,066
Depreciation and amortization (Notes 9 and 14)	**43,887**	37,484
Pension expense	**21,196**	–
Reversal of excess accrual (Note 16)	**(15,522)**	(25,794)
Foreign exchange gain - net (Note 16)	**(10,606)**	(11,725)
Provision for ESOP (Notes 14 and 18)	**12,834**	2,338
Gain on sale of available-for-sale (AFS) financial assets (Note 7)	**(1,254)**	–
Adjustment to amortized cost due to change in expected cash flows (Note 16)	–	44,228
Gain on sale of property and equipment (Note 9)	–	(22)
Operating loss before working capital changes	**(850,504)**	(773,066)
Decrease (increase) in:		
Receivables	**7,956**	(26,796)
Due from related parties	**(171,483)**	297,701
Available-for-sale financial assets	**(24,798)**	–
Other current assets	**228,502**	(75,463)
Increase (decrease) in:		
Due to related parties	**(1,250)**	–
Accrued expenses and other current liabilities	**(7,736)**	262,696
Accrued LTIP	**(330,609)**	–
Net cash used in operations	**(1,149,922)**	(314,928)
Dividends received	**9,241,497**	2,940,252
Interest paid	**(650,985)**	(621,493)
Interest received	**119,901**	235,883
Income tax paid	**(21,129)**	(40,740)
Net cash from operating activities	**7,539,362**	2,198,974
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of/additions to:		
Investments and advances (Note 8)	**(4,243,417)**	(13,796,088)
Property and equipment (Note 9)	**(35,964)**	(11,608)
Software costs (Note 9)	**(3,763)**	(3,068)
Issuance of notes receivable (Note 6)	–	(600,000)

(Forward)

	Years Ended December 31	
	2013	2012 (Restated - Note 2)
Collections/proceeds from sale of:		
AFS financial assets	**₱10,868**	₱–
Notes receivable (Note 6)	–	884,315
Property and equipment	**2,355**	–
Interest received	–	11,056
Increase in other noncurrent assets	**(128,693)**	–
Net cash used in investing activities	**(4,398,614)**	(13,515,393)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from:		
Issuance of shares (Notes 13, 18 and 22)	**6,118,000**	–
Subscription arising from exercise of stock option (Note 13)	**224,666**	49,524
Note payable (Notes 8 and 11)	–	4,700,000
Payments of/for:		
Note payable (Note 11)	**(4,700,000)**	–
Refinancing cost	**(397,169)**	–
Transaction costs related to issuance of shares (Note 13)	**(140,297)**	(103)
Long-term debt (Note 11)	**(66,150)**	(67,500)
Due to related parties	**(1,171)**	(35,120)
Dividends paid (Note 13)	**(915,236)**	(668,432)
Net cash from financing activities	**122,643**	3,978,369
EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**10,605**	(110)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**3,273,996**	(7,338,160)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**1,255,317**	8,593,477
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 5)	**₱4,529,313**	₱1,255,317

See accompanying Notes to Parent Company Financial Statements.

METRO PACIFIC INVESTMENTS CORPORATION
NOTES TO PARENT COMPANY FINANCIAL STATEMENTS

1. Corporate Information

Metro Pacific Investments Corporation (the Company or MPIC) was incorporated and registered with the Philippine 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). On August 6, 2012, MPIC launched Sponsored Level 1 American Depositary Receipt (ADR) Program with Deutsche Bank as the appointed depositary bank in line with the Company's thrust to widen the availability of its shares to investors in the United States.

MPIC is 55.8% and 59.0% owned by Metro Pacific Holdings, Inc. (MPHI) as at December 31, 2013 and 2012, respectively. The reduction of MPHI's ownership in MPIC resulted from an equity and fund raising exercise on January 22, 2013, in which MPHI did not subscribe for additional shares (see Note 13). MPHI is a Philippine corporation whose stockholders are Enterprise Investment Holdings, Inc. (EIH) (60.0% interest), Intalink B.V. (26.7% interest) and First Pacific International Limited (FPIL) (13.3% interest). First Pacific Company Limited (FPC), a company incorporated in Bermuda and listed in Hong Kong, through its subsidiaries, Intalink B.V. and FPIL, holds 40% equity interest in EIH and investment financing which under Hong Kong Generally Accepted Accounting Principles require FPC to account for the results and assets and liabilities of EIH and its subsidiaries as part of FPC group 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, 2013 and 2012 were approved and authorized for issuance by the Board of Directors (BOD) on March 19, 2014.

2. Summary of Significant Accounting Policies

<u>Basis of Preparation</u>
The separate or parent company financial statements are prepared on a historical cost basis, except for derivatives 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 thousand peso (₱000) except when otherwise indicated. The parent company financial statements are prepared for submission to the Bureau of Internal Revenue (BIR) and the Philippine Securities and Exchange Commission (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.

The parent financial statements provide comparative information with respect to the previous period. In addition, the Company presents an additional statement of financial position at the beginning of the earliest period presented when there is a retrospective application of an accounting policy, a retrospective restatement, or a reclassification of items in financial statements. An additional statement of financial position as at January 1, 2012 is presented in these separate financial statements due to retrospective application of Philippine Accounting Standard (PAS) 19, *Employee Benefits (Revised)* (see Note 2 – Changes in Accounting Policies).

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 new PFRS and Philippine interpretation effective January 1, 2013.

Voluntary changes in accounting policies

- Presentation of items of income and expense — Prior to 2013, the Company presented items of income and expense in two separate statements: (1) the parent company statement of income; and (2) the parent company statement of comprehensive income beginning with net income and followed by components of OCI. Beginning 2013, the Company changed its presentation of items of income and expenses to a single statement of profit or loss and OCI referred to as the parent company statement of comprehensive income. Such simplified format aims to assist users in an enhanced understanding of the financial performance achieved by the Company. The change in presentation is restrospectively applied to 2012.

Adoption of new and amended standards and interpretations

- PAS 1, *Presentation of Items of Other Comprehensive Income (OCI) – Amendments to PAS 1* — The amendments to PAS 1 introduce a grouping of items presented in OCI. Items that could be reclassified (or recycled) to profit or loss at a future point in time (e.g., net gain on hedge of net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) now have to be presented separately from items that will never be reclassified (e.g., actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendments affected presentation only and had no impact on the Company's financial position or performance.

- PAS 1, *Clarification of the requirement for comparative information (Amendment)* — The amendment to PAS 1 clarifies the difference between voluntary additional comparative information and the minimum required comparative information. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The amendment clarifies that the opening statement of financial position (as at January 1, 2012 in the case of the Company) presented as a result of retrospective restatement or reclassification of items in financial statements does not have to be accompanied by comparative information in the related notes. As a result, the Company has not included comparative information in respect of the opening statement of financial position as at January 1, 2012. The amendment affects presentation only and had no impact on the Company's financial position or performance.

- PAS 19, *Employee Benefits* (Revised) (PAS 19R) — PAS 19R includes a number of amendments to the accounting for defined benefit plans, including actuarial gains and losses that are now recognized in OCI and permanently excluded from profit or loss; expected returns on plan assets that are no longer recognized in profit or loss, instead, there is a requirement to recognize interest on the net defined benefit liability (asset) in profit or loss, calculated using the discount rate used to measure the defined benefit obligation, and; unvested past service costs are now recognized in profit or loss at the earlier of when the amendment occurs or when the related restructuring or termination costs are recognized. Other amendments include new disclosures, such as, quantitative sensitivity disclosures.

The Company also concurrently adopted Philippine Interpretation Committee (PIC) Question and Answer (Q&A) No. 2013-03, *Accounting for Employee Benefits under a Defined Contribution Plan subject to the Requirements of Republic Act (RA) 7641, The Philippine Retirement Law.* Under this Q&A, the benefits mandated under RA 7641 are considered as a minimum benefit guarantee for qualified private sector employees in the Philippines. Hence, for an entity that provides a defined contribution plan as its only post-employment benefit plan, its obligation for post-employment benefits is not limited to the amount it agrees to contribute to the fund. Thus, the Company's contributory retirement plan is now accounted for as a defined benefit plan.

The Company applied PAS19R and PIC Q&A 2013-03 restrospectively in the current period in accordance with the standard's transitional provisions with the permitted exception of non-disclosure of the sensitivity information for the defined benefit obligation for comparative period December 31, 2012. The opening statement of financial position as at January 1, 2012 and the comparative figures have been accordingly restated.

Impact on the parent financial statements are as follows:

	December 31, 2012	January 1, 2012
	(In Thousands)	
Increase (decrease) in statements of financial position:		
Pension asset	₱2,309	₱–
Accrued retirement cost	(8)	8
Deferred tax liabilities	695	–
Equity:		
Retained earnings	(2)	(1)
Other comprehensive income (loss) reserve	1,615	(7)

	2012
	(In Thousands)
Increase (decrease) in statement of comprehensive income:	
Retirement expense	₱1
Net income	(1)
Other comprehensive income	1,622
Total comprehensive income	1,621

The adoption did not have impact on the statement of cash flows.

- PFRS 13, *Fair Value Measurement* — 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. PFRS 13 defines fair value as an exit price. As a result of the guidance in PFRS 13, the Company reassessed its policies for measuring fair values, in particular, its valuation inputs such as non-performance risk for fair value measurement of liabilities. PFRS 13 also requires additional disclosures. Application of PFRS 13 has not materially impacted the fair value measurements of the Company. Additional disclosures where required, are provided in the individual notes relating to the assets and liabilities whose fair values were determined. Fair value hierarchy is provided in Note 21.

- Amendments to PAS 36, *Recoverable Amount Disclosures for Non-Financial Assets* — These amendments remove the unintended consequences of PFRS 13 on the disclosures required under PAS 36. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash generating units (CGUs) for which impairment loss has been recognized or reversed during the period. These amendments are effective retrospectively for annual periods beginning on or after January 1, 2014 with earlier application permitted, provided PFRS 13 is also applied. The Company has early adopted these amendments to PAS 36 in the current period since the amended/additional disclosures provide useful information. Accordingly, these amendments have been considered while making disclosures for impairment of non-financial assets. These amendments would continue to be considered for future disclosures.

The following standards were also adopted but did not have any impact on the Company's parent financial statements:

- PAS 12, *Income Taxes* – Deferred Tax: Recovery of Underlying Assets (Amendments) — This clarifies the determination of deferred tax on investment property measured at fair value. The amendments introduce a rebuttable presumption that the carrying amount of investment property measured using the fair value model in PAS 40, *Investment Property*, will be recovered through sale and, accordingly, requires that any related deferred tax should be measured on a 'sale' basis. The presumption is rebutted if the investment property is depreciable and it is held within a business model whose objective is to consume substantially all of the economic benefits in the investment property over time ('use' basis), rather than through sale. Furthermore, the amendments introduce the requirement that deferred tax on non-depreciable assets measured using the revaluation model in PAS 16, *Property, Plant and Equipment*, always be measured on a sale basis of the asset.

- PAS 27, *Separate Financial Statements* — As a consequence of the new PFRS 10, and PFRS 12, what remains of PAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements.

- PAS 28, *Investments in Associates and Joint Ventures* — As a consequence of the new PFRS 11, 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 has no impact on the parent company financial statements as it currently accounts for its investments in associates and joint ventures using the cost accounting method in accordance with PAS 27.

- PFRS 1, *First-time Adoption of International Financial Reporting Standards* – Government Loans Amendments to PFRS 1.

- PFRS 7, *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities* (Amendments) — 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, certain minimum quantitative information. This is presented separately for financial assets and financial liabilities recognized at the end of the reporting period. As the Company is not setting off financial instruments in accordance with PAS 32 and does not have relevant offsetting arrangements, the amendment does not have an impact on the Company.

- PFRS 10, *Consolidated Financial Statements* — 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 reassessed its portfolio of investments under PFRS 10 and concluded that it has properly identified those investees that it controls and has no control. Adoption of PFRS 10 also did not result in the creation of a new operating segment.

- PFRS 12, *Disclosure of Interest in Other Entities* — PFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The requirements in PFRS 12 are more comprehensive than the previously existing disclosure requirements for subsidiaries (e.g., where a subsidiary is controlled with less than a majority of voting rights).

- PFRS 11, *Joint Arrangements* — PFRS 11 replaces PAS 31, *Interests in Joint Ventures* and SIC-13, *Jointly-controlled Entities – Non-monetary Contributions by Venturers*. PFRS 11 removed 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.

- Philippine Interpretation IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*

- Annual Improvements to PFRSs (2009-2011 cycle):
  a. PFRS 1 – *Borrowing Costs*
  b. PAS 16 – *Classification of servicing equipment*
  c. PAS 32 – *Tax effects of distributions to holders of equity instruments*
  d. PAS 34 – *Interim financial reporting and segment information for total assets and liabilities*

<u>The principal accounting and financial reporting policies adopted in preparing the Company's parent company financial statements are as follows:</u>

<u>Current Versus Non-current Classification</u>
The Company presents assets and liabilities in the parent company statement of financial position based on current/non-current classification. An asset as current when it is:

- Expected to be realized or intended to be sold or consumed in the normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realized within twelve months after the reporting period, or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current. A liability is current when:

- It is expected to be settled in normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within twelve months after the reporting period, or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Company classifies all other liabilities as non-current. Deferred tax assets and liabilities are classified as non-current assets and liabilities, respectively.

Fair Value Measurement
The Company measures derivatives at fair value at each reporting date and, for the purposes of impairment testing, uses fair value less costs of disposal to determine the recoverable amount of some of its non-financial assets. Also, fair values of financial instruments measured at amortized cost are disclosed in Note 21.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The fair value for financial instruments traded in active markets at the reporting date is based on their quoted price or binding dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. Securities defined in these accounts as 'listed' are traded in an active market. Where the Company has financial assets and financial liabilities with offsetting positions in market risks or counterparty credit risk, it has elected to use the measurement exception to measure the fair value of its net risk exposure by applying the bid or ask price to the net open position as appropriate. For all other financial instruments not traded in an active market, the fair value is determined by using valuation techniques deemed to be appropriate in the circumstances. Valuation techniques include the market approach (i.e., using recent arm's length market transactions adjusted as necessary and reference to the current market value of another instrument that is substantially the same) and the income approach (i.e. discounted cash flow analysis and option pricing models making as much use of available an supportable market data as possible).

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the parent company financial statements are categorized within the fair value hierarchy, described, as follows, based on the lowest-level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest-level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest-level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the parent company financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by reassessing categorization (based on the lowest-level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The Company determines the policies and procedures for both recurring fair value measurement, such as derivatives, and non-recurring measurement, such as impairment tests. At each reporting date, the finance team, analyzes the movements in the values of assets and liabilities which are required to be re-measured or reassessed as per the Company's accounting policies. For this analysis, the finance team verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts, counterparty assessment and other relevant documents.

The finance team also compares the changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable. On an interim basis, the finance team presents the valuation results to the Company's top management for review. This includes a discussion of the major assumptions used in the valuations.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities based on the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

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.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividend, gains and losses relating to a financial liability or a component that is a financial liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity, net of related income tax benefits.

The Company has no HTM investments and financial liabilities at FVPL as at December 31, 2013 and 2012.

'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 comprehensive 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 comprehensive 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.

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. Financial assets and liabilities classified as at FPVL are carried at fair value in the parent company statement of financial position, with any gains or losses being recognized in the profit or loss. 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 comprehensive income when the right to 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 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.

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 comprehensive income, except when the derivative is designated in an effective hedging relationship. In that case, the fair value change is either reported in the parent company statement comprehensive of income with the corresponding adjustment from the hedged transaction (fair value hedge) or deferred in equity (cash flow hedge) as other comprehensive income.

The Company's financial asset at FVPL as at December 31, 2013 and 2012 consists of bifurcated derivatives only (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 any impairment. The amortization is included as part of interest income in the parent company statement of comprehensive income. Losses arising from impairment are recognized in the parent company statement of comprehensive 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 due from related parties (see Notes 5, 6, 7, 8 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 comprehensive 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 debt 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 comprehensive income when the right of payment has been established. AFS equity financial assets that are unquoted are carried at cost less any impairment in value.

As at December 31, 2013 and 2012, this category includes investments in unquoted shares of Landco Pacific Corporation (Landco) and NE Pacific Shopping Center Corporation (NEPSCC), golf club share in Manila Polo Club, PLDT common shares and investment in preferred shares of Beacon Electric Asset Holdings, Inc. (Beacon Electric) (see Notes 7, 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 comprehensive income.

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

All of the Company's financial liabilities are classified as other financial liabilities which include loans and borrowings (see Notes 10, 11, 12, 20 and 21).

All loans and borrowings are initially recognized at fair value of the consideration received less directly attributable transaction costs (referred to as "debt issue costs"). Debt issue costs are amortized over the life of the debt instrument using the effective interest method. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in profit or loss when the liabilities are derecognized, as well as through the amortization process. This category generally includes short-term and long-term debt.

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 comprehensive 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.

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

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

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

- If the Company holds a derivative for trading purposes, irrespective of the timing of future cash flows, it is classified as current.

- Where the Company will holds a derivative as an economic hedge (and does not apply hedge accounting), for period beyond 12 months after the end of reporting period, the derivative is classified as noncurrent (or separated into current and noncurrent portions) consistent with the classification of the underlying item.

- Embedded derivatives that are not closely related to the host contract are classified consistent with the cash flows of the host contract.

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

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. 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.

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.

Impairment of Financial Assets
The Company assesses at each end of reporting period whether a financial asset or group of financial assets is impaired. If any such evidence exists, the Company applies the relevant impairment policies by measurement type of financial asset to determine the amount of any impairment loss. 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 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 comprehensive 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 comprehensive 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 comprehensive 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 comprehensive 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 comprehensive 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 comprehensive income is removed from other comprehensive income and recognized in the parent company statement of comprehensive income. Impairment losses on equity investments are not reversed through the parent company statement of comprehensive 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; or
- 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 comprehensive income.

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.

Real Estate for Sale

Real estate for sale, which is included as part of "Other current assets" account in the parent company statement of financial position, 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 a joint venture are accounted for at cost. 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 repairs are 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 comprehensive 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 (see Note 9). The carrying cost is reviewed for impairment whenever there is an indication that software cost may be impaired.

Impairment of Nonfinancial Assets
The Company assesses at each end of reporting period whether there is an indication that the Company's investments in subsidiaries and associates and interest in 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 (VIU) 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 VIU, 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 comprehensive 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 comprehensive 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.

Equity
Common Stocks. Common stocks 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.

Preferred Shares. 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 BOD.

Preferred share 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 comprehensive income as accrued.

Retained Earnings. Retained earnings represent accumulated earnings net of cumulative dividends declared, adjusted for the effects of equity restructuring.

Cash Dividend. The Company recognizes a liability to distribute cash to equity holders of the Parent Company when the distribution is authorized and the distribution is no longer at the discretion of the Company. As per the corporate laws in the Philippines, a distribution is authorized when it is approved by the Board of Directors. A corresponding amount is recognized directly in equity.

Equity Reserves. 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).

Other Comprehensive Income Reserve. OCI reserve comprises items of income and expenses that are recognized directly in equity. Certain OCI items are to be reclassified to profit and loss in subsequent periods.

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 comprehensive 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.

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. Revenue is recognized when the right to receive payment is established which is upon the declaration date.

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

Rental Income. Revenue from rent is recognized on a straight-line basis over the terms of the lease (included as part of "Other income (expense) - net" account in the parent company statement of comprehensive income).

Management Fees. Fees are recognized when services are rendered (included as part of "Other income" account in the parent company statement of comprehensive income).

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

Expenses Recognition
Expenses are recognized in the parent company statement of comprehensive income when a decrease in future economic benefit related to a decrease of an asset or an increase of a liability has arisen that can be measured reliably. Expenses are recognized in the parent company statement of comprehensive income on the basis of systematic and rational allocation procedures when economic benefits are expected to arise over several accounting periods and the association with income can only be broadly or indirectly determined; or immediately when expenditure produces no future economic benefits or when, and to the extent that, future economic benefits do not qualify, cease to qualify, for recognition in the parent company statement of financial position as an asset.

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

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

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

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

Operating lease payments, net of aggregate benefit of lease incentives, are recognized as expense in the parent company statement of comprehensive income on a straight-line basis over the lease term.

Borrowing Costs

Borrowing costs are capitalized if they are directly attributable to the acquisition, construction or production of a qualifying asset. To the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalization on that asset shall be determined as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings. To the extent that funds are borrowed generally, the amount of borrowing costs eligible for capitalization shall be determined by applying a capitalization rate to the expenditures on that asset. The capitalization rate shall be the weighted average of the borrowing costs applicable to the borrowings of the Company that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs capitalized during a period shall not exceed the amount of borrowing costs incurred during that period.

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

All other borrowing costs are expensed as incurred.

Retirement Benefits

The Company maintains a defined contribution plan that covers all regular full-time employees. Under the defined contribution plan, fixed contributions by the employer are based on the employees' monthly salaries. However, the Company, as an entity operating in the Philippines, is covered under Republic Act (RA) No. 7641, *The Philippine Retirement Law*, which provides for qualified employees a defined benefit minimum guarantee. The defined benefit minimum guarantee is equivalent to a certain percentage of the monthly salary payable to an employee at normal retirement age with the required credited years of service based on the provisions of RA 7641.

Accordingly, the Company accounts for the retirement obligation under the higher of the defined benefit obligation relating to the minimum guarantee and the obligation arising from the defined contribution plan.

For the defined benefit minimum guarantee plan, the liability is determined based on the present value of the excess of the projected defined benefit obligation over the projected defined contribution plan obligation at the end of the reporting period. The defined benefit obligation is calculated annually by a qualified independent actuary using the projected unit credit method. The Company determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to the defined benefit plan are recognized in profit or loss.

The defined contribution liability, on the other hand, is measured at the fair value of the defined contribution assets upon which the defined contribution benefits depend, with an adjustment for margin on asset returns, if any, where this is reflected in the defined contribution benefits.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income. These remeasurements are not reclassified to profit or loss in subsequent periods.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in profit or loss. The Company recognizes gains or losses on the settlement of a defined benefit plan when the settlement occurs.

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 equity-settled transactions is recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ("vesting date"). The cumulative 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 at that date of the number of awards that will ultimately vest. The parent company statement of comprehensive 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, 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.

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

Long-term Employee Benefits

The Company's Long-Term Incentives 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 profit or loss.

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 translated at the functional currency rate of exchange ruling at the end of reporting period. All differences are credited or charged to operations.

Income Taxes

Current Tax. Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the tax authority. The tax rates and tax laws used to compute the amount are those that are enacted or 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 profit or loss. 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; and (b) in respect of taxable temporary differences associated with investments in subsidiaries and associates and interest in joint a venture, 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; and (b) in respect of deductible temporary differences associated with investments in subsidiaries and associates and interest in a joint venture, 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 reassessed 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 tax 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.

Earnings Per Share

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

Diluted earnings per share attributable to owners of the Company is calculated in the same manner assuming that, the weighted average number of common shares outstanding is adjusted for potential common shares from the assumed exercise of convertible stock options and stock warrants, and issuance of common shares representing deposit for future stock subscription. Outstanding convertible stock options and stock warrants will have a dilutive effect only when the average market price of the underlying common shares during the year exceeds the exercise price of the option. Where the outstanding convertible stock options and stock warrants have no dilutive effect, diluted earnings per share is the same as basic earnings per share attributable to owners of the Company.

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.

Investment in Beacon Electric. The Company has investments in Beacon Electric's common shares and preferred shares and made the following judgments with respect to these investments:

- *Investments in Beacon Electric's common shares.* For all joint arrangements structured in separate vehicles, the Company must assess the substance of the joint arrangement in determining whether it is classified as a joint venture or joint operation. This assessment requires the Company to consider whether it has rights to the joint arrangement's net assets (in which case it is classified as a joint venture), or rights to and obligations for specific assets, liabilities, expenses, and revenues (in which case it is classified as a joint operation). Factors the Company considers include: structure, legal form, contractual agreement, and other facts and circumstances. Upon consideration of these factors, the Company has determined that its joint arrangement, structured through Beacon Electric as a separate vehicle, gives it rights to the net assets of Beacon Electric, and therefore classified its investment in Beacon Electric's common shares, as a joint venture. The Company has 50% ownership interest in Beacon Electric through the common shares. The other 50% is held by PLDT Communications and Energy Ventures, Inc. (PCEV).

- *Investment in Beacon Electric's preferred shares.* In determining the appropriate accounting policy for the Company's investment in financial instruments, factors that the Company consider included the following: contractual characteristics of the financial instrument; the purpose for which the instrument is held, for example trading, long-term investment or hedging; and the accounting policy choice of the reporting entity. In applying these, the Company has made a judgment that PAS 39 is the appropriate accounting for its investment in preferred shares of Beacon Electric because: the preferred shares are non-voting and as such, would not provide the Company with control, joint control or significant influence over Beacon; the Company intends to hold the investment indefinitely; and the Company may decide to sell the instruments anytime at its discretion.

- *Investment in Meralco through Beacon Electric.* Beacon Electric has 49.96% and 48.33% interest in Meralco as at December 31, 2013 and 2012, respectively. In applying PFRS 10, the Company has made a judgment that the decision making power of Beacon Electric over the Meralco shares is effectively delegated to the shareholders, PCEV and MPIC, and that Beacon Electric does not exercise any discretion over the vote to be taken in respect of the Meralco shares but is obligated to vote the Meralco shares strictly in accordance with the instructions of the two shareholders.

The carrying value of the investment in common shares of Beacon Electric as at December 31, 2013 and 2012 amounted to ₱25,829.9 million (see Note 8). The carrying value of the investment in preferred shares of Beacon Electric as at December 31, 2013 and 2012 amounted to ₱11,573.2 million (see Note 8).

Power to exercise significant influence. Where the Company holds less than 20% of voting rights in an investment but the Company has the power to exercise significant influence, such an investment is treated as an associate. In the opposite situation, where the Company holds over 20% of voting rights (but not over 50%) and the Company does not exercise significant influence, the investment is treated as an AFS investment. However, for the following entities, the Company applied the following judgment to determine proper investment classification:

- *Landco Pacific Corporation (Landco) and NE Pacific Shopping Center Corporation (NEPSCC).* Despite the Company having representation in the board of directors, interests in these entities are classified as AFS financial assets consistent with management intention to sell these investments in line with strategic business review and decision to focus on infrastructure since 2008 (see Note 9).

- *Pacific Global One Aviation Company, Inc. (PGOACI).* Despite having representation in the board of directors, the interest in this entity is classified as AFS financial asset because management and operations are accorded to the other incorporators. Interest in this entity is solely to have ready access to aircraft transportation services which is necessary for aerial surveys and other related emergencies and uses (see Note 9).

Operating Leases. The Company has entered into various lease agreements as a lessor and as a lessee. The Company has determined that the significant risks and rewards are retained by the lessor since the lease term is generally less than the economic life of the asset and there is no transfer of ownership of the asset to the Company or option to purchase the asset by the end of the lease term, thus accounts for these leases as operating lease.

Rent income, included in "Other income" account in the parent company statements of comprehensive income, amounted to ₱0.1 million for the years ended December 31, 2013 and 2012 (see Note 16).

Rent expense, included in "Operating expenses" account in the parent company statements of comprehensive income, amounted to ₱10.2 million and ₱6.6 million for the years ended December 31, 2013 and 2012, 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 persons that initiated the transactions. 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 comprehensive income or parent company statement of changes in equity.

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 for doubtful accounts. 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. If no impairment loss is determined 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 and 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 ₱1,161.8 million and ₱997.4 million as at December 31, 2013 and 2012, respectively. Allowance for doubtful accounts amounted to ₱36.4 million as at December 31, 2013 and 2012 (see Note 6). The aggregate carrying value of due from related parties, including advances to related parties, amounted to ₱1,966.2 million and ₱8,202.4 million as at December 31, 2013 and 2012, 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 acquisition 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 for the years ended December 31, 2013 and 2012. The carrying value of AFS financial assets, including investment in Beacon preferred shares, amounted to ₱12,279.6 million and ₱12,067.9 million as at December 31, 2013 and 2012, respectively (see Notes 7, 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:

	2013	2012
	(In Thousands)	
Investments in subsidiaries and associates and interest in a joint venture (see Note 8)*	**₱64,635,221**	₱53,989,429
Software costs (see Note 9)**	**50,071**	65,474
Property and equipment (see Note 9)**	**67,502**	58,614

** Excludes advances to Beacon Electric, MPTC, NSH and MPWIC and investments in preferred shares of Beacon Electric as these are classified as loans and receivables and AFS financial asset, respectively.*
*** Included in "Other noncurrent assets" account in the Company statements of financial position.*

There were no impairment losses recognized in 2013 and 2012.

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 2013 and 2012.

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 ₱67.5 million and ₱58.6 million as at December 31, 2013 and 2012, 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 ₱50.1 million and ₱65.5 million as at December 31, 2013 and 2012, 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 amounts the real estate for sale are expected to be realized. A review of the items of real estate for sale is performed at each end of reporting period to reflect the accurate valuation of real estate for sale in the parent company financial statements.

The carrying value of real estate for sale, recorded as part of "Other current assets" account in the parent company statements of financial position, amounted to ₱25.6 million as at December 31, 2013 and 2012 (see Note 7).

Taxes. Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. Given the diversity of the Company's businesses and the long-term nature and complexity of existing contractual agreements or the nature of the business itself, changes in differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Company establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities in which the Company operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences in interpretation may arise for a wide variety of issues depending on the conditions prevailing in the respective domicile or to the operations of the Company.

Deferred tax assets are recognized for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits together with future tax planning strategies. The carrying amount of deferred tax assets is reviewed at each end of the 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 performs an annual evaluation of the realizability of deferred income tax assets in determining the portion of deferred tax assets which should be recognized. The Company's assessment on the recognition of deferred income tax assets on deductible temporary differences is based on the forecasted taxable income of the following period. This forecast is based on the Company's past results and future expectations on revenue and expenses.

The Company's deductible temporary differences and NOLCO for which no deferred tax assets have been recognized amounted to ₱4,145.7 million and ₱4,097.8 million as at December 31, 2013 and 2012, 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).

Retirement Costs. The cost of the defined benefit pension plan and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions, described in Note 15, are reviewed at each reporting date.

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 and estimated liability.

Equity-based compensation expense recognized in 2013 and 2012 amounted to ₱18.2 million and ₱13.4 million, respectively (see Notes 8, 13 and 18).

Long-Term Incentives Plan. 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 long term incentive benefits.

LTIP expense for the year ended December 31, 2013 and 2012 amounted to ₱178.5 million and ₱120.2 million, respectively. LTIP payable as at December 31, 2013 and 2012 amounted to ₱147.7 million and ₱310.5 million, respectively (see Notes 14 and 15).

4. **Operating Segment Information**

An operating segment is a component of the Company that engages in business activities from which it may earn revenue and incur expenses, whose operating results are regularly reviewed by the Company's chief operating decision maker who makes decisions about how resources are to be allocated to the segment and assesses its performance, and for which discrete financial information is available.

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

- *Water utilities*, which relate to the provision of water and sewerage services by DMCI-MPIC Water Company, Inc. (DMWC) and its subsidiaries Maynilad and PHI.

- *Toll operations,* which primarily relate to operations and maintenance of toll facilities by MPTC and its subsidiaries MNTC and CIC, and an associate, Tollways Management Corporation (TMC).

- *Power distribution*, which primarily relates to the operations of Manila Electric Company (Meralco) in relation to the distribution and supply of electricity.

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

- *Others*, which represent holding companies and operations of subsidiaries involved in real estate and provision of services. Real estate primarily relates to the operations of Neo Oracle Holdings, Inc. (NOHI).

Customer Tariffs. The Company's results of operations are highly dependent on ability to set and collect adequate tariffs for its Water Utilities, Toll Operations and Power segments:

<u>Maynilad</u>
Under Maynilad's concession agreement with the Philippine Government (see Note 13), Maynilad may request tariff rate adjustments based on movements in the Philippine consumer price index, foreign exchange currency differentials, a rate rebasing process scheduled to be conducted every five years (''Rate Rebasing'') and certain extraordinary events. Any rate adjustment requires approval by MWSS and the Regulatory Office. Any tariff adjustments that are not granted, in a timely manner, in full or at all, could have a material adverse effect on the Company's results of operations and financial condition.

For the Fourth Rate Rebasing Period, Maynilad submitted the business plan for the determination of the Rates Adjustment Limit to be applied to the standard rates for the period 2013 to 2017. MWSS released Board of Trustees Resolution No. 2013-100-RO dated September 12, 2013 and Regulatory Office (RO or Regulatory Office) Resolution No. 13-010-CA dated September 10, 2013 on the rate rebasing adjustment for the rate rebasing period 2013 to 2017 reducing Maynilad's 2012 average all-in basic water charge by 4.82% or ₱1.46 per cubic meter (cu.m) or ₱0.29 per cubic meter (cu.m) per year over the next five years. Maynilad has formally notified its objection and initiated arbitration proceedings. On October 4, 2013, the Maynilad filed its Dispute Notice before the Appeals Panel. On December 17, 2013, the Regulatory Office released Resolution No. 13-011-CA regarding the implementation of a status quo for Maynilad's Standard Rates and Foreign Currency Differential Adjustment (FCDA) for any and all its scheduled adjustments until such time that the Appeals Panel has issued the Final Award. Hearings are expected to commence once the rest of the panel is formed, which panel has not been completed as at March 19, 2014.

MNTC and CIC

MNTC and CIC derive substantially all of their revenues from toll collections from the users of the toll roads. The concession agreements establish a toll rate formula and adjustment procedure for setting the appropriate toll rate. As at March 19, 2014, MPTC continues to await approval by the government of toll rate adjustments for R1 of CAVITEX and NLEX, which should have been effective from January 1, 2012 and January 1, 2013, respectively.

Meralco

Meralco was among the first entrants to the Performance-Based Regulation (PBR). Rate-setting under PBR is governed by the Rules for Setting Distribution Wheeling Rates (RDWR). The PBR scheme sets tariffs based on the regulated asset base of the Distribution Utility (DU), and the required operating and capital expenditures once every regulatory period (RP), to meet operational performance and service level requirements responsive to the need for adequate, reliable and quality power, efficient service, growth of all customer classes in the in the franchise area as approved by the Energy Regulatory Commission (ERC). PBR also employs a mechanism that penalizes or rewards a DU depending on its network and service performance. Rate filings and setting are done every regulatory period (RP) where one RP consists of four regulatory years. A regulatory year (RY) begins on July 1 and ends on June 30 of the following year. As at December 31, 2013, Meralco is operating in the second half of the third RY of the third RP. The third RP is from July 1, 2011 to June 30, 2015.

Meralco also files with the ERC its applications for recoveries of advances for pass-through costs. These advances consist mainly of unrecovered or differential generation and transmission charges technically referred to as under-recoveries, which are recoverable from the customers, as allowed by law.

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

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

Performance of the operating segments is also assessed based on a measure of recurring profit or core income. Core income 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 (NRI), net of tax effect of aforementioned. NRI 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 Company's consolidated financial statements. For the years ended December 31, 2013 and 2012, no revenue transactions with a single customer accounted for 10% or more of the Company's consolidated revenues.

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

The segment revenues, core 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, 2013 and 2012 are detailed in the following tables:

The following table presents consolidated information on core income and certain assets and liabilities regarding business segments:

	Year Ended December 31, 2013						
	Water Utilities	Toll Operations	Healthcare	Power Distribution	Other Businesses	Eliminations	Consolidated
Total revenue from external sales	₱16,895,200	₱8,153,627	₱5,827,389	₱–	₱–	₱–	₱30,876,216
Cost of sales	(5,145,096)	(3,357,529)	(3,342,214)	–	–	–	(11,844,839)
Gross Margin	11,750,104	4,796,098	2,485,175	–	–	–	19,031,377
Operating expenses	(2,428,747)	(774,225)	(1,644,775)	–	(985,849)	–	(5,833,596)
Other income (charges) – net	(514,750)	199,587	149,471	405,063	60,888	–	300,259
Profit before Financing Charges	8,806,607	4,221,460	989,871	405,063	(924,961)	–	13,498,040
Interest expense – net	(1957,427)	(944,156)	(231,311)	–	(394,777)	–	(3,527,671)
Profit before Non-controlling Interest and Income Tax	6,849,180	3,277,304	758,560	405,063	(1,319,738)	–	9,970,369
Non-controlling interest	(3,322,065)	(782,194)	(95,652)	–	–	–	(4,199,911)
Provision for (benefit from) income tax	261,497	(847,566)	(221,375)	–	(27,855)	–	(835,299)
Contribution from Subsidiaries	3,788,612	1,647,544	441,533	405,063	(1,347,593)	–	4,935,159
Equity in net income of associates and a joint venture	–	226,797	139,220	1,927,971	–	–	2,293,988
Contribution from Operations - Core Income	3,788,612	1,874,341	580,753	2,333,034	(1,347,593)	–	7,229,147
Non-recurring income (charges)	88,307	37,941	28,133	(8,564)	(166,381)	–	(20,564)
Segment Income (Loss)	₱3,876,919	₱1,912,282	₱608,886	₱2,324,470	(₱1,513,974)	₱–	₱7,208,583
Core EBITDA	₱11,078,389	₱5,083,191	₱1,577,778	₱405,063	(₱879,743)	₱–	₱17,264,678
Core EBITDA Margin	66%	62%	27%	–%	–%	–%	56%
Non-recurring Income (Charges)	₱47,395	(₱105,518)	₱31,839	(₱8,564)	(₱157,954)	₱–	(₱192,802)
Provision for income tax	119,280	134,122	(2,768)	–	(8,232)	–	242,402
Non-controlling interest	(78,368)	9,337	(938)	–	(195)	–	(70,164)
Net nonrecurring income (charges)	₱88,307	₱37,941	₱28,133	₱(8,564)	(₱166,381)	₱–	₱(20,564)
Assets and Liabilities							
Segment assets	₱80,565,349	₱35,306,177	₱9,378,820	₱–	₱6,921,026	₱19,558,177	₱151,729,549
Investment in associates, at equity	133,848	2,102,447	2,310,647	44,087,220	220,323	–	48,854,485
Consolidated Total Assets	₱80,699,197	₱37,408,624	₱11,689,467	₱44,087,220	₱7,141,349	₱19,558,177	₱200,584,034
Segment Liabilities	₱48,545,800	₱22,361,620	₱5,183,368	₱–	₱7,439,288	₱3,773,522	₱87,303,598
Other Segment Information							
Capital expenditures -							
Service concession asset and property and equipment	₱5,768,575	₱474,361	₱842,504	₱–	₱37,144	₱–	₱7,122,584
Depreciation and amortization	2,271,782	861,732	587,908	–	45,218	–	3,766,640
Provision for decline in value of assets							

	Year Ended December 31, 2012 *(In Thousands; as restated – see Note 2)*						
	Water Utilities	Toll Operations	Healthcare	Power Distribution	Other Businesses	Eliminations	Consolidated
Total revenue from external sales	₱15,882,765	₱6,784,132	₱5,139,941	₱–	₱–	₱–	₱27,806,838
Cost of sales	(5,375,103)	(2,816,243)	(2,977,029)	–	–	–	(11,168,375)
Gross Margin	10,507,662	3,967,889	2,162,912	–	–	–	16,638,463
Operating expenses	(2,070,720)	(663,826)	(1,471,290)	–	(941,755)	–	(5,147,591)
Other income (charges) – net	(604,623)	156,238	154,492	561,424	40,155	–	307,686
Profit before Financing Charges	7,832,319	3,460,301	846,114	561,424	(901,600)	–	11,798,558
Interest expense - net	(1,898,433)	(548,716)	(240,009)	–	(329,896)	–	(3,017,054)
Profit before Non-controlling Interest and Income Tax	5,933,886	2,911,585	606,105	561,424	(1,231,496)	–	8,781,504
Non-controlling interest	(2,690,784)	(686,939)	(55,818)	–	–	–	(3,433,541)
Provision for (benefit from) income tax	305,370	(862,345)	(176,813)	–	(42,885)	–	(776,673)
Contribution from Subsidiaries	3,548,472	1,362,301	373,474	561,424	(1,274,381)	–	4,571,290
Equity in net income of associates and a joint venture	–	207,611	133,699	1,650,734	–	–	1,992,044
Contribution from Operations - Core Income	3,548,472	1,569,912	507,173	2,212,158	(1,274,381)	–	6,563,334
Non-recurring income (charges)	(110,418)	(101,285)	(3,084)	(225,829)	(215,615)	–	(656,231)
Segment Income (Loss)	₱3,438,054	₱1,468,627	₱504,089	₱1,986,329	(₱1,489,996)	₱–	₱5,907,103
Core EBITDA	₱10,451,565	₱4,145,216	₱1,350,249	₱–	(₱302,698)	₱–	₱15,644,332
Core EBITDA Margin	66%	61%	26%	–%	–%	–%	56%
Non-recurring Income (Charges)	₱718,770	(₱178,733)	(₱3,097)	(₱225,829)	(₱215,231)	₱–	₱95,880
Provision for income tax	(911,281)	25,622	(169)	–	(347)	–	(886,175)
Non-controlling interest	82,093	51,826	182	–	(37)	–	134,064
Net nonrecurring income (charges)	(₱110,418)	(₱101,285)	(₱3,084)	(₱225,829)	(₱215,615)	₱–	(₱656,231)
Assets and Liabilities							
Segment assets	₱74,263,732	₱28,903,293	₱8,014,965	₱–	₱3,497,541	₱13,716,593	₱128,396,124
Investment in associates, at equity	–	668,350	2,259,218	41,973,044	182,769	–	45,083,381
Consolidated Total Assets	₱74,263,732	₱29,571,643	₱10,274,183	₱41,973,044	₱3,680,310	₱13,716,593	₱173,479,505
Segment Liabilities	₱45,436,011	₱11,987,045	₱2,748,927	₱–	₱15,467,689	₱3,449,830	₱79,089,502
Other Segment Information							
Capital expenditures -							
Service concession asset and property and equipment	₱8,076,451	₱253,733	₱643,150	₱–	₱76,141	₱–	₱9,049,475
Depreciation and amortization	2,619,246	684,915	504,135	–	37,478	–	3,845,774
Provision for decline in value of assets	–	–	–	–	–	–	–

The following table shows the reconciliation of the Company's consolidated Core EBITDA to consolidated net income for the years ended December 31, 2013 and 2012.

	2013	2012 (Restated - Note 2)
		(In Thousands)
Consolidated Core EBITDA	**₱17,264,680**	₱15,644,332
Depreciation and amortization	**(3,766,640)**	(3,845,774)
Consolidated operating profit for the year	**13,498,040**	11,798,558
Adjustments to reconcile with consolidated net income:		
Interest income	**462,046**	651,174
Equity in net earnings of associates and a joint venture	**2,293,988**	1,992,044
Interest expense	**(3,989,717)**	(3,668,228)
Nonrecurring gains (losses) - net	**(192,802)**	95,880
Provision for (benefit from) income tax	**(592,897)**	(1,662,848)
Consolidated net income for the year	**₱11,478,658**	₱9,206,580

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, 2013 and 2012.

	2013	2012 (Restated - Note 2)
		(In Thousands)
Consolidated core income for the year	**₱7,229,147**	₱6,563,334
Foreign exchange gains (losses) - net	**69,222**	885,491
Other nonrecurring income (losses)	**(340,420)**	(855,096)
Net tax effect of aforementioned adjustments	**250,634**	(686,626)
Net income for the year attributable to owners of the Parent Company	**7,208,583**	5,907,103
Net income for the year attributable to non-controlling interest	**4,270,075**	3,299,477
Consolidated net income for the year	**₱11,478,658**	₱9,206,580

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, 2013 and 2012 and is provided to reconcile the preceding consolidated segment information, amounts and balances with the Company's consolidated statements of income:

	2013				2012			
	Core	**NRI**	**Reclassification**	**Consolidated**	Core	NRI	Reclassification	Consolidated
				(In Thousands; as restated – Note 2)				
OPERATING REVENUES								
Water and sewerage services revenue	**₱16,895,200**	**₱–**	**₱–**	**₱16,895,200**	₱15,882,765	₱–	₱–	₱15,882,765
Toll fees	**8,153,627**	–	–	**8,153,627**	6,784,132	–	–	6,784,132
Hospital revenue	**5,699,612**	–	–	**5,699,612**	5,034,449	–	–	5,034,449
School revenue	**127,777**	–	–	**127,777**	105,492	–	–	105,492
	30,876,216	–	–	**30,876,216**	27,806,838	–	–	27,806,838
COST OF SALES AND SERVICES	**(11,844,839)**	–	–	**(11,844,839)**	(11,168,375)	–	–	(11,168,375)
GROSS PROFIT	**19,031,377**	–	–	**19,031,377**	16,638,463	–	–	16,638,463
General and administrative expenses	**(5,833,596)**	**(427,186)**	–	**(6,260,782)**	(5,147,591)	(235,835)	–	(5,383,426)
Interest expense	**(3,989,717)**	**(11,062)**	–	**(4,000,779)**	(3,668,228)	(10,840)	–	(3,679,068)
Share in net earnings of associates and joint ventures	**2,699,051**	**(8,061)**	**(405,063)**	**2,285,927**	2,553,468	(228,075)	(561,424)	1,763,969
Interest income	**462,046**	**445**	–	**462,491**	651,174	1,259	–	652,433
Other income and expenses	**(104,804)**	**253,058**	**405,063**	**553,317**	(253,738)	569,371	561,424	877,057
	(6,767,020)	**(192,802)**	–	**(6,959,822)**	(5,864,915)	95,880	–	(5,769,035)
INCOME BEFORE INCOME TAX	**12,264,357**	**(192,802)**	–	**12,071,551**	10,773,548	95,880	–	10,869,428
PROVISION FOR (BENEFIT FROM) INCOME TAX			–					
Current	**(1,049,993)**	**(11,000)**	–	**(1,060,993)**	(1,099,356)	1,781	–	(1,097,575)
Deferred	**214,694**	**253,402**	–	**468,096**	322,683	(887,956)	–	(565,273)
	(835,299)	**242,402**	–	**(592,897)**	(776,673)	(886,175)	–	(1,662,848)
NET INCOME	**11,429,058**	**49,600**	–	**11,478,658**	9,996,875	(790,295)	–	9,206,580
			–					
Net Income Attributable to:								
Owners of the Parent Company	**7,229,147**	**(20,564)**	**–**	**7,208,583**	6,563,343	(656,231)	–	5,907,103
Non-controlling interest	**4,199,911**	**70,164**	**–**	**4,270,075**	3,433,541	(134,064)	–	3,299,477
	₱11,429,058	**₱49,600**	**₱–**	**₱11,478,658**	₱9,996,874	(₱790,295)	₱–	₱9,206,580

For the years ended December 31, 2013 and 2012, no revenue transactions with a single customer accounted for 10% or more of the Company's consolidated revenues.

The following table shows the reconciliation of consolidated amounts and the amounts reflected in the parent company financial statements as at and for the years ended December 31, 2013 and 2012.

	2013		
	Consolidated	**Subsidiaries, Associates and a Joint Venture**	**Parent Company**
		(In Thousands)	
Operating revenues	**₱30,876,216**	**₱30,876,216**	**₱–**
Net income for the year attributable to owners of the parent company	**7,208,583**	**(777,453)**	**7,986,036**
Total assets	**200,584,034**	**114,971,829**	**85,612,205**
Total liabilities	**226,823,991**	**219,275,313**	**7,548,678**
Capital expenditures	**7,122,584**	**7,079,871**	**42,713**

	2012		
	Consolidated	Subsidiaries, Associates and a Joint Venture	Parent Company
		(In Thousands)	
Operating revenues	₱27,806,838	₱27,806,838	₱–
Net income for the year attributable to owners of the parent company	5,907,112	4,331,638	1,575,462
Total assets	173,504,040	95,814,738	77,689,302
Total liabilities	79,090,335	66,006,412	13,083,923
Capital expenditures	9,049,475	9,030,998	18,477

5. Cash and Cash Equivalents

As at December 31, this account consists of:

	2013	2012
	(In Thousands)	
Cash on hand and in banks	**₱27,748**	₱21,894
Short-term deposits	**4,501,565**	1,233,423
	₱4,529,313	₱1,255,317

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 ₱116.0 million and ₱203.7 million for the years ended December 31, 2013 and 2012, respectively (see Note 16).

6. Receivables

As December 31, this account consists of:

	2013	2012
	(In Thousands)	
Notes receivable	**₱782,525**	₱780,131
Interest receivables	**261,047**	171,966
Dividends receivable (see Note 8)	**115,555**	34,632
Accounts receivable	**1,945**	9,151
Advances to employees	**6,100**	7,126
Other receivables	**31,036**	30,761
	1,198,208	1,033,767
Less allowance for doubtful accounts	**36,405**	36,405
	1,161,803	997,362
Less current portion	**573,341**	247,231
	₱588,462	₱750,131

Notes Receivable. Notes receivable as at December 31, 2013 and 2012 consist of the following:

Description	Terms	Maturity	2013	2012
			(In Thousands)	
₱164.1 million loan to Landco [a]	12% interest rate per annum	December 31, 2014	**₱164,063**	₱164,063
₱133.4 million loan to AB Holding Corporation (ABHC) [a]	10% interest rate per annum	August 30, 2015	**133,421**	133,421
₱100.0 million loan to Landco Pacific Corporation (Landco) [a]	10% interest per annum	March 15, 2017	**100,000**	100,000
Preferred Shares issued by Landco [b]	With mandatory redemption feature	August 2020	**355,041**	352,647
Others [c]	Various	Various	**30,000**	30,000
Total notes receivable			**₱782,525**	₱780,131

Additional information on the notes receivable are as follows:

a. The loans to ABHC and Landco are secured by a pledge of Landco shares owned by ABHC (see Note 20).

b. In view of the mandatory redemption feature of the preferred shares of Landco, the Company recognized an assigned value of ₱31.7 million for the conversion option feature presented as "Derivative asset" under "Other noncurrent assets" in the statements of financial position as at December 31, 2013 and 2012 (see Note 9).

c. Other notes receivable amounting to ₱30.0 million comprising of defaulted loans and the related interest receivable amounting to ₱6.4 million as at December 31, 2013 and 2012, were fully provided with allowance.

d. Notes receivable also include advances to an unrelated party with outstanding balance of ₱384.3 million, subject to 5% interest per annum and payable monthly in five years until 2015. Under the loan agreement, the borrower has the option to prepay the loan in full or in part, prior to the expiration of the term, together with the interest accrued on the date of the note prepayment. In such case, the interest on the loan shall be computed based on the outstanding balance thereof. Accordingly, the borrower fully settled the outstanding balance of the receivable including the related interest as at December 31, 2012.

e. On February 15, 2012, the Company granted Media Quest Holdings, Inc. (Media Quest) a ₱500.0 million loan subject to 4.75% interest rate per annum and with maturity date of May 17, 2012, while interest is payable every 17th of the following month and every month thereafter from date of borrowing. On the date of scheduled payment, the principal and the related interest were fully collected.

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 non-interest bearing and subject to liquidation within 12 months from availment.

7. Other Current Assets

As at December 31, this account consists of:

	2013	2012
	(In Thousands)	
Deposits (see Notes 9 and 11)	**₱188,044**	₱451,072
Input taxes	**64,924**	41,085
Real estate for sale	**25,637**	25,637
AFS financial asset	–	9,614
Other deposits and prepayments	**11,476**	4,467
	₱290,081	₱531,875

Deposits consist of the following:

- Cash deposits amounting to ₱188.0 million and ₱229.2 million as at December 31, 2013 and 2012, respectively, pertain to the Company's Debt Service Account (DSA) which holds funds on reserve to service scheduled semi-annual repayment of debt and interest. The ₱188.0 million represents the new DSA build-up as a requirement of the new loan (see Note 11).

- LTIP fund which is covered by an Investment Management Agreement (IMA) was entered into with a Trustee Bank on October 7, 2011 (see Note 15). The fund balance and interest earned that were included in the funds as at December 31, 2012 amounted to ₱221.9 million which were used to pay the LTIP for performance cycle (2010-2012) in 2013.

Real estate for sale consists of developed lots and condominium units carried at cost.

In 2012, the Company purchased 3,800 common shares of PLDT for ₱9.6 million and classified as AFS financial asset. These were subsequently sold at a gain in February 2013.

Other deposits and prepayments amounting to ₱11.5 million and ₱4.5 million as at December 31, 2013 and 2012, respectively, mainly pertain to creditable withholding taxes, rental deposits and prepaid expenses.

8. Investments and Advances

As at December 31, this account consists of investments and advances to the following investee companies:

Investee	Principal Activity	Direct MPIC Ownership Interest 2013	2012
Subsidiaries:			
MPTC	Investment holding	**99.88**	99.88
DMWC	Investment holding	**51.27**	55.41
Maynilad	Utilities	**5.19**	5.88
Riverside Medical Center, Inc (RMCI)	Hospital operation	**51.0**	51.0
East Manila Hospital Managers Corporation (EMHMC)	Hospital operation	**100.0**	100.0
Asian Hospital Inc. (AHI)	Hospital operation	**5.7**	5.7
Colinas Verdes Hospital Managers Corporation(CVHMC)	Hospital operation	**100.0**	100.0
MPWIC	Investment holding	**100.0**	100.0
Metro Pacific Light Rail Corporation (MPLRC)	Investment holding	**100.0**	100.0
Light Rail Manila Corporation (LRMC)	Investment holding	**50.0**	–
Bumrungrad International Philippines Inc. (BIPI)	Investment holding	**100.0**	100.0
Neptune Stroika Holdings, Inc. (NSH)	Investment holding	**100.0**	100.0
MPIC-JGS Airport Holdings, Inc. (MJAHI)	Investment holding	**100.0**	–
MPIC Infrastructure Holdings Limited (MIHL)	Investment holding	**100.0**	–
Fragrant Cedar Holdings, Inc. (FCHI)	Investment holding	**100.0**	100.0
NOHI	Real estate	**96.6**	96.6
Joint venture:			
Beacon Electric Asset Holdings, Inc.	Investment holding	**50.0**	50.0
Associates:			
Davao Doctors Hospital, Inc. (DDH)	Hospital operation	**34.9**	34.9
Medical Doctors, Inc. (MDI)	Hospital operation	**33.3**	33.7
First Gen Northern Electric Corporation (FGNEC)	Power distribution	**33.3**	33.3

All of the above investees were incorporated in the Philippines.

As at December 31, the carrying value of the Company's investments and advances follows:

	2013	2012
	(In Thousands)	
Investments in subsidiaries:		
MPTC[a]	**₱19,129,842**	₱12,363,015
DMWC (see Note 12)	**12,276,767**	9,900,727
Maynilad	**2,071,007**	2,071,532
MIHL	**1,477,575**	–
BIPI	**731,951**	731,951
NSH	**601,494**	601,494
CVHMC	**300,000**	300,000
RMCI	**275,621**	275,621
NOHI	**230,132**	230,132
AHI	**152,758**	152,758
FCHI	**66,532**	66,532
EMHMC	**12,500**	12,500
MPLRC	**17,250**	7,250
LRMC	**10,000**	–
MJAHI	**5,875**	–
MPWIC	**5,000**	5,000
	37,364,304	26,718,512

(Forward)

	2013	2012
	(In Thousands)	
Investments in associates:		
MDI	**₱927,923**	₱927,923
DDH	**512,865**	512,865
FGNEC	**250**	250
	1,441,038	1,441,038
Interests in a joint venture - Beacon Electric:		
Common shares	**25,829,879**	25,829,879
Preferred shares	**11,573,222**	11,573,222
Advances	**756,387**	756,387
	38,159,488	38,159,488
Advances to MPTC	**–**	6,771,600
Advances to NSH	**768,128**	534,200
Advances to MPWIC	**130,000**	–
Advances to NOHI (see Note 12)	**–**	–
	₱77,862,958	₱73,624,838

[a] *Includes investment in MPTC's 67,716,000 preferred shares with par value of ₱100 per share amounting to ₱6,771.6 million.*

Movements of investments and advances are as follows:

	December 31, 2013			
	Subsidiaries	**Associates**	**Joint Venture**	**Total**
		(In Thousands)		
Investments:				
Balance at beginning of year	**₱26,718,512**	**₱1,441,038**	**₱37,403,101**	**₱65,562,651**
Acquisitions during the year	**3,879,490**	**–**	**–**	**3,879,490**
LTIP (see Note 15)	**(10,670)**	**–**	**–**	**(10,670)**
ESOP (see Note 18)	**5,372**	**–**	**–**	**5,372**
Reclassification	**6,771,600**	**–**	**–**	**6,771,600**
	37,364,304	**1,441,038**	**37,403,101**	**76,208,443**
Advances:				
Balance at beginning of year	**7,305,800**	**–**	**756,387**	**8,062,187**
Additional advances during the year	**363,928**	**–**	**–**	**363,928**
Reclassification	**(6,771,600)**	**–**	**–**	**(6,771,600)**
	898,128	**–**	**756,387**	**1,654,515**
	₱38,262,432	**₱1,441,038**	**₱38,159,488**	**₱77,862,958**

	December 31, 2012			
	Subsidiaries	Associates	Joint Venture	Total
		(In Thousands)		
Investments:				
Balance at beginning of year	₱26,744,490	₱1,441,038	₱31,140,324	₱59,325,852
Acquisitions during the year	228,982	–	6,262,777	6,491,759
LTIP (see Note 15)	13,646	–	–	13,646
ESOP (see Note 18)	11,059	–	–	11,059
Return of investment	(279,665)	–	–	(279,665)
	26,718,512	1,441,038	37,403,101	65,562,651

(Forward)

	December 31, 2012			
	Subsidiaries	Associates	Joint Venture	Total
Investments:	*(In Thousands)*			
Advances:				
Balance at beginning of year	₱115,685	₱–	₱756,387	₱872,072
Additional advances during the year	7,305,800	–	–	7,305,800
Return of advances (see Note 12)	(115,685)	–	–	(115,685)
	7,305,800	–	756,387	8,062,187
	₱34,024,312	₱1,441,038	₱38,159,488	₱73,624,838

MPTC

MPTC was acquired by MPIC in 2008. The acquisition also resulted in the Company's owning 100.0% of Metro Pacific Tollways Development Corporation (MPTDC), a wholly owned subsidiary of MPTC, 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 to MNTC as at March 19, 2014.

Metro Strategic Investments Holdings, Inc., a subsidiary of MPTC, on the other hand, holds 2.0% 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 December 2012, the PSE approved MPTC's petition of voluntary delisting and accordingly ordered the delisting of MPTC's shares effective December 31, 2012. Pursuant to a voluntary TO, MPIC have purchased additional 1,302,333 of MPTC shares or 0.03% at ₱6.5 per share or a total of ₱8.7 million.

On December 26, 2012, MPIC and MPTC entered into a subscription agreement amounting to ₱6,771.6 million. The ₱6,771.6 million was used by MPTC for its investment in Cavitex Infrastructure Corp. ("CIC"), which holds the concession for the operation and maintenance of the Manila-Cavite Toll Expressway ("Cavitex"). The ₱6,771.6 million was sourced by MPIC through availment of a loan amounting to ₱4,700.0 million and internal funding of ₱2,071.6 million (see Note 11).

On April 30, 2013, the BOD of MPTC approved the conversion of the deposits for shares subscription amounting to ₱6,771.6 million into 67,716,000 preferred shares of MPTC with par value of ₱100 per share subject to SEC's approval of the capital increase. On November 8, 2013, the SEC approved the capital increase and the preferred shares were subsequently issued to the Company. The preferred shares of MPTC shall have the full voting rights as common shares, are not convertible to common shares or any stock of MPTC, shall be redeemable at any time at the option of MPTC, and shall have no pre-emptive right to any share of convertible debt, securities, or warrants issued, sold or disposed of by MPTC. The preferred shareholder is entitled to yearly cumulative dividends at 7% of the issue value subject to availability of unrestricted retained earnings.

In 2013 and 2012, the Company received dividends from MPTC aggregating to ₱1,371.2 million and ₱1,342.1 million, respectively, presented under "Dividend income" account in the parent company statements of income.

The Company's shares in MPTC were pledged against the Company's ₱6.8 billion loan as at December 31, 2012 and were released when the loan was refinanced on June 25, 2013 (see Note 11).

<u>DMWC and Maynilad</u>
In 2007, DMWC was incorporated as a joint venture by the Company and DMCI Holdings, Inc. (DMCI) 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.

As approved by the BOD on August 31, 2012, DMWC decreased its authorized capital stock from ₱5,854.8 million divided into 5,854.8 million common shares with par value of ₱1.00 to 4,664.8 million common shares with par value of ₱1.00. The decrease in DMWC's authorized capital stock was approved by the SEC on October 10, 2012. The main purpose of the decrease in authorized capital stock is to cancel the subscription receivables from MPIC and DMCI aggregating to ₱759.4 million and to return to such stockholders the capital surplus resulting from the decrease in paid-up capital stock of ₱430.6 million in proportion to their shareholdings. The return of capital surplus was also deducted in the Investment in DMWC account of MPIC and DMCI by ₱279.7 million and ₱150.9 million, respectively.

On September 24, 2012, the stockholders and BOD of DMWC concurred and approved the increase in authorized capital stock to 5,343.3 million common shares with a par value of ₱1.00 per share. On January 29, 2013, the SEC approved the Amended Articles of Incorporation effecting the increase in authorized capital stock.

On December 28, 2012, a Subscription Agreement between MCNK JV Corporation (MCNK a subsidiary of Marubeni Corp.) and DMWC was executed, wherein MCNK subscribed to 169,617,682 common shares of DMWC. On February 13, 2013, MCNK and the DMWC entered into another Subscription Agreement for the subscription by MNCK of an additional 508,853,045 common shares of DMWC or a 21.54% equity interest in DMWC and on the same date the Company purchased 154,992,852 common shares amounting to ₱2,376.0 million. With the entry of MCNK as an investor in DMWC, the Company's effective ownership in Maynilad decreased from 56.8% as at December 31, 2012, to 52.8% as at December 31, 2013.

In 2013, the Company received dividends from DMWC and Maynilad aggregating ₱6,786.4 million and ₱779.6 million, respectively. In 2012, the Company received dividends from DMWC and Maynilad aggregating ₱1,063.9 million and ₱117.9 million, respectively. Dividends received from DMWC and Maynilad are presented under "Dividend income" account in the parent company statements of comprehensive income.

MIHL

MIHL holds 25% stake in FPM Infrastructure Holdings Limited (FPM Infrastructure) and FPM Infrastructure holds 29.45% stake in a Thai toll road operator, Don Muang Tollway Public Company Ltd. (DMT). FPC owns 75% of FPM Infrastructure. Working under a 27-year concession ending in 2034, DMT operates a 21.9-kilometer six-lane elevated toll road stretching from Din Daeng in central Bangkok past Don Muang Airport and on to the National Monument in the north of the capital.

BIPI, NSH and AHI

On November 4, 2011, MPIC and BIL executed a Sale and Purchase Agreement (SPA) wherein MPIC agreed to purchase and BIL agreed to sell its 100.0% interest in BIPI, 100% interest in NSH and 4.572% interest in AHI, collectively referred to as “Sale Shares”. The purchase of 4.572% interest in AHI is conditional upon the exercise of right of first refusal (ROFR) by the other shareholders of AHI. BIPI and NSH each have legal and beneficial ownership interest in AHI of 27.50% and 24.43%, respectively. Subject to the terms and conditions of the SPA and closing conditions, the BIPI and NSH Sale Shares were acquired in 2011 for a consideration of ₱731.9 million and ₱595.4 million, respectively, and the AHI Sale Shares were acquired in 2012 for a consideration of ₱123.4 million.

As of the date of SPA, an individual was the legal and beneficial owner of the 300,000 common shares representing 60.0% of the capital stock of NSH. Such shares were also acquired by MPIC for a consideration of ₱6.1 million bringing its total investments in NSH to ₱601.5 million.

With the acquisitions of BIPI and NSH, MPIC effectively acquired 51.93% of AHI shares as at December 31, 2011 and this triggered a mandatory Tender Offer to the other shareholders of AHI, which lasted until April 19, 2012. With the direct acquisition of MPIC of 4.572% AHI shares as set forth in the SPA and the completion of the Tender Offer which resulted to the additional acquisitions of AHI shares by MPIC of 1.08% and by NSH of 27.98%, including private purchases, additional ownership interest in AHI resulted to 33.63%, bringing MPIC’s total effective ownership interest in AHI to 85.56% as at December 31, 2012. Total consideration for the additional AHI shares amounted ₱686.9 million, ₱534.2 million of which was coursed through NSH in the form of advances pending NSH’s increase in authorized capital stock.

In 2013, the Company made additional advances to NSH amounting to ₱233.9 million which was used for its investment in De Los Santos Medical Center (DLSMC), and Central Luzon Doctors’ Hospital (CLDH).

During 2013, AHI declared dividends amounting to ₱2.2 million of which ₱1.1 million remains uncollected as at December 31, 2013, and presented in “Dividends receivable” under “Receivables” in the parent company statement of financial position (see Note 6).

CVHMC

On November 4, 2011, the Company acquired from MDI, an associate, 100% of the outstanding capital stock of CVHMC for ₱300.0 million. CVHMC is the operator of the 237-bed tertiary hospital Cardinal Santos Medical Center. CVHMC became a direct and wholly owned subsidiary of MPIC, enabling the Company to fully consolidate the financial statements of CVHMC starting 2011.

CVHMC has a commitment to make a Capital Expenditure (CAPEX) in CSMC amounting to at least ₱750.0 million (CAPEX Commitment) no later than the 10th anniversary of the Agreement, provided that, of the total CAPEX Commitment, at least ₱250.0 million shall be actually spent over a period of three years, and provided, finally, that of the total CAPEX Commitment, a majority thereof shall be actually spent as CAPEX for Expansion and Development no later than the10th anniversary of the closing date of the agreement.

CVHMC has infused ₱1,018.4 million and ₱683.5 million to the CAPEX program as at December 31, 2013 and 2012, respectively.

During 2013, CVHMC declared dividends amounting to ₱65.0 million, of which ₱45.0 million remains uncollected as at December 31, 2013 and presented as "Dividends receivable" under "Receivables" account in the parent company statement of financial position (see Note 6).

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 2013 and 2012, the Company received dividends from RMCI amounting to ₱15.3 million and ₱10.2 million, respectively, presented under "Dividend income" account in the parent company statements of comprehensive income

NOHI

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

On July 18, 2012, the BOD of NOHI resolved to amend the following articles of its Articles of Incorporation:

a. First Article, changing the name of the Corporation to Neo Oracle Holdings, Inc.;
b. Fourth Article, providing that the term for which the Corporation is to exist is from the date of issuance of certificate of incorporation until December 31, 2013; and,
c. Sixth Article, decreasing the number of directors of the Corporation from eleven (11) to five (5).

On August 9, 2012, the SEC approved the amended Articles of Incorporation with respect to the above amendments.

On August 31, 2012, the Company decided to offset the remaining balance of the advances for equity amounting to ₱115.7 million to the advances from NOHI as there is no intention to capitalize the amount considering NOHI is in the process of liquidation (see Note 12).

FCHI

On March 23, 2012, the Company incorporated FCHI, with an initial authorized capital stock of 160,000 shares at ₱1.0 par value. On December 29, 2012, the stockholders of FCHI approved for the increase in its authorized capital stock to 67,000,000 common shares at ₱1.0 par value. The Company paid ₱66.5 million for its total subscription. FCHI's main activity is to hold shares of stocks of companies, condominiums units and other properties purely for investment purposes only. FCHI purchased a house and lot which is used to house or accommodate consultants and other guests of the Company, its affiliates, subsidiaries and other related companies.

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

EMHMC commits to improve and develop OLLH, by way of cumulative capital expenditures of at least ₱350.0 million no later than November 1, 2015. The commitment shall be utilized in accordance with EMHMC CAPEX program as predetermined, without prejudice to EMHMC's right to amend/modify the CAPEX program. In the event that EMHMC fails to make or infuse the commitment in the amounts and within the period stated, EMHMC shall deposit in escrow such deficiency and the use of which will be mutually determined by both parties.

EMHMC has infused a total of ₱192.2 million and ₱167.4 million to the CAPEX program as at December 31, 2013 and 2012, respectively.

On December 11, 2013, EMHMC declared dividends amounting to ₱41.0 million which remains uncollected as at December 31, 2013, and presented in "Dividends receivable" under "Receivables" in the parent company statement of financial position (see Note 6).

MPLRC and LRMC
On April 12, 2011, the Company incorporated MPLRC, with an authorized capital stock of 1.0 million shares at ₱100 par value. The Company subscribed for 250,000 shares, representing 25% of the total authorized capital stock of MPLRC, and initially paid ₱6.25 million of its total subscription. The Company made additional subscription payment of ₱1.0 million and ₱10.0 million in 2012 and 2013, respectively, bringing its total investment in MPLRC to ₱7.25 million and ₱17.25 million, as at December 31, 2013 and 2012, respectively. 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, tollways, 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.

MPLRC has a 50% interest in LRMC. The remaining 50% is owned directly by the Company.

MPIC-JGS
On March 11, 2013, the Company and JG Summit Holdings, Inc. (JG Summit) formed MPIC-JGS to bid for the ₱17.5 billion Mactan Cebu International Airport Passenger Terminal Project. However, while MPIC-JGS was not declared as the winning bidder for this project, it may also explore other airport projects that will be rolled out by the government in the future.

MPWIC
On August 17, 2011, the Company incorporated MPWIC, with an authorized capital stock of 200,000 shares at ₱100 par value. The Company subscribed and paid for 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.

In 2013, the Company advanced ₱130.0 million to MPWIC which is subject to equity conversion once the latter has filed its increase of capital stock with the SEC. As at December 31, 2013, no application has been filed yet.

The ₱130.0 million was used by MPWIC for future stock subscription of Manila Water Consortium Inc. (MWCI) shares. MWCI has 51% ownership in Cebu Manila Water Development, Inc. (CMWD) which holds a 20-year Water Purchase Agreement (WPA) for the supply of 18 million liters per day for the first year and 35 million liters per day of water for the 2nd to 20th year to Metropolitan Cebu Water District (MCWD).

MDI
MDI owns and operates the Makati Medical Center, a tertiary hospital in Makati City. As at December 31, 2013 and 2012, the Company owns 1.1 million MDI common shares representing 33.3% and 34.6%, respectively, ownership interest in MDI.

In 2013 and 2012, the Company recognized dividends from MDI amounting to ₱56.9 million and ₱71.1 million, respectively.

DDH
The Company has a total of 34.85% interest in DDH as at December 31, 2013 and 2012. The Company received dividends amounting to ₱31.4 million and ₱29.4 million for the years ended December 31, 2013 and 2012, respectively, presented under "Dividend income" account in the parent company statements of income.

FGNEC
MPIC subscribed for 250,000 common shares, representing 33.3% interest of FGNEC, at ₱1.0 per share or ₱0.3 million initial investment on March 17, 2010. MPIC has participated in the bidding for the proposed sale of the 246 MW Angat Hydroelectric Power Plant ("Angat") through FGNEC but was only declared as the second ranking bidder.

Meralco and Beacon Electric
The Company has 50% ownership interest in Beacon Electric. Beacon Electric was organized with the sole purpose of holding the respective shareholdings in Meralco of PLDT Communications and Energy Ventures (PCEV) and the Parent Company and for subsequent acquisitions of Meralco shares.

Beacon Electric, PCEV and MPIC have agreed, under the Omnibus Investment Agreement, 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. In substance, Beacon Electric is a special purpose vehicle which PCEV and MPIC created for the main purpose of holding and investing in Meralco using the same Meralco shares as collateral for funding such investment. It is management's view that the Omnibus Investment Agreement effectively delegates the decision making power of Beacon over the Meralco shares to PCEV and MPIC and that Beacon Electric does not exercise any discretion over the vote to be taken in respect of the Meralco shares but is obligated to vote the Meralco shares strictly in accordance with the instructions of the two shareholders.

Meralco is a Philippine corporation with its shares listed on the PSE. It acts as the buying, billing, collecting and customer service agent for the electricity supply chain and is the largest distributor of electricity in the Philippines with its franchise valid until 2028.

As of December 31, 2013 and 2012, Beacon Electric's interest in Meralco is at 49.96% and 48.33%, respectively. This increase in ownership interest in Meralco resulted from acquisitions of shares of 10 million (or 0.89%) on July 19, 2013 and an additional 8.3 million (or 0.74%) on July 30, 2013 for a total acquisition cost of ₱5.9 billion inclusive of Meralco transaction costs. The carrying value of Beacon Electric's investment in Meralco accounted for under the equity method amounted to ₱124.2 billion and ₱115.1 billion as of December 31, 2013 and 2012, respectively. Fair value of Beacon Electric's investment in Meralco, based on the quoted price as of December 31, 2013 and 2012 amounted to ₱141.3 billion and ₱142.3 billion respectively.

With the objective of equalizing MPIC and PCEV's interest in preferred shares of Beacon Electric, MPIC and PCEV entered into a Deed of Absolute Sale of Shares on June 6, 2012 wherein PCEV sold 282.2 million preferred shares to MPIC for a total consideration ₱3,562.8 million bringing MPIC's total investments in preferred shares of Beacon Electric to ₱11,573.2 million as at December 31, 2013 and 2012. Investment in Beacon Electric's preferred shares is classified as "AFS financial assets."

Advances to Beacon Electric are non-interest bearing with no fixed repayment terms. The Company views such advances as part of its long-term investment in Beacon Electric as evidence by its inclusion in its interest in a joint venture.

For the years ended December 31, 2013 and 2012, MPIC received dividends from Beacon Electric relating to its preferred shareholdings amounting to ₱405.1 million and ₱561.4 million, respectively, presented under "Dividend income" in the parent company statements of income, respectively.

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

	2013	2012
	(In Thousands)	
Subsidiaries:		
DMWC	**₱6,786,398**	₱1,063,872
MPTC	**1,371,201**	1,342,054
Maynilad	**779,562**	117,890
CVHMC	**65,000**	10,000
EMHMC	**41,000**	–
RMCI	**15,300**	10,200
AHI	**2,187**	–
Associates:		
DDH	**31,365**	29,447
MDI	**56,928**	71,051
Joint Venture - Beacon Electric preferred shares	**405,063**	561,425
	₱9,554,004	₱3,205,939

Cooperation Agreement
On April 24, 2012, the Company signed a memorandum of agreement with Ayala Corporation (AC) forming an exclusive strategic partnership to jointly pursue and develop light rail projects in Metro Manila area. Under the agreement, each of the parties owned 50% interest in the light rail projects and related real estate development undertakings. The partnership bid for the light rail transit projects identified under the government's Public Private Partnership Program (PPP). However, it is also open to work together on other rail-related opportunities.

9. **Other Noncurrent Assets**

As at December 31, this account consists of:

	2013	2012 (Restated - Note 2)
	(In Thousands)	
Deposits	**₱593,495**	₱462,495
AFS financial assets	**706,409**	485,087
Software cost	**50,071**	65,474
Property and equipment	**67,502**	58,614
Derivative asset (see Notes 6 and 21)	**31,713**	31,713
Pension asset (see Note 15)	**–**	2,309
Others	**7,137**	7,134
	₱1,456,327	₱1,112,826

Deposits. Deposits relate to the following:

- Deposits substantially relate to the various agreements entered into with Fil-Estate Corporation and its affiliated companies, and with Anglo Philippines Holdings Corporation and DBH Incorporated. The agreements relate to the options to acquire certain 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) subject to the condition that the necessary consents and waivers from relevant parties are obtained. Should the acquisition push through, these deposits will form part of the acquisition price. Otherwise, these will be forfeited and charged to expense.

- On December 18, 2013, the Company entered into a new IMA with the same Trustee Bank to fund the 2013-2015 LTIP program which is expected to be paid in 2016 (see Note 15). As at December 31, 2013, the LTIP fund balance amounted to ₱131.0 million.

AFS Financial Assets. AFS financial assets account consists of:

	2013	2012
	(In Thousands)	
Shares of stock in:		
NEPSCC	**₱458,584**	₱236,262
Landco (see Note 6)	**211,825**	211,825
Pacific Global One Aviation Co., Inc. (PGOACI)	**25,000**	25,000
Manila Polo Club	**11,000**	12,000
	₱706,409	₱485,087

Except for Manila Polo Club and NEPSCC, these investments in equity instruments are carried at cost as there are no reliable sources and bases for subsequent fair value determination.

Investment in preferred shares of Beacon Electric, also categorized as AFS financial assets (see Note 21), is presented together with the Company's investments in Beacon Electric (see Note 8).

Landco and NEPSCC
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 conveyance of certain assets, more particularly NEPSCC shares and certain property units worth ₱236.3 million and ₱59.5 million, respectively. The conveyed assets were classified as AFS financial assets for the NEPSCC shares and "real estate for sale" for the properties in the parent company statement of financial position. NEPSCC is engaged in leasing properties, particularly mall spaces. The increase in the carrying value of NEPSCC pertains to change in fair value of the investment amounting to ₱222.3 million (with fair value referenced on recent transaction, see Note 23) and was recognized and presented as part of other comprehensive income.

The remaining 19.0% interest in Landco has been classified to AFS financial assets with carrying value of ₱211.8 million as at December 31, 2013 and 2012.

PGOACI
On September 26, 2011, the Company co-incorporated, PGOACI, with Philippine Long Distance Telephone Company (PLDT), 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.

Manila Polo Club
In 2011, the Company purchased golf share costing ₱7.0 million. As at December 31, 2013 and 2012, fair value of golf share in Manila Polo Club amounted to ₱11.0 million and ₱12.0 million, respectively. Changes in fair value were recognized in other comprehensive income.

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:

	December 31, 2011	Additions/ Amortization	**December 31, 2012**	**Additions/ Amortization**	**December 31, 2013**
			(In Thousands)		
Cost	₱79,079	₱6,869	**₱85,948**	**₱3,763**	**₱89,711**
Less accumulated amortization	3,885	16,589	**20,474**	**19,166**	**39,640**
	₱75,194	(₱9,720)	**₱65,474**	**(₱15,403)**	**₱50,071**

Property and Equipment. The account consists of:

	December 31, 2012	**Additions/ Depreciation**	**Disposals**	**December 31, 2013**
		(In Thousands)		
Cost:				
Transportation equipment	**₱53,592**	**₱31,660**	**(₱15,185)**	**₱70,067**
Leasehold improvements	**30,565**	**1,643**	**–**	**32,208**
Office equipment	**9,972**	**210**	**–**	**10,182**
Computer equipment	**9,753**	**5,342**	**(198)**	**14,897**
Furniture and fixtures	**5,911**	**95**	**–**	**6,006**
	109,793	**38,950**	**(15,383)**	**133,360**
Less accumulated depreciation:				
Transportation equipment	**23,655**	**13,678**	**(9,854)**	**27,479**
Leasehold improvements	**13,351**	**5,656**	**–**	**19,007**
Office equipment	**3,283**	**969**	**–**	**4,252**
Computer equipment	**7,117**	**3,479**	**(188)**	**10,408**
Furniture and fixtures	**3,773**	**939**	**–**	**4,712**
	51,179	**24,721**	**(10,042)**	**65,858**
	₱58,614	**₱14,229**	**(₱5,341)**	**₱67,502**

	December 31, 2011	Additions/ Depreciation	Disposals	December 31, 2012
		(In Thousands)		
Cost:				
Transportation equipment	₱47,162	₱9,442	(₱3,012)	₱53,592
Leasehold improvements	29,417	1,148	–	30,565
Office equipment	9,767	210	(5)	9,972
Computer equipment	9,663	501	(411)	9,753
Furniture and fixtures	5,604	307	–	5,911
	101,613	11,608	(3,428)	109,793
Less accumulated depreciation:				
Transportation equipment	16,276	10,211	(2,832)	23,655
Leasehold improvements	7,888	5,463	–	13,351
Office equipment	2,272	1,014	(3)	3,283
Computer equipment	4,643	3,089	(615)	7,117
Furniture and fixtures	2,655	1,118	–	3,773
	33,734	20,895	(3,450)	51,179
	₱67,879	(₱9,287)	₱22	₱58,614

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:

	2013	2012
	(In Thousands)	
Accrued expenses and other payables (see Notes 11 and 14):		
Personnel costs	**₱156,296**	₱113,833
Fringe benefit tax	**54,505**	122,633
Professional fees	**17,467**	10,672
Refinancing cost	**–**	331,066
Others	**57,481**	41,976
Long-term incentive plan payable (see Note 15)	**–**	310,509
Accrued interest payable (see Note 11)	**189,955**	238,366
Accounts payable	**39,417**	41,404
Accrued retirement cost (see Note 15)	**412**	–
Others	**49,308**	67,625
	₱564,841	₱1,278,084

As at December 31 2012, the Company accrued estimated retroactive gross receipt tax adjustment on cumulative interests paid on the loans and fixed upfront fee on refinancing amounting to ₱122.1 million and ₱209.0 million, respectively, in relation to the early redemption of its long term debt (see Note 11). These amounts were subsequently paid in 2013. These amounts were recognized as "Refinancing cost" and presented under "Others" account in the parent company statement of comprehensive income (see Note 16).

Also, the Company reversed accruals amounting to ₱15.5 million and ₱25.8 million in 2013 and 2012, respectively. These amounts represent excess accruals for certain obligations and payables recognized in prior years over actual settlements. These reversals are included under "Others" account in the parent company statements of comprehensive income (see Note 16).

Accrued interest payable pertains to the interest charges from a long-term bank loan, which interest is generally settled semi-annually (see Note 11).

Other current liabilities include statutory payables which represent government remittances pertaining to VAT payable, expanded withholding taxes and contributions to Social Security System, Philippine Health Insurance Corporation and Home Development Mutual Fund.

11. Note Payable and Long-term Debt

Note Payable. On December 27, 2012, the Company availed a short-term unsecured note in the amount ₱4.7 billion from a local bank, the proceeds of which were invested in MPTC (see Note 8). The note bears fixed interest of 4.5% per annum, repayable in 90 days or on March 27, 2013. On the date of scheduled payment, the Company fully settled the outstanding balance of the short-term payable including related interest.

Long-term Debt. The account consists of:

	2013	2012
	(In Thousands)	
Long-term debt	**₱6,447,600**	₱6,513,750
Less unamortized debt issue cost	**–**	4,265
	6,447,600	6,509,485
Less current portion of long-term debt	**64,800**	63,235
	₱6,382,800	₱6,446,250

The movements in unamortized debt issue cost are as follows:

	2013	2012
	(In Thousands)	
Balance at beginning of year	**₱4,265**	₱58,716
Amortization during the year charged to interest expense (see Note 16)	**(4,265)**	(10,223)
Adjustment to amortized cost due to change in expected cash flows (see Note 16)	**–**	(44,228)
Balance at end of year	**₱–**	₱4,265

Loans consist of:

Description	Interest Rate	Terms	2013	2012
			(In Thousands)	
₱ 6.48 billion Fixed Rate Note	Fixed rate for first 5 years; repricing on 5th year	Availed of in June 2013 and payable in ten years; with semiannual interest and with final principal payment in June 2023	**₱6,447,600**	₱–
₱6.8 Billion Loan	10.7% p.a.	Availed of in November 2008, payable in 20 semi-annual installments and redeemable in whole or in part after four years from issue date	–	6,513,750
Total			**₱6,447,600**	₱6,513,750

Repayment schedule of the long-term debt follows:

	2013	2012
	(In Thousands)	
2013	**₱–**	₱67,500
2014	**64,800**	540,000
2015	**64,800**	1,181,250
2016 and onwards	**6,318,000**	4,725,000
	₱6,447,600	₱6,513,750

In December 2012, the Company obtained the consent of the lender of the ₱6.8 Billion Loan for its early redemption. A portion of the unamortized debt issue cost related to the loan amounting to ₱44.2 million was expensed as a result of change in expected cash flow and charged to "Other expense" as "Adjustment to amortized cost due to change in expected cash flows" in the parent company statement of comprehensive income (see Note 16). Also, while the ₱6.8 Billion Loan is outstanding, the loan agreement requires the maintenance of a DSA account, which as at December 31, 2012 amounted to ₱229.2 million and is presented as "Deposits" under "Other current assets" account in the statement of financial position (see Note 7). As at December 31, 2013, DSA balance for the ₱6.48 Billion Loan amounted to ₱188.0 million.

Proceeds from the ₱6.48 Billion Fixed Rate Note availed of in 2013 was used to repay the outstanding balance of the ₱6.8 Billion Loan.

Covenants. The ₱6.48 Billion Fixed Rate Note contain, among others, covenants regarding maintenance of reserve account and achieving certain financial ratios such as (1) debt-to-equity ratio not to exceed 70:30; and (2) debt-service coverage ratio at a minimum of 1.3x. The Notes contain a negative pledge on all existing and future assets of MPIC and is redeemable at the option of the Noteholder, in whole but not in part, on the 5th year, by giving written notice of early redemption no earlier than 60 days nor later than 30 days prior to the exercise date. As at December 31, 2013 and 2012, MPIC is in compliance with its debt covenants.

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 following table summarizes the total amount of transactions with related parties for the relevant year:

	Relationship		Management Fees (see Note 16)	Interest Income (see Note 16)	Dividend Income (see Note 8)	Rent and Utilities Expense (see Note 14)	Total
					(In Thousands)		
DMWC	Subsidiary	**2013**	**₱–**	**₱–**	**₱6,786,398**	**₱–**	**₱6,786,398**
		2012	–	–	1,063,872	–	1,063,872
Maynilad	Subsidiary	**2013**	**–**	**–**	**779,562**	**–**	**779,562**
		2012	11,250	–	117,890	–	129,140
MPTC	Subsidiary	**2013**	**–**	**–**	**1,371,201**	**–**	**1,371,201**
		2012	–	–	1,342,054	–	1,342,054
Beacon Electric	Joint Venture	**2013**	**–**	**–**	**405,063**	**–**	**405,063**
		2012	–	–	561,425	–	561,425
AHI	Subsidiary	**2013**	**7,426**	**–**	**2,187**	**–**	**9,613**
		2012	7,108	–	–	–	7,108

(Forward)

	Relationship		Management Fees (see Note 16)	Interest Income (see Note 16)	Dividend Income (see Note 8)	Rent and Utilities Expense (see Note 14)	Total
					(In Thousands)		
RMCI	Subsidiary	**2013**	**₱–**	**₱–**	**₱15,300**	**₱–**	**₱15,300**
		2012	–	–	10,200	–	10,200
EMHMC	Subsidiary	**2013**	**17,565**	**–**	**41,000**	**–**	**58,565**
		2012	15,715	1,817	–	–	17,532
CVHMC	Subsidiary	**2013**	**19,391**	**–**	**65,000**	**–**	**84,391**
		2012	18,604	14,500	10,000	–	43,104
MDI	Associate	**2013**	**–**	**–**	**56,928**	**–**	**56,928**
		2012	–	–	71,051	–	71,051
DDH	Associate	**2013**	**–**	**–**	**31,365**	**–**	**31,365**
		2012	–	–	29,447	–	29,447
NSH	Subsidiary	**2013**	**–**	**3,000**	**–**	**–**	**3,000**
		2012	–	3,395	–	–	3,395
PLDT	Associate of FPC	**2013**	**–**	**–**	**–**	**11,168**	**11,168**
		2012	–	–	–	8,237	8,237
		2013	**₱44,382**	**₱3,000**	**₱9,554,004**	**₱11,168**	**₱9,612,554**
		2012	₱52,677	₱19,712	₱3,205,939	₱8,237	₱3,286,565

The Company, in the normal course of business, has other transactions with the related parties. Outstanding transactions are carried in the parent company statements of financial position under the following accounts listed below. The Company provides management advisory advices to its subsidiaries covered by a management agreement. Management fees are non-interest bearing, unsecured, requires cash settlement, and are not impaired. Advances are due and demandable, non-interest bearing, unsecured and requires cash settlement except for NSH advances which matures on February 2015 and bears interest of 10% per annum.

		Due from related parties:		Due to related parties:	
	Nature of Transaction	**2013**	2012	**2013**	2012
			(In Thousands)		
Subsidiaries					
NOHI		**₱–**	₱–	**₱359,168**	₱359,214
MPWIC	Advances	**102,157**	154	**–**	–
NSH	Advances and accrued interest	**51,474**	53,959	**–**	–
	Advances	**–**	8,066	**–**	–
CVHMC	Management fees	**21,788**	20,895	**–**	–
EMHMC	Management fees	**20,275**	10,277	**–**	–
MPLRC	Advances	**5,433**	5,430	**–**	–
AHI	Management fees	**2,143**	3,941	**–**	–
BIPI	Advances	**1,744**	10,984	**–**	–
MPTC	Advances	**424**	450	**–**	–
Maynilad	Management fees	**368**	13,281	**–**	–
DMWC	Advances	**–**	50	**–**	–
MPTDC	Advances	**–**	–	**–**	231,585
Joint Venture in which the Company is a venturer					
Beacon Electric	Advances	**4,530**	3	**–**	–
Associate					
Meralco	Advances	**2,355**	4,084	**–**	–
Other related parties					
FPC	Advances	**87,225**	6,464	**–**	–
FCHI	Advances	**6,141**	–	**–**	–
Metro Pacific Investments Foundation, Inc. (MPIF)	Advances	**672**	3	**–**	–
Ideaspace Foundation Inc. (Ideaspace)	Advances	**–**	–	**1,250**	3,236
PLDT	Advances	**–**	–	**–**	17
Others	Advances	**4,994**	2,199	**1,236**	1,607
		311,723	140,240	**361,654**	595,659
Less current portion		**260,249**	86,281	**361,654**	595,659
		₱51,474	₱53,959	**₱–**	₱–

NOHI
The balance represents the various advances made for MPIC to pay documentary stamp taxes for its various loans and issuance of common shares, payment for software costs and advances to finance MPIC's daily operations in prior years. In 2011, MPIC settled a portion of NOHI's debt to a certain bank by transferring certain assets with an aggregate price of ₱23.1 million. Because of this, MPIC became a creditor of NOHI to the extent of the amount of the conveyed property.

On August 31, 2012, by way of endorsement of NOHI, advances of ₱115.7 million were offset to this account considering NOHI is already in the process of liquidation and the Company has no more intention of capitalizing this amount as additional equity investment in NOHI.

MPWIC
In 2013, the Company made advances to MPWIC amounting to ₱102.0 million which amount was extended by MPWIC to Manila Water Consortium Inc. for the Cebu Water project.

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 to loans and advances amounting to ₱68.7 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 of which ₱9.2 million was paid in 2013;

- 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 of which was fully paid in 2013; and

- NSH Shareholder Loan pertain to an interest bearing loan with a principal amount of ₱30.0 million owed by NSH to BIL under the Omnibus Loan and Pledge Agreement dated February 18, 2005 between NSH, a certain individual and BIL (as amended and supplemented by an Amendment Agreement dated January 30, 2008). The accrued interest as at December 31, 2013 and 2012 amounted to ₱21.5 million and ₱24.0 million, respectively.

The BIPI and NSH Shareholder Advances are non-interest 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.

MPTDC
This pertains to the assumed obligation to pay the advances received by Lopez Holdings Corporation and First Philippine Holdings Corporation from MPTDC and MPTC as part of the purchase price for the acquisition of MPTC shares. As at December 31, 2013 and 2012, a total of ₱231.6 million and ₱231.1 million, respectively, of cash dividends from MPTC were applied to these advances through deduction on dividends collections by the Company.

Others
Other transactions with related parties (MPIF, FPC, Meralco, 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 non-interest bearing.

Compensation of Key Management Personnel
The compensation and benefits of the Company's key management personnel for the years ended December 31, 2013 and 2012 are as follows:

	2013	2012 (Restated - Note 2)
	(In Thousands)	
Short-term employee benefits	**₱314,079**	₱388,520
Post employment benefits - Retirement cost (see Note 15)	**23,742**	20,046
Share-based payment - ESOP (see Note 18)	**12,834**	2,338
Other employee benefits - LTIP expense (see Note 15)	**178,498**	120,167
	₱529,153	₱531,071

Directors' Remuneration
Annual remuneration of the directors amounted to ₱7.0 million and ₱8.2 million for the years ended December 31, 2013 and 2012, respectively (see Note 14).

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, 2013 and 2012 in the absence of resolution from the BOD. 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	**Par Value/ Issue Price per share**	No. of Shares	**Par Value/ Issue Price per share**	No. of Shares	**Price per share**
Authorized Capital Stock (ACS):							
Registration Date	**Activity**						
March 20, 2006	Incorporation	100,000	₱1.00				
June 5, 2006	Increase in ACS	4,599,900,000	1.00				
As at December 31, 2007 and 2006		4,600,000,000	1.00				
August 12, 2008	Increase in ACS	7,350,000,000	1.00	5,000,000,000	₱0.01		
As at December 31, 2008		11,950,000,000	1.00	5,000,000,000	0.01		
February 13, 2009	Increase in ACS	8,050,000,000	1.00	–	–	1,500,000,000	₱1.0
December 21, 2009	Increase in ACS	2,688,518,336	1.00	–	–	–	–
As at December 31, 2010 and 2009		22,688,518,336	1.00	5,000,000,000	0.01	1,500,000,000	1.0
May 31, 2011	Increase in ACS	5,811,481,664	1.00	–	–	–	–
As at December 31, 2013 and 2012		28,500,000,000	1.00	5,000,000,000	0.01	1,500,000,000	1.0

(Forward)

Date	Activity	Common shares: No. of Shares	Common shares: Par Value/ Issue Price per share	Preferred Shares – Class A: No. of Shares	Preferred Shares – Class A: Par Value/ Issue Price per share	Preferred Shares – Class B: No. of Shares	Preferred Shares – Class B: Price per share
Issued and Outstanding:							
Date	**Activity**						
September 6, 2006	Original subscription of MPIC's majority shareholders	968,820,495	₱1.00	–	₱–	–	₱–
October 23, 2006	Issuance of shares to NOHI majority owners in exchange for MPIC shares	181,290,038	1.00	–	–	–	–
November 8, 2006	Tendered shares of NOHI minority shareholders in exchange for MPIC shares	48,841,989	1.00	–	–	–	–
As at December 31, 2006		1,198,952,522	1.00	–	–	–	–
December 31, 2007	Tendered shares of NOHI minority shareholders in exchange for MPIC shares	143,966,271	1.00	–	–	–	–
As at December 31, 2007		1,342,918,793	1.00	–	–	–	–
June 30, 2008	Additional subscription of MPIC's majority shareholders	3,791,525,175	2.00	–	–	–	–
June 30, 2008	Conversion of loan from MPHI to equity	1,893,282,845	1.00	–	–	–	–
As at December 31, 2008		7,027,726,813	1.00	–	–	–	–
February 13, 2009	Issuance on existing subscriptions from MPHI	2,389,040,000	2.00	–	–	–	–
July 9, 2009	Issuance on existing subscriptions from LAWL Pte. Ltd (LAWL)	791,110,491	2.60	–	–	–	–
July 29, 2009	Conversion of advances from MPHI to equity			5,000,000,000	0.01	–	–
October 2, 2009	Issuance in exchange for Meralco shares	4,464,202,634	3.20	–	–	–	–
September 19, 2009	Additional subscriptions of MPHI	4,770,000,000	3.00	–	–	–	–
December 21, 2009	Conversion of advances/loan from MPHI to equity	672,129,584	3.00	–	–	–	–
Various	Exercise of stock option plan	13,945,000	2.41*	–	–	–	–
As at December 31, 2009		20,128,154,522	1.00	5,000,000,000	0.01	–	–
Various	Exercise of stock option plan	32,310,000	2.12	–	–	–	–
As at December 31, 2010		20,160,464,522	1.00	5,000,000,000	0.01	–	–
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	2,060,000	2.73	–	–	–	–
As at December 31, 2011		24,593,293,752	1.00	5,000,000,000	0.01	–	–
Various	Exercise of stock option plan	20,530,000	2.41*	–	–	–	–
As at December 31, 2012		24,613,823,752	1.00	5,000,000,000	0.01	–	–
January 22, 2013	Additional subscriptions of MPHI	1,330,000,000	4.60	–	–	–	–
Various	Exercise of stock option plan	82,150,000	2.73*	–	–	–	–
As at December 31, 2013		26,025,973,752	₱1.00	5,000,000,000	₱0.01		

* *Weighted average exercise price.*

As at December 31, 2013 and 2012, there are 1,358 and 1,357 holders of the Parent Company's common shares, respectively, and one holder of the Parent Company's Class A preferred shares.

Authorized Capital Stock

The SEC approved on May 31, 2011 the increase in the authorized capital stock of the Company from ₱24.2 billion to ₱30.05 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.

Common Shares
On January 22, 2013, MPIC raised ₱6.12 billion in an overnight placement of 1.33 billion in new MPIC shares worth ₱4.60 apiece. The shares came from the shareholdings of MPHI in which MPIC issued new shares as replacements. As a result of this transaction, MPHI's interest in MPIC was reduced by way of dilution from 59.0% as at December 31, 2012 to 55.8% as at December 31, 2013. Also, at various dates in 2013 and 2012, the Company issued a total of 82.2 million and 20.5 million common shares, respectively, in connection with the Company stock option plan (see Note 18).

Class A Preferred Shares
Holders of Class A Preferred Shares are entitled to vote and shall receive preferential cash dividends at the rate of 10.0% per annum based on share's par value, upon declaration made at the sole option of the BOD. Dividends on these preferred shares, which shall be paid out of the Parent Company's unrestricted retained earnings, are cumulative whether or not in any period the amount is covered by available unrestricted retained earnings. No dividends or other distributions shall be paid or declared and set apart for payment in respect of the common shares, unless the full accumulated dividends on all Class A Preferred Shares shall have been paid or declared. Holders of Class A Preferred Shares do not have right to participate in any additional dividends declared for common shareholders. MPHI holds all of the Parent Company's Class A Preferred Shares.

Class B Preferred Shares
The Parent Company may issue one or more series of Class B Preferred Shares, as the BOD may determine. The BOD shall also determine (a) cash dividend rate of such preferred share, which in no case to exceed 10.0% per annum; and (b) period and manner of conversion to common shares or redemption. Dividends on these preferred shares, which shall be paid out of the Parent Company's unrestricted retained earnings, are cumulative whether or not in any period the amount is covered by available unrestricted retained earnings. No dividends shall be paid or declared and set apart for payment in respect of the common shares or Class A Preferred Shares, unless the full accumulated dividends on all Class B Preferred Shares shall have been paid or declared. Holders of Class B Preferred Shares do not have right to participate in any additional dividends declared for common shareholders.

There were no Class B Preferred Shares issued as at December 31, 2013 and 2012.

Record of Registration of Securities with the SEC
In accordance with SRC Rule 68, as Amended (2011), Annex 68-D, below is a summary of the Company's track record of registration of securities:

Issue	Offer price	Date of SEC approval	Number of shares registered securities	Number of holders of securities as at December 31, **2013**	2012
Tender offer to shareholders of MPC covering subscription warrants relating to common shares of MPIC with par value of ₱1.0 per share	Four (4) MPC shares for one (1) MPIC share plus three (3) warrants	October 25,2006	Common shares of 56,878,766	**1,358**	1,357
			Subscription warrants of 170,636,298	–	–

The shares relating to the transaction above were exchanged in the Philippine Stock Exchange on December 15, 2006, effectively listing MPIC via listing by way of Introduction. Out of the total warrants available for conversion, 143,976,804 warrants were converted as of December 31, 2007 and 2,549,163 warrants expired on December 15, 2007.

Cash Dividends
Dividends paid and declared are as follows:

	2013	2012
	(In Thousands)	
Paid and declared:		
Final dividend in respect of the previous financial year approved and paid during the following interim period:		
Common shareholders (₱0.02 and ₱0.015 per share in 2013 and 2012, respectively)	**₱519,878**	₱368,905
Class A preferred shareholders	**2,500**	1,833
Interim dividend declared and paid during the interim period:		
Common shareholders (₱0.015 and ₱0.012 per share in 2013 and 2012, respectively)	**390,358**	295,194
Class A preferred shareholders	**2,500**	2,500
	₱915,236	₱668,432

Equity Reserves
This account is used to recognize the value of equity-settled share-based payments provided to employees, including key management personnel, as part of their remuneration. See Note 18 for further details of these plans. As at December 31, 2013 and 2012, other reserve from ESOP amounted to ₱80.5 million and ₱108.1 million, respectively (see Note 18).

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

	2013	2012
	(In Thousands)	
Change in fair value of AFS financial assets (see Note 9)	**₱201,524**	₱5,000
Actuarial gain (loss) (see Note 15)	**(₱1,292)**	1,615
	₱200,232	₱6,615

14. **Operating Expenses**

This account consists of:

	2013	2012 (Restated - Note 2)
	(In Thousands)	
Personnel costs	**₱638,023**	₱638,393
Professional fees	**164,786**	55,983
Provision for corporate initiatives	**146,400**	–
Outside services	**67,466**	66,140

(Forward)

	2013	2012 (Restated - Note 2)
	(In Thousands)	
Public relation	**₱46,522**	₱52,426
Depreciation and amortization (see Note 9)	**43,887**	37,484
Transportation	**29,455**	23,335
Donations	**23,500**	21,050
Rent	**10,215**	6,582
Communication, light and water	**9,521**	6,632
Supplies	**7,235**	5,457
Taxes and licenses	**7,188**	12,599
Directors' fee	**6,988**	8,165
Insurance	**5,445**	4,365
Seminars and conferences	**4,131**	4,765
Repairs and maintenance	**2,390**	2,401
Membership dues	**1,554**	2,644
Representation	**1,446**	908
Others	**20,885**	46,588
	₱1,237,037	₱995,917

Personnel costs for the years ended December 31, 2013 and 2012 consist of:

	2013	2012 (Restated - Note 2)
	(In Thousands)	
Salaries and wages	**₱355,943**	₱319,991
LTIP expense (see Note 15)	**178,498**	120,167
Fringe benefit tax	**28,288**	139,169
Retirement cost (see Note 15)	**26,590**	25,639
ESOP expense (see Note 18)	**12,834**	2,338
Others	**35,870**	31,089
	₱638,023	₱638,393

15. **Employee Benefits**

LTIP. Certain of the Company's employees are eligible for long-term employee benefits under a long-term incentive plan. The liability recognized on the LTIP comprises the present value of the defined benefit obligation and was determined using the projected unit credit method. Each LTIP performance cycle generally covers 3 years (e.g., 2013 to 2015 and 2010 to 2012) with payment intended to be made at the end of each cycle (without interim payments) and is contingent upon the achievement of an approved target core income of the Company by the end of the performance cycle. Each LTIP performance cycle is approved by the BOD of the Parent Company.

The total cost of the LTIP for 2013 and 2012 amounted to ₱178.5 million and ₱133.8 million, respectively, of which ₱13.6 million were recognized as additional investment in subsidiaries in 2012 representing the Company's share in the LTIP cost of the subsidiaries' employees as per LTIP plan. The balance of ₱178.5 million and ₱120.2 million were presented under "Personnel cost" in the parent company statements of income (see Notes 8 and 14) for the years ended December 31, 2013 and 2012, respectively. The details of accrued LTIP are as follows, as at December 31:

	2013	2012
	(In Thousands)	
Beginning balance	**₱310,509**	₱176,696
Payout	**(335,655)**	–
Reversal[a]	**(5,624)**	–
Current provision	**176,383**	130,163
Interest	**1,464**	3,760
Actuarial loss (gain)	**651**	(110)
LTIP payable	**₱147,728**	₱310,509
Current	**₱–**	₱310,509
Noncurrent	**147,728**	–
	₱147,728	₱310,509

[a] *Reversal refers to adjustments made to effect actual amount of LTIP paid as against accrued LTIP as at December 31, 2012, since actual amount accrued was only finalized subsequent to 2012.*

On October 7, 2011, the Company entered into an IMA with a certain bank for the opening of an account to fund the LTIP program for performance cycle 2010-2012. 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. As at December 31, 2012, the LTIP fund balance amounted to ₱221.9 million (see Note 7) and was used to pay the accrued liability under the 2010-2012 LTIP in February 2013.

On December 18, 2013, MPIC entered into a new IMA with the same Trustee Bank for the funding of the 2013-2015 LTIP program. As at December 31, 2013, the LTIP fund balance amounted to ₱131.0 million (see Note 9).

Pension

Regulatory Environment. Republic Act (R.A.) 7641 requires a minimum benefit of equivalent to one-half month's salary for every year of service, with six months or more of service considered as one year. As the Company operates in the Philippines, it provides for a defined contribution retirement plan that considers the minimum benefit guarantee mandated under R.A. 7641.

Defined Contribution Retirement Plan. The retirement benefits of the Company's employees are provided through a defined contribution scheme as approved by the BOD on August 4, 2010. The retirement plan 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 retirement plan is managed and administered by the compensation 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, which provides for its qualified employees under a defined benefit minimum guarantee. The defined minimum guarantee is equivalent to a certain percentage of the monthly salary payable to an employee at normal retirement age with the required credited years of service based on the provisions of R.A. 7641. Accordingly and as discussed in Note 2, the Company accounted for the retirement obligation under the higher of defined benefit obligation relating to the minimum guarantee and the obligation arising from the defined contribution plan. Disclosures required for a defined benefit retirement plan apply to the Company's retirement plan.

Each year, the compensation committee reviews compliance with R.A. 7641 to evaluate the level of funding that would ensure that the expected future value of the defined benefit contribution plan asset is sufficient to cover the future expected value of retirement benefits prescribed by R.A. 7641.

Retirement Costs. The following tables summarize the components of the retirement costs under the defined contribution plan included in "Personnel costs" under "Operating expenses" account in the parent company statements of comprehensive income.

	2013	2012 (Restated - Note 2)
	(In Thousands)	
Current service cost	**₱27,471**	₱25,638
Net interest cost	**(881)**	1
Total retirement cost	**₱26,590**	₱25,639

Remeasurement effects recognized in OCI are as follows:

	2013	2012 (Restated - Note 2)
	(In Thousands)	
Actuarial loss	**(₱3,933)**	(₱6,685)
Return on assets excluding amount included in net interest cost	**330**	9,003
	(3,603)	2,318
Less deferred tax	**(696)**	696
Actuarial gain (loss), net of deferred tax	**(₱2,907)**	₱1,622

The funded status and amounts recognized in the statement of financial position for accrued retirement cost or pension assets are as follows:

	2013	2012 (Restated - Note 2)
	(In Thousands)	
Present value of obligation	**₱136,405**	₱99,917
Fair value of plan assets	**(135,993)**	(102,226)
Accrued retirement cost (Pension asset)	**₱412**	(₱2,309)

Movements in the present value of obligation are as follows:

	2013	2012 (Restated - Note 2)
	(In Thousands)	
Present value of obligation at the beginning of the year	**₱99,917**	₱63,489
Current service cost	**27,471**	25,638
Interest cost	**5,084**	4,105
Actuarial loss due to:		
Experience adjustments	**3,845**	6,684
Changes in financial assumptions	**88**	1
Present value of obligation at the end of the year	**₱136,405**	₱99,917

Movements in the fair value of plan assets are as follows:

	2013	2012 (Restated - Note 2)
	(In Thousands)	
Fair value of plan assets at beginning of the year	**₱102,226**	₱63,480
Interest income included in net interest cost	**5,965**	4,104
Actual return excluding amount included in net interest cost	**330**	9,003
Actual contributions	**27,472**	25,639
Fair value of plan assets at end of the year	**₱135,993**	₱102,226
Actual return on plan assets	**₱6,295**	₱13,107

The allocations of the fair value of the trust fund as at December 31, 2013 and 2012 are as follows:

	2013	2012 (Restated - Note 2)
	(In Thousands)	
Investments in:		
Government securities	**₱65,322**	₱4,577
Unit trust funds	**32,354**	27,485
Bonds and other debt securities	**–**	58,393
Cash in banks	**37,426**	1,063
Receivables and others	**891**	10,708
	₱135,993	₱102,226

As at December 31, 2013 and 2012, the trust fund consists of the following:

- Investments in government securities consist primarily of fixed-rate treasury notes and retail treasury bonds that bear interest ranging from 5.38% to 7.00% per annum and have maturities from 2016 to 2037.

- Unit trust funds include subscription with unit investment fund offered by local institutional investment banks.
- Investments in corporate debt instruments consist of quoted, unsecured, long-term corporate bonds and subordinated notes, which bear interest ranging from 4.86% to 8.50% per annum and have various maturities.
- Cash and cash equivalents include regular savings and time deposits, which bear interest ranging from 2.00% to 5.50% per annum.
- Receivables include interest receivables, dividends receivables and other receivables.

While the Company does not perform any Asset-Liability Matching Study, the risks arising from the nature of the assets comprising the fund, are mitigated as follows:

- *Credit Risks.* Exposure to credit risk arises from financial assets comprising of cash and cash equivalents, investments and receivable. The credit risk results from the possible default of the issuer of the financial instrument, with a maximum exposure equivalent to the carrying amount of the instruments. The risk is minimized by ensuring that the exposure is limited only to the instruments as recommended by the fund managers.

- *Share Price Risk.* Exposure arises from holdings of shares of stock being traded at the Philippine Stock Exchange. The price risk emanates from the volatility of the stock market. Policy is to limit investment in shares of stock to blue chip issues or issues with good fair values.

- *Liquidity Risk.* This risk relates to the risk that the fund is unable to meet its payment obligations associated with its retirement liability when they fall due. To mitigate this risk, the entities contribute to their respective fund from time to time, based on the recommendations of their actuaries with the objective of maintaining their respective fund in a sound condition.

The principal assumptions used to determine pension benefits as at December 31 are as follows:

	2013	2012
Discount rate	**5.00%**	5.84%
Salary increase rate	**7.00%**	7.00%

The discount rate represents the range of single weighted average discount rate used by the Company in arriving at the present value of defined benefit obligation, service and interest cost components of the retirement cost. Assumptions regarding future mortality rate are based on the 1994 Group Annuity Mortality Table developed by the U.S. Society of Actuaries, which provides separate rates for males and females.

The weighted average duration of the expected benefit payments is approximately 18.46 years and 19.22 years in 2013 and 2012, respectively.

Shown below is the maturity analysis of the undiscounted benefit payments as at December 31, 2013:

	Normal Retirement	Other Than Normal Retirement	Total
		(In Thousands)	
Less than one year	₱40,605	₱750	₱41,355
More than one year to five years	78,970	6,476	85,446
More than five years to 10 years	16,491	5,883	22,374
More than 10 years to 15 years	45,697	9,595	55,292
More than 15 years to 20 years	162,812	10,686	173,498
More than 20 years	293,172	16,324	309,496

Sensitivity Analysis. The calculation of the defined benefit obligation is sensitive to the assumptions set above. The following table summarizes how the present value of defined benefit obligation at the end of the reporting period would have increased (decreased) as a result of change in the respective assumptions by:

	Increase (Decrease) in Basis Points	Increase (Decrease) in Defined Benefit Obligation
Discount rate	+1%	₱300
	-1%	(534)
Salary increase rate	+1%	3,950
	-1%	(25)

The Company currently expects to make approximately ₱19.1 million of cash contributions to its retirement fund in 2014.

16. Interest Income, Interest Expense and Other Income (Expenses)

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

	2013	2012
	(In Thousands)	
Interest income:		
Notes receivable (see Note 6)	**₱95,418**	₱112,573
Cash and cash equivalents (see Note 5)	**115,957**	203,700
	₱211,375	₱316,273
Interest expense:		
Long-term debt (see Note 11)	**₱602,573**	₱621,522
Amortization of debt issue cost (see Note 11)	**4,265**	10,223
	₱606,838	₱631,745

(Forward)

	2013	2012
	(In Thousands)	
Other Income (expenses) - net:		
Refinancing cost (see Note 10)	**(₱66,103)**	(₱331,066)
Management fees (see Note 12)	**47,656**	56,768
Adjustment to amortized cost due to change in expected cash flows (see Note 11)	**–**	(44,228)
Reversal of accruals (see Note 10)	**15,522**	25,794
Foreign exchange gain - net	**10,606**	11,725
Others	**83,716**	6,116
	₱91,397	(₱274,891)

17. **Income Taxes**

Current Tax

The provision for current income tax consists of:

	2013	2012
	(In Thousands)	
MCIT	**₱3,710**	₱3,457
Final tax on interest income	**23,186**	40,740
	₱26,896	₱44,197

Deferred Tax

a. Deferred tax liability related to items recognized in OCI consist of unrealized fair value gain on AFS financial assets amounting to ₱24.8 million as at and for the year ended December 31, 2013 and actuarial gain amounting to ₱0.7 million as at and for the year ended December 31, 2012.

b. The details of the carryforward benefits of NOLCO, MCIT and other deductible temporary difference for which deferred tax assets, amounting to ₱1,249.6 million and ₱1,235.5 million, were not recognized as at December 31, 2013 and 2012, 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:

	2013	2012
	(In Thousands)	
Items recognized in profit or loss:		
NOLCO	**₱3,662,201**	₱3,220,164
MCIT	**8,343**	8,806
Nondeductible expenses	**473,864**	868,790
Items recognized in OCI:		
Actuarial loss	**1,292**	–
	₱4,145,700	₱4,097,760

The carryforward benefits of MCIT amounting to ₱8.3 million and ₱8.8 million as at December 31, 2013 and 2012, respectively, can be claimed as tax credit against future income taxes payable as follows:

Year Incurred	Balance as at December 31, 2012	Additions	Expired	Balance as at December 31, 2013	Expiry Year
			(In Thousands)		
2013	₱–	₱3,710	₱–	₱3,710	2016
2012	3,457	–	–	3,457	2015
2011	1,176	–	–	1,176	2014
2010	4,173	–	(4,173)	–	2013
	₱8,806	₱3,710	(₱4,173)	₱8,343	

As at December 31, 2013 and 2012, unrecognized NOLCO amounting to ₱3,662.2 million and ₱3,220.2 million, respectively, can be carried forward and claimed as deduction from regular taxable income as follows:

Year Incurred	Balance as at December 31, 2012	Additions	Expired	Balance as at December 31 ,2013	Expiry Year
			(In Thousands)		
2013	₱–	₱1,925,639	₱–	₱1,925,639	2016
2012	954,968	–	–	954,968	2015
2011	781,594	–	–	781,594	2014
2010	1,483,602	–	(1,483,602)	–	2013
	₱3,220,164	₱1,925,639	(₱1,483,602)	₱3,662,201	

The reconciliation between the Company's statutory income tax and the effective income tax on net income for the years ended December 31, 2013 and 2012 follows:

	2013	2012
	(In Thousands)	
Statutory income tax at 30%	**₱2,403,870**	₱485,898
Adjustments for:		
Dividend income exempted from final tax	**(2,866,201)**	(961,782)
Net change in unrecognized deferred tax assets	**459,214**	490,981
Income already subjected to final tax	**(34,787)**	(61,110)
Final tax on interest income	**23,186**	40,740
Nondeductible expenses	**37,904**	46,013
MCIT	**3,710**	3,457
Effective income tax	**₱26,896**	₱44,197

18. **Share-based Payment**

On June 24, 2007, the shareholders of MPIC approved a share option scheme (the Plan) under which MPIC's directors may, at their discretion, invite executives of MPIC upon the regularization of employment of eligible executives, to take up share option of MPIC to obtain an ownership interest in MPIC and for the purpose of long-term employment motivation. The scheme became effective on June 14, 2007 and is valid for 10 years. An amended plan was approved by the stockholders on February 20, 2009.

As amended, the overall limit on the number of shares that 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 exercise price in relation to each option shall be determined by the Company's Compensation Committee, but shall not be lower than the highest of: (i) the closing price of the shares for one or more board lots of such shares on the PSE on the option offer date; (ii) the average closing price of the shares for one or more board lots of such shares on the PSE for the five business days on which dealings in the shares are made immediately preceding the option offer date; and (iii) the par value of the shares.

First Grant. The Company granted on December 9, 2008 (Tranche A) and March 10, 2009 (Tranche B) options in respect of 123,925,245 common shares to its senior management. Details of the said tranches follow: (a) Tranche A for 61,000,000 shares, 50.0% of which vested immediately on January 2, 2009 with an exercise price of ₱2.12 per share and (b) Tranche B for 62,925,245 shares, 50.0% of which vested on March 10, 2009 with an exercise price of ₱2.73 per share. The remaining 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. Both tranches of the First Grant expired on January 2, 2013 and March 10, 2013, respectively.

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

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

On March 8, 2011, 1,000,000 common shares was granted at the exercise price of ₱3.53 to senior management of Maynilad (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 a MPIC officer (the Third Grant C).

Fourth Grant. On October 14, 2013, MPIC made an ESOP grant (the Fourth Grant) consisting of 112.0 million common shares, to its directors and senior management officers. 112.0 million common shares were granted under Tranche A while 8.0 million common shares will be included under Tranche B. The grantees include the 3 independent directors of the Company. Of the total shares granted, 14.0 million common shares are allocated to senior management of MPTC. The grant was approved by the SEC on March 4, 2014.

The weighted average remaining term to expiry for the share options outstanding as at December 31, 2013 and 2012 as follows:

	2013	2012
	(In Years)	
First grant	–	–
Second grant	**1.5**	2.5
Third grant	**2.1**	3.1
Fourth grant	**4.8**	–

For the years ended December 31, 2013 and 2012, the weighted average share price of MPIC's common share is ₱5.17 and ₱4.46 per share, respectively. The carrying value of ESOP recognized under "Equity Reserves" in the equity section of the parent company statement of financial position amounted to ₱80.5 million and ₱108.1 million as at December 31, 2013 and 2012, respectively (see Note 13).

Total ESOP charged to "Personnel Cost" under "Operating Expenses" and "Investments and Advances" as at and for the years ended December 31, 2013 and 2012 are shown below:

		2013	
	Personnel Cost (Note 14)	**Investments and advances** (Note 8)	**Equity Reserves** (Note 13)
		(In Thousands)	
Second grant:			
Tranche B	**₱356**	**₱2,215**	**₱2,571**
Third grant:			
Tranche A	**–**	**1,315**	**1,315**
Tranche B	**–**	**231**	**231**
Tranche C	**279**	**–**	**279**
Fourth grant:	**12,199**	**1,611**	**13,810**
	₱12,834	**₱5,372**	**₱18,206**

		2012	
	Personnel Cost (Note 14)	Investments and advances (Note 8)	Equity Reserves (Note 13)
		(In Thousands)	
Second grant:			
Tranche B	₱1,107	₱6,896	₱8,003
Third grant:			
Tranche A	–	3,717	3,717
Tranche B	–	446	446
Tranche C	1,231	–	1,231
	₱2,338	₱11,059	₱13,397

The following table illustrates the number of, exercise prices of, and movements in share options in 2013 and 2012:

	First Grant				Second Grant			
	Tranche A		Tranche B		Tranche A		Tranche B	
	Number of shares	Exercise price	Number of shares	Exercise price	Number of shares	Exercise price	Number of shares	Exercise price
Outstanding at December 31, 2011	26,075,000	₱2.12	29,000,000	₱2.73	62,500,000	₱2.73	30,240,000	₱2.73
Exercised during the year*	(11,075,000)	2.12	(3,950,000)	2.73	(3,120,000)	2.73	(2,135,000)	2.73
Outstanding at December 31, 2012	15,000,000	2.12	25,050,000	2.73	59,380,000	2.73	28,105,000	2.73
Exercised during the year*	**(10,000,000)**	**2.12**	**(22,550,000)**	**2.73**	**(31,280,000)**	**2.73**	**(10,125,000)**	**2.73**
Expired during the year	**(5,000,000)**	–	**(2,500,000)**	–	–	–	–	–
Outstanding at December 31, 2013	–	–	–	–	**28,100,000**	**₱2.73**	**17,980,000**	**₱2.73**
Exercisable at December 31, 2012	15,000,000	₱2.12	25,050,000	₱2.73	59,380,000	₱2.73	16,975,000	₱2.73
Exercisable at December 31, 2013	–	–	–	–	**28,100,000**	**₱2.73**	**17,980,000**	**₱2.73**

	Third Grant						Fourth Grant	
	Tranche A		Tranche B		Tranche C		Tranche A	
	Number of shares	Exercise price	Number of shares	Exercise price	Number of shares	Exercise price	Number of shares	Exercise price
Outstanding at December 31, 2011	10,000,000	₱3.50	1,000,000	₱3.53	3,000,000	₱3.66	–	₱–
Exercised during the year*	–	–	–	–	(250,000)	3.66	–	–
Outstanding at December 31, 2012	10,000,000	3.50	1,000,000	3.53	2,750,000	3.66	–	–
Grant during the year	–	–	–	–	–	–	**112,000,000**	**4.60**
Exercised during the year*	**(6,500,000)**	**3.50**	**(650,000)**	**3.53**	**(1,045,000)**	**3.66**	–	–
Outstanding at December 31, 2013	**3,500,000**	**₱3.50**	**350,000**	**₱3.53**	**1,705,000**	**₱3.66**	**112,000,000**	**₱4.60**
Exercisable at December 31, 2012	6,500,000	₱3.50	300,000	₱3.53	1,250,000	₱3.66	–	₱–
Exercisable at December 31, 2013	**3,500,000**	**₱3.50**	–	–	**1,705,000**	**₱3.66**	–	**₱–**

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

	First Grant				Second Grant				
	Tranche A		Tranche B		Tranche A			Tranche B	
	50.0% vesting on January 2, 2009	50.0% vesting on January 2, 2010	50.0% vesting on March 10, 2009	50.0 vesting o March 1 201	50.0% vesting on January 1, 2011	50.0% vesting on January 1, 2012	30.0% vesting on July 2, 2011	35.0% vesting on July 2, 2012	35.0% vesting on July 2, 2013
Spot Price	₱2.10	2.10	₱2.70	₱2.7	₱2.65	₱2.65	₱2.65	₱2.65	₱2.65
Exercise price	2.12	2.12	2.73	2.7	2.73	2.73	2.73	2.73	2.73
Risk-free rate	5.92%	6.60%	4.24%	4.82	4.16%	4.92%	4.61%	5.21%	5.67%
Expected volatility*	94.07%	58.10%	61.25%	66.43	48.33%	69.83%	69.27%	67.52%	76.60%
Term to vesting in days	24	389	61	36	183	548	365	731	1,096
Call price	₱0.20	₱0.55	₱0.27	₱0.7	₱0.35	₱0.91	₱0.73	₱1.03	₱1.39

	Third Grant								Fourth Grant	
	Tranche A			Tranche B			Tranche C		Tranche A	
	30.0% vesting on August 1, 2011	35.0% vesting on August 1, 2012	35.0% vesting on August 1, 2013	30.0% vesting on March 8, 2012	35.0% vesting on March 8, 2013	35.0% vesting on March 8, 2014	50.0% vesting on April 14, 2012	50.0% vesting on April 14, 2013	50.0% vesting on October 14, 2014	50.0% vesting on October 14, 2015
Spot Price	₱3.47	₱3.47	₱3.47	₱3.53	₱3.53	₱3.53	₱3.66	₱3.66	₱4.59	₱4.59
Exercise price	3.50	3.50	3.50	3.53	3.53	3.53	3.66	3.66	4.60	4.60
Risk-free rate	1.62%	2.83%	3.73%	2.56%	4.38%	5.01%	2.05%	3.83%	0.66%	2.40%
Expected volatility*	46.62%	68.23%	72.82%	39.32%	61.39%	64.42%	39.13%	60.76%	35.23%	33.07%
Term to vesting in days	223	589	954	366	731	1,096	366	731	365	730
Call price	₱0.46	₱1.20	₱1.62	₱0.58	₱1.28	₱1.62	₱0.60	₱1.30	₱0.63	₱0.89

** 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.*

19. Earnings Per Share

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

		2013	2012 (Restated - Note 2)
		(In Thousands, Except for Per Share Amounts)	
Net income		**₱7,986,005**	₱1,575,462
Effect of dividends on preference equity holders of the Parent Company		**(5,000)**	(5,000)
	(a)	**7,981,005**	1,570,462
Outstanding common shares at the beginning of the year		**24,613,824**	24,593,294
Effect of issuance of common shares during the year		**1,313,984**	5,302
Weighted average number of common shares for basic earnings per share	(b)	**25,927,808**	24,598,596
Effects of potential dilution from ESOP		**61,514**	53,439
Weighted average number of common shares adjusted for the effects of potential dilution	(c)	**25,989,322**	24,652,035
Basic earnings per share	(a/b)	**₱0.308**	₱0.064
Diluted earnings per share	(a/c)	**₱0.307**	₱0.064

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 2013 and 2012, the ESOP is considered in the computation of the diluted earnings and certain grants were considered dilutive.

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, accrued expenses and other current liabilities, as well as other related party transactions that arise directly from the Company's operations. The Company also holds AFS financial assets.

The main risks arising from the Company's financial instruments are liquidity risk and credit risk. The Company's exposures to foreign currency risk and floating interest rate risk on its financial instruments are not significant. The BOD reviews and approves policies of managing each of these risks and they are summarized below.

<u>Liquidity Risk</u>
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 ₱4,529.3 million and ₱1,255.3 million as at December 31, 2013 and 2012, 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, external and regulatory requirements.

Liquidity risk concentrations arise when a number of economic features would cause the Company's ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. As at December 31, 2012, the Company has negative working capital as a result of the availment of ₱4,700.0 million short-term note payable to finance its investment activities (see Note 11). Management sees this circumstance as temporary partly due to timing of inflows and outflows of cash flows. Such situation is warranted and properly planned and addressed by the Company through undertaking capital raising exercises, which took place on January 22, 2013 (see Note 13). As at December 31, 2013, the Company has positive working capital.

The table below summarizes the maturity profile of the Company's financial assets and financial liabilities as at December 31, 2013 and 2012 based on undiscounted contractual payments and include forecast interest payment for long-term debt.

	2013						
	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*	**₱27,708**	**₱4,501,565**	**₱–**	**₱–**	**₱–**	**₱–**	**₱4,529,273**
Receivables	**222**	**359,006**	**210,549**	**–**	**210,235**	**978,367**	**1,758,379**
Due from related parties	**214,298**	**45,950**	**51,475**	**–**	**–**	**–**	**311,723**
AFS financial assets**	**–**	**458,584**	**–**	**–**	**–**	**11,821,047**	**12,279,631**
Total	**242,228**	**5,365,105**	**262,024**	**–**	**210,235**	**12,799,414**	**18,879,006**
Financial Liabilities							
Accrued expenses and other current liabilities:							
Accrued interest payable	**189,955**	**–**	**–**	**–**	**–**	**–**	**189,955**
Accrued expenses***	**283,721**	**–**	**–**	**–**	**–**	**–**	**283,721**
Accounts payable	**42,522**	**–**	**–**	**–**	**–**	**–**	**42,522**
Other payable	**1,430**	**–**	**–**	**–**	**–**	**–**	**1,430**
Due to related parties	**361,654**	**–**	**–**	**–**	**–**	**–**	**361,654**
Long-term debt	**–**	**558,805**	**553,827**	**550,173**	**543,873**	**7,795,950**	**10,002,628**
	879,282	**558,805**	**553,827**	**550,173**	**543,873**	**7,795,950**	**10,881,910**
Liquidity gap	**(₱637,054)**	**₱4,806,300**	**(₱291,803)**	**(₱550,173)**	**(₱333,638)**	**₱5,003,464**	**₱7,997,096**

** Excluding cash on hand amounting to ₱0.04 million as at December 31, 2013.*
*** Including investment in preferred shares of Beacon amounting to ₱11,573.2 million as at December 31, 2013.*
**** Excluding statutory payables.*

	2012						
	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*	₱21,854	₱1,233,423	₱–	₱–	₱–	₱–	₱1,255,277
Receivables	5,781	77,055	228,047	214,875	–	861,294	1,387,052
Due from related parties	40,184	46,097	53,959	–	–	–	140,240
AFS financial assets	–	9,614	–	–	–	12,058,309	12,067,923
	67,819	1,366,189	282,006	214,875	–	12,919,603	14,850,492
Financial Liabilities							
Accrued expenses and other current liabilities:							
Accrued interest payable	238,366	–	–	–	–	–	238,366
Accrued expenses**	211,541	–	–	–	–	–	211,541
Accounts payable	71,695	–	–	–	–	–	71,695
Other payable	1,471	–	–	–	–	–	1,471
Due to related parties	595,659	–	–	–	–	–	595,659
Note payable	–	4,752,875	–	–	–	–	4,752,875
Long-term debt	–	680,926	1,172,613	1,737,677	1,783,060	3,851,866	9,226,142
	1,118,732	5,433,801	1,172,613	1,737,677	1,783,060	3,851,866	15,097,749
Liquidity gap	(₱1,050,913)	(₱4,067,612)	(₱890,607)	(₱1,522,802)	(₱1,783,060)	₱9,067,737	(₱247,257)

** Excluding cash on hand amounting to ₱0.04 million as at December 31, 2012.*
*** Including investment in preferred shares of Beacon amounting to ₱11,573.2 million as at December 31, 2012.*
*** Excluding statutory payables.*

Credit Risk

Credit risk is the risk that the Company will incur a loss arising from 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.

		2013	
	Gross Maximum Exposure (a)	**Fair Value and Financial Effect of Collateral or Credit Enhancement (b)**	**Net Exposure (c) = (a) – (b)**
		(In Thousands)	
Cash and cash equivalents*	**₱4,529,273**	**₱2,623**	**₱4,526,650**
Receivables	**1,161,803**	**465,132**	**696,671**
Due from related parties	**311,723**	**1,128**	**310,595**
	₱6,002,799	**₱468,883**	**₱5,533,916**

** Excludes cash on hand amounting to ₱0.04 million as at December 31, 2013.*

	2012		
	Gross Maximum Exposure (a)	Fair Value and Financial Effect of Collateral or Credit Enhancement (b)	Net Exposure (c) = (a) – (b)
		(In Thousands)	
Cash and cash equivalents*	₱1,255,277	₱2,864	₱1,252,413
Receivables	997,362	478,014	519,348
Due from related parties	140,240	1,540	138,700
	₱2,392,879	₱482,418	₱1,910,461

** Excludes cash on hand amounting to ₱0.04 million as at December 31, 2012.*

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 counterparty 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:

	2013				
	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[(a)]	**₱4,529,273**	**₱–**	**₱–**	**₱–**	**₱4,529,273**
Receivables:					
Notes receivable	**752,525**	–	–	–	**752,525**
Interest receivable	**254,642**	–	–	–	**254,642**
Dividend receivable	**115,555**	–	–	–	**115,555**
Accounts receivable	**1,945**	–	–	–	**1,945**
Advances to employees	**6,100**	–	–	–	**6,100**
Other receivables	**31,036**	–	–	–	**31,036**
Due from related parties	**311,723**	–	–	–	**311,723**
Cash deposits[(b)]	**188,044**	–	–	–	**188,044**
	₱6,190,843	**₱–**	**₱–**	**₱–**	**₱6,190,843**

*[(a)] * Excludes cash on hand amounting to ₱0.04 million as at December 31, 2013.*
[(b)] Included under "Other current assets" account in the parent company statement of financial position.

	2012				
	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[(a)]	₱1,255,277	₱–	₱–	₱–	₱1,255,277
Receivables:					
Notes receivable	750,131	–	–	–	750,131
Interest receivable	165,561	–	–	–	165,561
Dividend receivable	34,632	–	–	–	34,632
Accounts receivable	9,151	–	–	–	9,151
Advances to employees	7,126	–	–	–	7,126
Other receivables	25,147	–	–	5,614	30,761
Due from related parties	140,240	–	–	–	140,240
Cash deposits[(b)]	451,072	–	–	–	451,072
	₱2,838,337	₱–	₱–	₱5,614	₱2,843,951

[(a)] Excluding cash on hand amounting to ₱0.04 million as at December 31, 2012.
[(b)] 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, which meet the standards set by the Company's Board.

For the Company's other financial assets, high grade relates to those financial assets which are consistently collected before the maturity date. In addition, these are financial assets from counterparties that also have corresponding collectibles from the Company for certain contracted services. The first layer of security comes from the Company's ability to offset amounts receivable from those counterparties against payments due to them. Standard grade include financial assets that are collected on their due dates even without an effort from the Company to follow them up. Sub-standard 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.

	2013			
	High Grade	**Standard Grade**	**Sub-standard Grade**	**Total**
		(In Thousands)		
Loans and receivables:				
Cash and cash equivalents[a]	**₱4,529,273**	**₱–**	**₱–**	**₱4,529,273**
Receivables:				
Notes receivable	**488,462**	**264,063**	–	**752,525**
Interest receivable	**176,907**	**77,735**	–	**254,642**
Dividend receivable	**115,555**	–	–	**115,555**
Accounts receivable	**1,945**	–	–	**1,945**
Advances to employees	**6,100**	–	–	**6,100**
Other receivables	**31,036**	–	–	**31,036**
Due from related parties	**311,723**	–	–	**311,723**
Cash deposits[b]	**188,044**	–	–	**188,044**
	₱5,849,045	**₱341,798**	**₱–**	**₱6,190,843**

[a] Excluding cash on hand amounting to ₱0.04 million as at December 31, 2013.
[b] Included under "Other current assets" account in the parent company statement of financial position.

	2012			
	High Grade	Standard Grade	Sub-standard Grade	Total
		(In Thousands)		
Loans and receivables:				
Cash and cash equivalents[a]	₱1,255,277	₱–	₱–	₱1,255,277
Receivables:				
Notes receivable	486,068	264,063	–	750,131
Interest receivable	121,200	44,361	–	165,561
Dividend receivable	34,632	–	–	34,632
Accounts receivable	9,151	–	–	9,151
Advances to employees	7,126	–	–	7,126
Other receivables	25,147	–	–	25,147
Due from related parties	140,240	–	–	140,240
Cash deposits[b]	451,072	–	–	451,072
	₱2,529,913	₱308,424	₱–	₱2,838,337

[a] Excluding cash on hand amounting to ₱0.04 million as at December 31, 2012.
[b] 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, 2013 and 2012, the Company is in compliance with the required financial ratios and other loan covenants.

he 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 existing debt. No changes were made in the objectives, policies or processes during the years ended December 31, 2013 and 2012.

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 2013, the Company's strategy, which was unchanged from 2012, was to maintain a sustainable debt-to-equity ratio. The debt-to-equity ratios on December 31, 2013 and 2012 are as follows:

	2013	2012
	(In Thousands)	
Long-term debt (gross of unamortized debt issue costs)	**₱6,447,600**	₱6,513,750
Equity	**78,063,527**	64,578,535
Debt-to-equity ratio	**1:12.1**	1:9.9

21. Financial Assets and Financial Liabilities

Categories of Financial Instruments

Categories of the Company's financial assets and financial liabilities as at December 31, 2013 and 2012 are as follows:

	2013				
	Financial Assets			Financial Liabilities	
	FVPL	Loans and Receivables	AFS Financial Assets	Other Financial Liabilities	Total
			(In Thousands)		
ASSETS					
Cash and cash equivalents[(a)]	**₱–**	**₱4,529,273**	**₱–**	**₱–**	**₱4,529,273**
Receivables - net	**–**	**1,161,803**	**–**	**–**	**1,161,803**
Due from related parties	**–**	**311,723**	**–**	**–**	**311,723**
Other current assets - net	**–**	**190,657**	**–**	**–**	**190,657**
Other noncurrent assets [(b)]	**31,713**	**756**	**12,279,631**	**–**	**12,312,100**
	₱31,713	**₱6,194,212**	**₱12,279,631**	**₱–**	**₱18,505,556**
LIABILITIES					
Accrued expenses and other current liabilities[(c)]	**₱–**	**₱–**	**₱–**	**₱518,042**	**₱518,042**
Due to related parties	**–**	**–**	**–**	**361,654**	**361,654**
Note payable	**–**	**–**	**–**	**–**	**–**
Long-term debt	**–**	**–**	**–**	**6,447,600**	**6,447,600**
	₱–	**₱–**	**₱–**	**₱7,327,296**	**₱7,327,296**

[(a)] Excludes cash on hand to ₱0.04 million as at December 31, 2013.
[(b)] Includes advances for equity to Beacon Electric and investment in preferred shares of Beacon Electric classified as AFS financial assets.
[(c)] Excludes statutory payables.

	2012				
	Financial Assets			Financial Liabilities	
	FVPL	Loans and Receivables	AFS Financial Assets	Other Financial Liabilities	Total
			(In Thousands)		
ASSETS					
Cash and cash equivalents[(a)]	₱–	₱1,255,277	₱–	₱–	₱1,255,277
Receivables - net	–	997,362	–	–	997,362
Due from related parties	–	140,240	–	–	140,240
Other current assets - net	–	452,729	9,614	–	462,343
Other noncurrent assets[(b)]	31,713	756	12,058,309	–	12,090,778
	₱31,713	₱2,846,364	₱12,067,923	₱–	₱14,946,000
LIABILITIES					
Accrued expenses and other current liabilities[(c)]	₱–	₱–	₱–	₱1,230,510	₱1,230,510
Due to related parties	–	–	–	595,659	595,659
Note payable	–	–	–	4,700,000	4,700,000
Long-term debt	–	–	–	6,509,485	6,509,485
	₱–	₱–	₱–	₱13,035,654	₱13,035,654

[(a)] *Excludes cash on hand to ₱0.04 million as at December 31, 2012.*
[(b)] *Includes advances for equity to Beacon Electric and investment in preferred shares of Beacon Electric classified as AFS financial assets.*
[(c)] *Excludes statutory payables.*

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 their fair values) as at December 31, 2013 and 2012 are as follows:

	2013		2012	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
		(In Thousands)		
Financial Asset				
Receivables	**₱1,161,803**	**₱1,481,026**	₱997,362	₱1,224,652
Financial Liability				
Long-term debt	**₱6,447,600**	**₱7,460,446**	₱6,509,485	₱6,724,826

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
Due to the short-term nature of transactions, the fair value of cash and cash equivalents, due from related parties, cash deposits, and accrued expenses and other current liabilities approximate the carrying amounts at the end of the reporting period.

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

Long-term Debt
Estimated fair value is based on the discounted present value of future cash flows using the prevailing interest rates ranging from 2.13% to 5.53% and 2.2% to 5.9% in 2013 and 2012, 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.

In 2013, the shares in NEPSCC were adjusted to its fair value based on agreed price based on the recent transaction (see Note 23).

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.

For financial instruments that are recognized at fair value on a recurring basis, the Company determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Below are the set of financial instruments carried at fair value and their classification in the fair value hierarchy as at December 31:

	2013 *(In Thousands)*			
	Total	**Level 1**	**Level 2**	**Level 3**
Financial Asset -				
AFS financial assets	**₱469,584**	**₱11,000**	**₱458,584**	**₱–**

	2012 *(In Thousands)*			
	Total	Level 1	Level 2	Level 3
Financial Assets -				
AFS financial assets	₱12,000	₱12,000	₱–	₱–

During 2013 and 2012, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into or out of Level 3 fair value measurements.

<u>Derivative Financial Instruments</u>
As discussed in Note 6, 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 per share 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

	2013	2012
	(In Thousands)	
Noncash investing and financing activities:		
Reclassification of Advances to MPTC to Investment in MPTC as a result of the approval of capital stock increase of the latter (see Note 8)	**₱6,771,600**	₱–
Settlement of advances from MPTDC by application of dividends collection from MPTC (see Note 12)	**(231,585)**	(231,054)
Addition (reduction) in investments in Maynilad and MPTC arising from LTIP (see Notes 8 and 15)	**(10,669)**	13,646
Additional investment in Maynilad and MPTC arising from ESOP (see Notes 8 and 18)	**5,372**	11,059
Settlement of advances from DMWC by offsetting with return of capital from DMWC (see Notes 8 and 12)	–	(279,665)
Settlement of advances from NOHI by application of advances to NOHI (see Notes 8 and 12)	–	(115,685)
Investment in PLDT shares (see Note 7)	–	9,614
Additions to software cost (see Note 9)	–	3,800
Acquisition of investment in AHI from minority shareholders (see Note 8)	–	1,471

23. Events after the Reporting Period

<u>Automated Fare Collection System (AFCS) Project</u>
On January 30, 2014, the AF Consortium received a Notice of Award from the Department of Transportation and Communications (DOTC) declaring it the winning bidder for ₱1.72 billion contactless AFCS Project. The AF Consortium is composed of BPI Card Finance Corporation as lead member, Globe Telecom, Inc., AC Infrastructuture Holdings Corp., Smart Communications, Inc., Meralco Financial Services Corporation, and the Parent Company. The contactless payment system will facilitate efficient passenger transfer to other rail lines, and enhance fare collection efficiency.

Notice of award was received February 23, 2014 although as of March 19, 2014, the concession agreement has yet to be signed. On February 10, 2014, the Automated Fare Collection Services, Inc. was incorporated by the members of the AF Consortium with the Company holding 20% of the total shares subscribed.

<u>Sale of AFS investment</u>
MPIC sold all of its shares in NEPSCC, representing 36.89% of the issued and outstanding capital stock of NEPSCC, to Cosco Capital Inc. on February 28, 2014.

Cash Dividends
On March 19, 2014, the BOD approved the declaration of cash dividends of ₱0.022 per common share or a total amount of ₱572.6 million in favor of the Parent Company's stockholders of record as of the record date of April 8, 2014, with a payment date of April 30, 2014.

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 ₱2.5 million in favor of MPHI, the sole holder of Class A Preferred Shares.

Change in Corporate Name of DMWC
Effective February 17, 2014, DMWC changed its corporate name to Maynilad Water Holding Company, Inc.

24. Future Changes in Accounting Policies

The Company has not applied the following PFRS, Philippine Interpretations and amendments to existing standards which are not yet effective as at December 31, 2013. Except for additional disclosure requirements or otherwise stated, adoption of the following standards are not expected to have any material impact on the Company's financial position or performance:

- *Amendments to PFRS 10, PFRS 12 and PAS 27 - Investment Entities* —These amendments are effective for annual periods beginning on or after January 1, 2014. They provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under PFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. It is not expected that this amendment would be relevant to the Company.

- Philippine Interpretation IFRIC 21, *Levies (IFRIC 21)* —IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. IFRIC 21 is effective for annual periods beginning on or after January 1, 2014.

- PAS 39, *Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting (Amendments)* —These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments are effective for annual periods beginning on or after January 1, 2014. The Company has no novated derivatives during the current period. However, these amendments would be considered for future novations.

- PAS 32, *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities (Amendments)* — The amendments 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. The amendments affect presentation only and have no impact on the Company's financial position or performance. The amendments to PAS 32 are to be retrospectively applied for annual periods beginning on or after January 1, 2014.

- *PAS 19, Employee Benefits – Defined Benefit Plans: Employee Contributions (Amendments)* — The amendments apply to contributions from employees or third parties to defined benefit plans. Contributions that are set out in the formal terms of the plan shall be accounted for as reductions to current service costs if they are linked to service or as part of the remeasurements of the net defined benefit asset or liability if they are not linked to service. Contributions that are discretionary shall be accounted for as reductions of current service cost upon payment of these contributions to the plans. The amendments to PAS 19 are to be retrospectively applied for annual periods beginning on or after July 1, 2014.

Annual Improvements to PFRSs (2010-2012 cycle). The Annual Improvements to PFRSs (2010-2012 cycle) contain non-urgent but necessary amendments to the following standards:

- PFRS 2, *Share-based Payment – Definition of Vesting Condition* — The amendment revised the definitions of vesting condition and market condition and added the definitions of performance condition and service condition to clarify various issues. This amendment shall be prospectively applied to share-based payment transactions for which the grant date is on or after July 1, 2014.

- PFRS 3, *Business Combinations – Accounting for Contingent Consideration in a Business Combination* — The amendment clarifies that a contingent consideration that meets the definition of a financial instrument should be classified as a financial liability or as equity in accordance with PAS 32. Contingent consideration that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of PAS 39. The amendment shall be prospectively applied to business combinations for which the acquisition date is on or after July 1, 2014. The Company shall consider this amendment for future business combinations.

- PFRS 8, *Operating Segments – Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets* — The amendments require entities to disclose the judgment made by management in aggregating two or more operating segments. This disclosure should include a brief description of the operating segments that have been aggregated in this way and the economic indicators that have been assessed in determining that the aggregated operating segments share similar economic characteristics. The amendments also clarify that an entity shall provide reconciliations of the total of the reportable segments' assets to the entity's assets if such amounts are regularly provided to the chief operating decision maker. These amendments are effective for annual periods beginning on or after July 1, 2014 and are applied retrospectively. The amendments will affect disclosures only.

- PFRS 13, *Fair Value Measurement – Short-term Receivables and Payables* — The amendment clarifies that short-term receivables and payables with no stated interest rates can be held at invoice amounts when the effect of discounting is immaterial.

- PAS 16, *Property, Plant and Equipment – Revaluation Method – Proportionate Restatement of Accumulated Depreciation* — The amendment clarifies that, upon revaluation of an item of property, plant and equipment, the carrying amount of the asset shall be adjusted to the revalued amount, and the asset shall be treated in one of the following ways:

    a. The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated depreciation at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account any accumulated impairment losses.

b. The accumulated depreciation is eliminated against the gross carrying amount of the asset. The amendments also clarify that the amount of the adjustment of the accumulated amortization should form part of the increase or decrease in the carrying amount accounted for in accordance with the standard. The amendment is effective for annual periods beginning on or after July 1, 2014. The amendment shall apply to all revaluations recognized in annual periods beginning on or after the date of initial application of this amendment and in the immediately preceding annual period.

- PAS 24, *Related Party Disclosures – Key Management Personnel* — The amendments clarify that an entity is a related party of the reporting entity if the said entity, or any member of a group for which it is a part of, provides key management personnel services to the reporting entity or to the parent company of the reporting entity. The amendments also clarify that a reporting entity that obtains management personnel services from another entity (also referred to as management entity) is not required to disclose the compensation paid or payable by the management entity to its employees or directors. The reporting entity is required to disclose the amounts incurred for the key management personnel services provided by a separate management entity. The amendments are effective for annual periods beginning on or after July 1, 2014 and are applied retrospectively. The amendments affect disclosures only.

- PAS 38, *Intangible Assets – Revaluation Method – Proportionate Restatement of Accumulated Amortization* — The amendments clarify that, upon revaluation of an intangible asset, the carrying amount of the asset shall be adjusted to the revalued amount, and the asset shall be treated in one of the following ways:

  a. The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated amortization at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account any accumulated impairment losses.

  b. The accumulated amortization is eliminated against the gross carrying amount of the asset. The amendments also clarify that the amount of the adjustment of the accumulated amortization should form part of the increase or decrease in the carrying amount accounted for in accordance with the standard. The amendments are effective for annual periods beginning on or after July 1, 2014. The amendments shall apply to all revaluations recognized in annual periods beginning on or after the date of initial application of this amendment and in the immediately preceding annual period.

Annual Improvements to PFRSs (2011-2013 cycle). The Annual Improvements to PFRSs (2011-2013 cycle) contain non-urgent but necessary amendments to the following standards:

- PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards – Meaning of Effective PFRSs* — The amendment clarifies that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but that permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first PFRS financial statements. This amendment is not applicable to the Company as it is not a first-time adopter of PFRS.

- PFRS 3, *Business Combinations – Scope Exceptions for Joint Arrangements* — The amendment clarifies that PFRS 3 does not apply to the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself. The amendment is effective for annual periods beginning on or after July 1 2014 and is applied prospectively.

- PFRS 13, *Fair Value Measurement – Portfolio Exception* — The amendment clarifies that the portfolio exception in PFRS 13 can be applied to financial assets, financial liabilities and other contracts. The amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively.

- PAS 40, *Investment Property* — The amendment clarifies the interrelationship between PFRS 3 and PAS 40 when classifying property as investment property or owner-occupied property. The amendment stated that judgment is needed when determining whether the acquisition of investment property is the acquisition of an asset or a group of assets or a business combination within the scope of PFRS 3. This judgment is based on the guidance of PFRS 3. This amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively.

- PFRS 9, *Financial Instruments* — PFRS 9, as issued, reflects the first and third phases of the project to replace PAS 39 and applies to the classification and measurement of financial assets and liabilities and hedge accounting, respectively. Work on the second phase, which relate to impairment of financial instruments, and the limited amendments to the classification and measurement model are still ongoing, with a view to replace PAS 39 in its entirety. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at fair value through profit or loss. All equity financial assets are measured at fair value either through OCI or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For liabilities designated as at FVPL using the fair value option, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change relating to the entity's own credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward to PFRS 9, including the embedded derivative bifurcation rules and the criteria for using the FVO. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Company's financial assets, but will potentially have no impact on the classification and measurement of financial liabilities.

  On hedge accounting, PFRS 9 replaces the rules-based hedge accounting model of PAS 39 with a more principles-based approach. Changes include replacing the rules-based hedge effectiveness test with an objectives-based test that focuses on the economic relationship between the hedged item and the hedging instrument, and the effect of credit risk on that economic relationship; allowing risk components to be designated as the hedged item, not only for financial items, but also for non-financial items, provided that the risk component is separately identifiable and reliably measurable; and allowing the time value of an option, the forward element of a forward contract and any foreign currency basis spread to be excluded from the designation of a financial instrument as the hedging instrument and accounted for as costs of hedging. PFRS 9 also requires more extensive disclosures for hedge accounting.

  PFRS 9 currently has no mandatory effective date. PFRS 9 may be applied before the completion of the limited amendments to the classification and measurement model and impairment methodology. The Company will not adopt the standard before the completion of the limited amendments and the second phase of the project.

- 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 SEC and the Financial Reporting Standards Council (FRSC) have deferred the effectivity of this interpretation until the final Revenue standard is issued by the 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.