Metro Pacific Investments Corporation and Subsidiaries

Consolidated Financial Statements
December 31, 2014 and 2013
and Years Ended December 31, 2014, 2013 and 2012

and

Independent Auditors' Report

SGV

Building a better working world

A member firm of Ernst & Young Global Limited

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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

We have audited the accompanying consolidated financial statements of Metro Pacific Investments Corporation and Subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2014 and 2013, and the consolidated statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2014, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

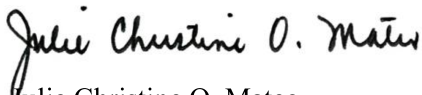
An audit involves performing procedures to obtain audit evidence about the amounrets and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, 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 consolidated 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 consolidated 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 consolidated financial statements present fairly, in all material respects, the financial position of Metro Pacific Investments Corporation and Subsidiaries as at December 31, 2014 and 2013, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2014 in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.



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PTR No. 4751308, January 5, 2015, Makati City

February 26, 2015

METRO PACIFIC INVESTMENTS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Amounts in Millions)

	December 31	
	2014	2013
ASSETS		
Current Assets		
Cash and cash equivalents and short-term deposits (Notes 7, 35 and 36)	**₱25,758**	₱15,263
Restricted cash (Notes 7, 35 and 36)	**2,367**	1,827
Receivables (Notes 8, 35 and 36)	**3,676**	3,749
Due from related parties (Notes 21, 35 and 36)	**140**	229
Other current assets (Notes 9, 35 and 36)	**2,458**	3,821
	34,399	24,889
Assets held for sale (Notes 8, 10 and 33)	**1,370**	–
Total Current Assets	**35,769**	24,889
Noncurrent Assets		
Restricted cash (Notes 7, 33, 35 and 36)	**889**	–
Receivables (Notes 8, 35 and 36)	**263**	593
Due from related parties (Notes 21, 35 and 36)	**–**	65
Available-for-sale (AFS) financial assets (Notes 10, 35 and 36)	**2,162**	2,770
Investments and advances (Notes 11, 35 and 36)	**65,175**	48,854
Goodwill (Note 12)	**18,308**	18,308
Service concession assets (Note 13)	**98,260**	94,540
Property and equipment (Note 14)	**7,368**	6,859
Property use rights (Note 14)	**608**	649
Other noncurrent assets (Notes 15, 35 and 36)	**5,210**	3,057
Total Noncurrent Assets	**198,243**	175,695
	₱234,012	₱200,584
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and other current liabilities (Notes 16, 35 and 36)	**₱12,049**	₱13,476
Income tax payable	**254**	260
Due to related parties (Notes 21, 35 and 36)	**7,279**	93
Current portion of:		
Provisions (Note 17)	**5,545**	4,677
Service concession fees payable (Notes 18, 35 and 36)	**500**	603
Long-term debt (Notes 19, 35 and 36)	**3,573**	3,512
Total Current Liabilities	**29,200**	22,621

(Forward)

	December 31	
	2014	2013
Noncurrent Liabilities		
Noncurrent portion of:		
Provisions (Note 17)	**₱228**	₱312
Service concession fees payable (Notes 18, 35 and 36)	**7,271**	7,909
Long-term debt (Notes 19, 35 and 36)	**57,494**	47,536
Deferred tax liabilities (Note 29)	**4,228**	3,774
Other long-term liabilities (Notes 20, 35 and 36)	**6,019**	5,152
Total Noncurrent Liabilities	**75,240**	64,683
Total Liabilities	**104,440**	87,304
Equity (Note 22)		
Owners of the Parent Company:		
Capital stock	**26,096**	26,076
Additional paid-in capital	**42,993**	42,933
Equity reserves	**6,245**	2,643
Retained earnings	**27,525**	21,882
Other comprehensive income reserve	**836**	927
Total equity attributable to owners of the Parent Company	**103,695**	94,461
Non-controlling interest	**25,877**	18,819
Total Equity	**129,572**	113,280
	₱234,012	₱200,584

See accompanying Notes to Consolidated Financial Statements.

METRO PACIFIC INVESTMENTS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in Millions, Except Earnings Per Share Figures)

	Years Ended December 31		
	2014	2013	2012
OPERATING REVENUES			
Water and sewerage services revenue	**₱18,363**	₱16,895	₱15,883
Toll fees	**8,641**	8,154	6,784
Hospital revenue	**6,677**	5,700	5,034
School revenue	**151**	128	106
	33,832	30,877	27,807
COST OF SALES AND SERVICES (Note 23)	**(13,082)**	(11,845)	(11,168)
GROSS PROFIT	**20,750**	19,032	16,639
General and administrative expenses (Note 24)	**(6,823)**	(6,261)	(5,384)
Interest expense (Note 26)	**(4,301)**	(4,001)	(3,679)
Share in net earnings of equity method investees (Note 11)	**3,167**	2,286	1,765
Interest income (Note 26)	**385**	462	652
Construction revenue and other income (Note 27)	**8,491**	8,113	10,115
Construction costs and other expenses (Note 27)	**(7,887)**	(7,559)	(9,239)
INCOME BEFORE INCOME TAX	**13,782**	12,072	10,869
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 29)			
Current	**1,160**	1,061	1,097
Deferred	**48**	(468)	565
	1,208	593	1,662
NET INCOME	**12,574**	11,479	9,207
OTHER COMPREHENSIVE INCOME (OCI) (Note 28)			
Net OCI to be reclassified to profit or loss in subsequent periods	**(24)**	(14)	21
Net OCI not being reclassified to profit or loss in subsequent periods	**(52)**	398	581
	(76)	384	602
TOTAL COMPREHENSIVE INCOME	**₱12,498**	₱11,863	₱9,809
Net income attributable to:			
Owners of the Parent Company	**₱7,940**	₱7,209	₱5,907
Non-controlling interest	**4,634**	4,270	3,300
	₱12,574	₱11,479	₱9,207
Total comprehensive income attributable to:			
Owners of the Parent Company	**₱7,849**	₱7,550	₱6,485
Non-controlling interest	**4,649**	4,313	3,324
	₱12,498	₱11,863	₱9,809
EARNINGS PER SHARE (Note 30)			
Basic Earnings Per Common Share, Attributable to Owners of the Parent Company	**₱0.305**	₱0.278	₱0.240
Diluted Earnings Per Common Share, Attributable to Owners of the Parent Company	**₱0.304**	₱0.277	₱0.239

See accompanying Notes to Consolidated Financial Statements.

METRO PACIFIC INVESTMENTS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012

(Amounts in Millions)

	Year Ended December 31, 2014							
	Attributable to Owners of the Parent Company							
	Capital Stock (Note 22)	Additional Paid-in Capital (Note 22)	Equity Reserves (Note 22)	Retained Earnings (Note 22)	Other Comprehensive Income Reserve (Note 22)	Total	Non-controlling Interest (NCI) (Note 22)	Total Equity
At January 1, 2014	**₱26,076**	**₱42,933**	**₱2,643**	**₱21,882**	**₱927**	**₱94,461**	**₱18,819**	**₱113,280**
Total comprehensive income for the period:								
Net income	–	–	–	**7,940**	–	**7,940**	**4,634**	**12,574**
Other comprehensive income (Note 28)	–	–	–	–	**(91)**	**(91)**	**15**	**(76)**
Total comprehensive income	–	–	–	**7,940**	**(91)**	**7,849**	**4,649**	**12,498**
Executive Stock Option Plan (ESOP) (Note 31):								
Exercise of stock option	**20**	**60**	**(21)**	–	–	**59**	–	**59**
Cost of ESOP	–	–	**64**	–	–	**64**	–	**64**
Gain on sale to NCI (Note 22)	–	–	**5,967**	–	–	**5,967**	**3,509**	**9,476**
Acquisition of NCI (Note 22)	–	–	**(2,408)**	–	–	**(2,408)**	**(787)**	**(3,195)**
Cash dividends declared (Note 22)	–	–	–	**(2,297)**	–	**(2,297)**	–	**(2,297)**
Dividends declared to non-controlling stockholders (Note 6)	–	–	–	–	–	–	**(1,045)**	**(1,045)**
Other changes in NCI (Note 33)	–	–	–	–	–	–	**732**	**732**
At December 31, 2014	**₱26,096**	**₱42,993**	**₱6,245**	**₱27,525**	**₱836**	**₱103,695**	**₱25,877**	**₱129,572**

	Year Ended December 31, 2013							
	Attributable to Owners of the Parent Company							
	Capital Stock (Note 22)	Additional Paid-in Capital (Note 22)	Equity Reserves (Note 22)	Retained Earnings (Note 22)	Other Comprehensive Income Reserve (Note 22)	Total	Non-controlling Interest (NCI) (Note 22)	Total Equity
At January 1, 2013	₱24,664	₱38,097	₱707	₱15,688	₱487	₱79,643	₱14,747	₱94,390
Total comprehensive income for the period:								
Net income	–	–	–	7,209	–	7,209	4,270	11,479
Other comprehensive income (Note 28)	–	–	–	–	341	341	43	384
Total comprehensive income	–	–	–	7,209	341	7,550	4,313	11,863
Executive Stock Option Plan (ESOP) (Note 31):								
Exercise of stock option	82	188	(46)	–	–	224	–	224
Cost of ESOP	–	–	18	–	–	18	–	18
Equity raising (Note 22)	1,330	4,648	–	–	–	5,978	–	5,978
Gain on equity transfer and others (Note 22)	–	–	1,964	(100)	99	1,963	1,583	3,546
Cash dividends declared (Note 22)	–	–	–	(915)	–	(915)	–	(915)
Dividends declared to non-controlling stockholders (Note 6)	–	–	–	–	–	–	(2,107)	(2,107)
NCI in a business combination (Note 4)	–	–	–	–	–	–	283	283
At December 31, 2013	₱26,076	₱42,933	₱2,643	₱21,882	₱927	₱94,461	₱18,819	₱113,280

	Year Ended December 31, 2012							
	Attributable to Owners of the Parent Company							
	Capital Stock (Note 22)	Additional Paid-in Capital (Note 22)	Equity Reserves (Note 22)	Retained Earnings (Note 22)	Other Comprehensive Income Reserve (Note 22)	Total	Non-controlling Interest (NCI) (Note 22)	Total Equity
At January 1, 2012	₱24,643	₱38,056	₱706	₱10,449	(₱91)	₱73,763	₱12,667	₱86,430
Total comprehensive income for the period:								
Net income	–	–	–	5,907	–	5,907	3,300	9,207
Other comprehensive income (Note 28)	–	–	–	–	578	578	24	602
Total comprehensive income	–	–	–	5,907	578	6,485	3,324	9,809
Executive Stock Option Plan (ESOP) (Note 31):								
Exercise of stock option	21	41	(12)	–	–	50	–	50
Cost of ESOP	–	–	13	–	–	13	–	13
Cash dividends declared (Note 22)	–	–	–	(668)	–	(668)	–	(668)
Dividends declared to non-controlling stockholders (Note 6)	–	–	–	–	–	–	(1,470)	(1,470)
Other changes in NCI	–	–	–	–	–	–	226	226
At December 31, 2012	₱24,664	₱38,097	₱707	₱15,688	₱487	₱79,643	₱14,747	₱94,390

See accompanying Notes to Consolidated Financial Statements.

METRO PACIFIC INVESTMENTS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in Millions)

	Years Ended December 31		
	2014	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱13,782**	₱12,072	₱10,869
Adjustments for:			
Interest expense (Note 26)	**4,301**	4,001	3,679
Amortization of service concession assets (Note 23)	**2,958**	2,818	3,073
Depreciation and amortization (Notes 23 and 24)	**1,049**	947	772
Share in net earnings of equity method investees (Note 11)	**(3,167)**	(2,286)	(1,765)
Dividend income (Note 27)	**(471)**	(405)	(561)
Interest income (Note 26)	**(385)**	(462)	(652)
Gain on sale of AFS financial asset (Note 27)	**(222)**	–	–
Unrealized foreign exchange loss (gain) - net	**(230)**	159	201
Gain on bargain purchase (Notes 4 and 27)	**–**	(22)	–
Reversal of contingent liabilities (Note 27)	**–**	–	(687)
Reversal of accrued interest payable to MWSS (Note 27)	**–**	–	(378)
Adjustment to amortized cost due to change in expected cash flows (Note 27)	**–**	–	374
Refinancing costs and others	**472**	569	522
Operating income before working capital changes	**18,087**	17,391	15,447
Decrease (increase) in:			
Restricted cash	**(540)**	(467)	556
Receivables	**(934)**	359	(598)
Due from related parties	**154**	(83)	93
Other current assets	**(377)**	(257)	267
Increase (decrease) in:			
Accounts payable and other current liabilities	**(1,532)**	(1,375)	587
Provisions	**784**	833	477
Accrued retirement cost	**106**	121	27
Net cash generated from operations	**15,748**	16,522	16,856
Income taxes paid	**(1,166)**	(984)	(990)
Interest received	**603**	333	561
Net cash from operating activities	**15,185**	15,871	16,427
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of subsidiaries, net of cash acquired (Note 4)	**–**	808	(208)
Decrease (increase) in short-term deposits	**633**	(3,613)	9
Increase in other noncurrent assets	**(1,270)**	(311)	(64)
Dividends received from:			
Equity method investees (Note 11)	**533**	327	276
Beacon Electric's preferred shares (Note 11)	**405**	405	561
AFS financial asset (Note 10)	**66**	–	–
Collection of or proceeds from sale/disposal of:			
Available-for-sale financial assets (Note 10)	**1,320**	1,151	–
Property and equipment (Note 14)	**21**	20	12
Notes receivable (Notes 8)	**–**	–	954

(Forward)

	Years Ended December 31		
	2014	2013	2012
Additions to/issuance of:			
Service concession assets (Note 13)	**(₱6,678)**	(₱5,780)	(₱6,752)
Investments in equity method investees (Note 11)	**(6,329)**	(1,846)	(6,262)
Available-for-sale financial assets (Note 10)	**(4,351)**	(4,238)	(50)
Deferred project cost (Note 15)	**(1,869)**	–	–
Property and equipment (Note 14)	**(1,508)**	(1,343)	(825)
Notes receivable (Notes 4 and 8)	**–**	(101)	(6,797)
Net cash used in investing activities	**(19,027)**	(14,521)	(19,146)
CASH FLOWS FROM FINANCING ACTIVITIES			
Receipt of or proceeds from:			
Notes payable and long-term debt (Note 19)	**13,905**	41,254	5,030
Sale to non-controlling stockholders (Note 22)	**10,108**	3,533	–
Contribution from non-controlling stockholders and other movements (Note 33)	**698**	4	–
Issuance of shares (Notes 22 and 31)	**61**	6,343	49
Due to related parties	**–**	–	6
Payments of/for:			
Interest and other financing charges	**(3,215)**	(4,871)	(3,059)
Notes payable and long-term debt (Note 19)	**(3,677)**	(40,573)	(1,588)
Service concession fees payable (Note 18)	**(1,184)**	(1,266)	(1,116)
Due to related parties	**(12)**	(4)	(5)
Acquisition of non-controlling interests (Note 4)	**(3,116)**	–	(696)
Transaction costs on issuance of shares	**–**	(140)	–
Debt issuance cost	**(162)**	(199)	–
Dividends paid to owners of the Parent Company (Note 22)	**(2,297)**	(915)	(668)
Dividends paid to non-controlling stockholders (Notes 6 and 22)	**(1,178)**	(1,985)	(1,231)
Net cash from (used in) financing activities	**9,931**	1,181	(3,278)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**6,089**	2,531	(5,997)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**11,636**	9,105	15,102
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 7)	**₱17,725**	₱11,636	₱9,105

See accompanying Notes to Consolidated Financial Statements.

METRO PACIFIC INVESTMENTS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

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

The principal activities of the Parent Company's subsidiaries and equity method investees are described in Notes 2 and 11, respectively.

MPIC is 55.8% owned by Metro Pacific Holdings, Inc. (MPHI) as at December 31, 2014 and 2013. MPHI's economic interest in MPIC is reduced from 55.8% to 52.1% as at February 26, 2015 as a result of the overnight placement on February 9, 2015 (see Note 39).

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

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

The accompanying consolidated financial statements as at December 31, 2014 and 2013 and for each of the three years in the period ended December 31, 2014 were approved and authorized for issuance by the Board of Directors (BOD) on February 26, 2015.

2. Summary of Significant Accounting Policies

Basis of Preparation
The consolidated 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 consolidated financial statements are presented in Philippine Peso, which is MPIC's functional and presentation currency, and all values are rounded to the nearest million peso (₱000,000) except when otherwise indicated.

The consolidated financial statements provide comparative information with respect to the previous periods.

Statement of Compliance
The consolidated financial statements are prepared in compliance with Philippine Financial Reporting Standards (PFRS).

Basis of Consolidation
The consolidated financial statements of the Company include the accounts of the Parent Company and its subsidiaries. Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Company controls an investee if and only if the Company has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

When the Company has less than a majority of the voting or similar rights of an investee, the Company considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Company's voting rights and potential voting rights

The Company re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

Subsidiaries of the Company also included structured entities that were set-up for the benefit of the Company. Based on contractual terms, the Company assessed that the voting rights in these structured entities are not the dominant factor in deciding who controls these structured entities. Thus, these entities were assessed to be structured entities and controlled by the Company under PFRS 10, *Consolidated Financial Statements*. The voting shares of the third-party stockholders in these structured entities are accounted for as non-controlling interest. The Company does not have interests in unconsolidated structured entities.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the date the Company gains control until the date the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the Parent Company and to the non-controlling interests (NCIs), even if this results in the NCIs having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Company's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Company are eliminated in full on consolidation.

NCI represents the portion of profit or loss and the net assets not held by owners of the Parent Company and are presented separately in the consolidated statement of comprehensive income and within equity in the consolidated statement of financial position, separately from total equity attributable to owners of the Parent Company.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Company loses control over a subsidiary, it:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary
- Derecognizes the carrying amount of any NCI
- Derecognizes the related OCI
- Recognizes the fair value of the consideration received
- Recognizes the fair value of any investment retained
- Recognizes any surplus or deficit in profit or loss
- Reclassifies the Parent Company's share of components previously recognized in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Company had directly disposed of the related assets or liabilities

The consolidated subsidiaries of MPIC are as follows:

			December 31, 2014			December 31, 2013		
Name of Subsidiary	Place of Incorporation	Principal Activity	**MPIC Direct Interest**	**Direct Interest of Subsidiary**	**MPIC Effective Interest**	MPIC Direct Interest	Direct Interest of Subsidiary	MPIC Effective Interest
				(In %)			*(In %)*	
MPIC Subsidiaries								
Metro Pacific Tollways Corporation (MPTC)	Philippines	Investment holding	**99.88**	**–**	**99.88**	99.88	–	99.88
Maynilad Water Holding Company, Inc. (MWHC) [a]	Philippines	Investment holding	**51.27**	**–**	**51.27**	51.27	–	51.27
Metro Pacific Light Rail Corp. (MPLRC)	Philippines	Investment holding	**100.00**	**–**	**100.00**	100.00	–	100.00
Porrovia Corporation [b]	Philippines	Investment holding	**50.00**	**50.00**	**100.00**	50.00	50.00	100.00
MetroPac Water Investments Corporation (MPWIC)	Philippines	Investment holding	**100.00**	**–**	**100.00**	100.00	–	100.00
Metro Pacific Hospital Holdings, Inc. (MPHHI)[c]	Philippines	Investment holding	**85.62**	**–**	**85.62**	100.00	–	100.00
MPIC-JGS Airport Holdings, Inc. (MPIC-JGS) [d]	Philippines	Investment holding	**58.75**	**–**	**58.75**	58.75	–	58.75
Fragrant Cedar Holdings, Inc. (FCHI)	Philippines	Real Estate	**100.00**	**–**	**100.00**	100.00	–	100.00
Neo Oracle Holdings, Inc (NOHI) [e]	Philippines	Investment holding and Real estate	**96.60**	**–**	**96.60**	96.60	–	96.60
MPIC Infrastructure Holdings Limited [f] (MIHL)	BVI	Investment holding	**100.00**	**–**	**100.00**	100.00	–	100.00
Metro Global Green Waste, Inc. [g]	Philippines	Investment holding	**70.00**	**–**	**70.00**	–	–	–
MPTC Subsidiaries								
Operating Subsidiaries								
Metro Pacific Tollways Development Corporation (MPTDC)	Philippines	Investment holding	**–**	**100.00**	**99.88**	–	100.00	99.88
Manila North Tollways Corporation (MNTC)[h]	Philippines	Tollway operations	**–**	**75.60**	**75.50**	–	67.10	67.00
Cavitex Infrastructure Corporation (CIC) and subsidiaries [i]	Philippines	Tollway operations	**–**	**100.00**	**100.00**	–	100.00	100.00
Metro Strategic Infrastructure Holdings, Inc. (MSIHI)	Philippines	Investment holding	**–**	**57.00**	**95.55**	–	57.00	95.55
Dormant Subsidiaries								
Luzon Tollways Corporation (LTC)	Philippines	Tollway operations	**–**	**100.00**	**99.85**	–	100.00	99.85
Collared Wren Holdings, Inc. (CWHI) [j]	Philippines	Investment holding	**–**	**99.99**	**99.97**	–	99.99	99.97
Larkwing Holdings, Inc. (LHI) [j]	Philippines	Investment holding	**–**	**99.99**	**99.97**	–	99.99	99.97
MPCALA Holdings, Inc. (MHI) [j]	Philippines	Investment holding	**–**	**51.00**	**99.97**	–	51.00	99.97
MIHL Subsidiaries [f]								
FPM Infrastructure Holdings Limited (FPM Infra)	BVI	Investment holding	**–**	**100.00**	**100.00**	–	–	–
FPM Tollway Holdings Limited	BVI	Investment holding	**–**	**100.00**	**100.00**	–	–	–
FPM Tollway (Thailand) Limited	Hong Kong	Investment holding	**–**	**100.00**	**100.00**	–	–	–
AIF Toll Road Holdings (Thailand) Co., Ltd (AIF)	Thailand	Investment holding	**–**	**100.00**	**100.00**	–	–	–
MWHC Subsidiary [a]								
Maynilad Water Services, Inc. (Maynilad)	Philippines	Water and sewerage services	**5.19**	**92.85**	**52.80**	5.19	92.85	52.80
Maynilad Subsidiaries								
Amayi Water Solutions, Inc. (AWSI)	Philippines	Water and sewerage services	**–**	**100.00**	**52.80**	–	100.00	52.80
Philippine Hydro, Inc. (PHI)	Philippines	Water and sewerage services	**–**	**100.00**	**52.80**	–	100.00	52.80
MPHHI Subsidiaries [c]								
Riverside Medical Center, Inc (RMCI)[c]	Philippines	Hospital operation	**–**	**57.50**	**43.67**	51.00	–	51.00
East Manila Hospital Managers Corp. (EMHMC) [c]	Philippines	Hospital operation	**–**	**100.00**	**85.62**	100.00	–	100.00
Asian Hospital Inc. (AHI) [c]	Philippines	Hospital operation	**–**	**85.56**	**73.26**	5.66	79.90	85.56
Colinas Verdes Hospital Managers Corp. (CVHMC) [c]	Philippines	Hospital operation	**–**	**100.00**	**85.62**	100.00	–	100.00
Bumrungrad International Philippines Inc. (BIPI) [c]	Philippines	Investment holding	**–**	**100.00**	**85.62**	100.00	–	100.00
De Los Santos Medical Center Inc. (DLSMC)	Philippines	Hospital operation	**–**	**51.00**	**43.67**	–	51.00	51.00
The Megaclinic, Inc. (Megaclinic) [k]	Philippines	Clinic Management	**–**	**51.00**	**43.67**	–	51.00	51.00
Central Luzon Doctors' Hospital, Inc. (CLDH)	Philippines	Hospital operation	**–**	**51.00**	**43.67**	–	51.00	51.00
RMCI Subsidiary								
Riverside College, Inc. (RCI)	Philippines	School operations	**–**	**100.00**	**43.67**	–	100.00	51.00
CVHMC Subsidiary								
Colinas Healthcare, Inc.	Philippines	Clinic Management	**–**	**100.00**	**85.62**	–	100.00	100.00

Name of Subsidiary	Place of Incorporation	Principal Activity	December 31, 2014 MPIC Direct Interest	December 31, 2014 Direct Interest of Subsidiary	December 31, 2014 MPIC Effective Interest	December 31, 2013 MPIC Direct Interest	December 31, 2013 Direct Interest of Subsidiary	December 31, 2013 MPIC Effective Interest
				(In %)			*(In %)*	
MPLRC Subsidiaries								
Light Rail Manila Holdings Inc.(LRMHI) [l]	Philippines	Investment holding	–	**50.00**	**50.00**	–	–	–
Light Rail Manila Corporation (LRMC) [l]	Philippines	Rail operations	–	**55.00**	**55.00**	–	–	–
Light Rail Manila Holdings 2, Inc. (LRMH2) [m]	Philippines	Investment holding	–	**50.00**	**50.00**	–	–	–
NOHI Subsidiaries								
Operating Subsidiaries								
First Pacific Bancshares Philippines, Inc.	Philippines	Investment holding	–	**100.00**	**96.60**	–	100.00	96.60
Metro Pacific Management Services, Inc.	Philippines	Management services	–	**100.00**	**96.60**	–	100.00	96.60
First Pacific Realty Partners Corporation (FPRPC)	Philippines	Investment holding	–	**50.00**	**48.30**	–	50.00	48.30
Preoperating Subsidiary								
Metro Tagaytay Land Co., Inc. (MTLCI)	Philippines	Real estate	–	**100.00**	**96.60**	–	100.00	96.60
Dormant Subsidiaries								
Pacific Plaza Towers Management Services, Inc.	Philippines	Management services	–	**100.00**	**96.60**	–	100.00	96.60
Philippine International Paper Corporation	Philippines	Investment holding	–	**100.00**	**96.60**	–	100.00	96.60
Pollux Realty Development Corporation	Philippines	Investment holding	–	**100.00**	**96.60**	–	100.00	96.60
Metro Asia Link Holdings, Inc. (MALHI)	Philippines	Investment holding	–	**60.00**	**57.96**	–	60.00	57.96

[a] *Effective February 2014, DMCI-MPIC Water Company, Inc. changed its corporate name to Maynilad Water Holding Company, Inc.*
[b] *Effective June 2014, Light Rail Manila Corporation changed its corporate name to Porrovia Corporation.*
[c] *Effective February 2015, Neptune Stroika Holdings, Inc. (NSHI) changed its corporate name to MPHHI. The non-controlling shareholder of MPHHI also holds an Exchangeable Bond issued by MPIC which can be exchanged into a 25.51% stake in MPHHI in the future, subject to certain conditions. With the Exchangeable Bond, the non-controlling shareholder is entitled to 39.89% effective ownership interest in MPHHI (see Note 22). Prior to the entry of the non-controlling shareholder, MPIC restructured its investments in the hospital companies by transferring all directly owned hospitals to MPHHI.*
[d] *On March 11, 2013, the Company and JG Summit Holdings, Inc. (JG Summit) formed MPIC-JGS to bid for airport projects that will be rolled out by the Government in the future.*
[e] *Formerly Metro Pacific Corporation (MPC). NOHI's corporate life ended December 31, 2013 and is currently under the process of liquidation.*
[f] *On July 31, 2014, FPC transferred its 75% shareholding in FPM Infra to MPIC through MIHL. Prior to the transfer, MPIC effectively held 25% in FPM Infra (see Note 11).*
[g] *Incorporated on November 7, 2014 as an investment holding company for the Company's waste-to-energy projects (see Note 33).*
[h] *See Note 4 - Acquisition of Non-Controlling Interest in MNTC.*
[i] *Interest in CIC is held through a Management Letter Agreement.*
[j] *These companies were incorporated in September 2013 to bid for toll road projects that will be rolled out by the Government in the future.*
[k] *Effective October 29, 2014, DLS-STI Megaclinic, Inc. changed its corporate name to The Megaclinic, Inc.*
[l] *Incorporated in 2014 in relation to the Concession Agreement for the ₱65-billion Light Rail Transit Line 1 Cavite Extension and Operations & Maintenance Project (see Note 33).*
[m] *On November 19, 2014, MPIC and AC Infrastructure Holdings Corporation (AC Infra) incorporated LRMH2 to bid for the operation and maintenance contract of the Light Rail Transit Line 2. Actual bidding for the project is targeted for the third quarter of 2015.*

Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year, except for the following voluntary changes in accounting policies and adoption of new and amended PFRS and Philippine interpretations effective January 1, 2014.

Voluntary change in accounting policies - Change in amortization method of the service concession asset of MNTC — Beginning January 1, 2014, the service concession asset of MNTC is amortized on a unit of production (UOP) basis. MPTC determined that it is more appropriate to use the UOP basis for amortizing the service concession asset as the economic benefit of this asset is more closely aligned with the traffic volume and kilometers travelled for the segments of the toll road using an "open toll collection system" and "closed toll collection system", respectively. The change in the method of amortization is also consistent with the toll segments' move to unify the accounting policies of its subsidiaries. This change in accounting policy resulted in a decrease in amortization expense by ₱131.0 million of the service concession asset for the year ended December 31, 2014.

Under the UOP basis, the amortization expense is expected to decrease in the earlier period and increase in the later period of the concession term compared with the straight-line method of amortization. The calculation of the UOP amortization is subject to other variables such as additional capital expenditures and re-estimation of projected traffic, and actual traffic volume during the year. Given that the projected and actual traffic volume fluctuate, it is not practicable to estimate the impact for the succeeding periods.

Adoption of new and amended standards and interpretations

- PAS 32, *Offsetting Financial Assets and Financial Liabilities (Amendments)* — These amendments clarify the meaning of "currently has a legally enforceable right to set-off" and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. These amendments affected the presentation only and had no impact on the Company's financial position or performance.

- Annual Improvements to PFRSs (2010-2012 Cycle) – PFRS 13, *Fair Value Measurement – Short-term Receivables and Payables* — This 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. This amendment had no material impact on the Company's financial position or performance.

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

- PFRS 10, PFRS 12 and PAS 27, *Investment Entities (Amendments)* — These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under PFRS 10, *Consolidated Financial Statements*. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss.

- 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. The Company has not novated any of its derivatives during the current period. However, these amendments would be considered for any future novations.

- Philippine Interpretation IFRIC 21, *Levies* — IFRIC 21 is effective for annual periods beginning on or after January 1, 2014 and is applied retrospectively. It is applicable to all levies imposed by governments under legislation, other than outflows that are within the scope of other standards (e.g., PAS 12, *Income Taxes*) and fines or other penalties for breaches of legislation. The interpretation clarifies that an entity recognizes a liability for a levy no earlier than when the activity that triggers payment, as identified by the relevant legislation, occurs. It also clarifies that a levy liability is accrued progressively only if the activity that triggers payment occurs over a period of time, in accordance with the relevant legislation. For a levy that is triggered upon reaching a minimum threshold, no liability is recognized before the specified minimum threshold is reached.

- Annual Improvements to PFRSs (2011-2013 Cycle) – PFRS 1, *First-time Adoption of PFRS – Meaning of "Effective PFRS"* — This 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.

The principal accounting and financial reporting policies adopted in preparing the Company's consolidated financial statements are as follows:

Business Combinations and Goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any NCI in the acquiree. For each business combination, the Company elects whether to measure the NCIs in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in general and administrative expenses.

When the Company acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as of the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, any previously held equity interest is re-measured at its acquisition date fair value and any resulting gain or loss is recognized in profit or loss. It is then considered in the determination of goodwill.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of PAS 39, *Financial Instruments: Recognition and Measurement*, is measured at fair value with changes in fair value recognized either in profit or loss or as a change to OCI. If the contingent consideration is not within the scope of PAS 39, it is measured in accordance with the appropriate PFRS. Contingent consideration that is classified as equity is not re-measured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognized for NCI, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Company re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognized at the acquisition date. If the re-assessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognized immediately in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Company's cash-generating units (CGUs) that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a CGU and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the CGU retained.

If the initial accounting for business combination can be determined only provisionally by the end of the period by which the combination is effected because the fair values to be assigned to the acquiree's identifiable assets and liabilities can be determined only provisionally, the Company accounts for the combination using provisional values. Adjustments to those provisional values as a result of completing the initial accounting shall be made within twelve (12) months from the acquisition date. The carrying amount of an identifiable asset, liability or contingent liability that is recognized as a result of completing the initial accounting shall be calculated as if its fair value at the acquisition date had been recognized from that date. Goodwill or any gain recognized shall be adjusted from the acquisition date by an amount equal to the adjustment to the fair value at the acquisition date of the identifiable asset, liability or contingent liability being recognized or adjusted.

Equity Method Investees

Equity method investees consist of the Company's investments in associates and joint ventures.

An associate is an entity over which the Company has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

The Company's investments in its associate and joint ventures are accounted for using the equity method.

Under the equity method, the investment in an associate or a joint venture is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Company's share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

The Company's share of the results of operations of the associate or joint venture is included in profit or loss. Any change in OCI of those investees is presented as part of the Company's OCI. In addition, when there has been a change recognized directly in the equity of the associate or joint venture, the Company recognizes its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealized gains and losses resulting from transactions between the Company and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.

The aggregate of the Company's share of profit or loss of an associate and a joint venture is shown on the face of the consolidated statement of comprehensive income outside operating profit and represents profit or loss after tax and NCI in the subsidiaries of the associate or joint venture.

The financial statements of the associate or joint venture are prepared for the same reporting period as the Company. When necessary, adjustments are made to bring the accounting policies in line with those of the Company.

After application of the equity method, the Company determines whether it is necessary to recognize an impairment loss on its investment in its associate or joint venture. At each reporting date, the Company determines whether there is objective evidence that the investment in the associate or joint venture is impaired. If there is such evidence, the Company calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value, then recognizes the loss as 'Share in net earnings of equity method investees' in the consolidated statement of comprehensive income.

Upon loss of significant influence over the associate or joint control over the joint venture, the Company measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognized in profit or loss.

Current Versus Non-current Classification
The Company presents assets and liabilities in the consolidated statement of financial position based on current/non-current classification.

An asset is 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 the 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 purposes of impairment testing, uses fair value less costs of disposal or value in use 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 37.

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 and 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 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 consolidated 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, with the assistance of the respective finance teams of the Parent Company's subsidiaries, 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 (see Note 37).

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 from acquisition date and that are subject to an insignificant risk of changes in value.

Restricted Cash and Short-term Deposits
Restricted cash represents cash in banks earmarked for long-term debt principal and interest repayment maintained in compliance with the loan agreement. Short-term deposits, other than those classified as AFS, are highly liquid money market placements with maturities of more than three months but less than one year from dates of acquisition.

Financial Instruments
The Company recognizes a financial asset or a financial liability in the consolidated 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 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 financial instruments were acquired or liabilities were incurred 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.

'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 profit or loss unless it qualifies for recognition as some other type of asset or liability. In cases where the data is not observable, the difference between the transaction price and model value is only recognized in profit or loss 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.

Amortized Cost
Amortized cost is computed using the effective interest method less any allowance for impairment and principal repayment or 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.

Subsequent Measurement. The subsequent measurement of financial assets and financial liabilities depends on their classification discussed 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 consolidated 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 profit or loss when the right to payment had been established.

Financial assets and liabilities may be designated at initial recognition as 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 derivatives (including embedded derivatives) under this category with fair value changes being reported directly in profit or loss, except when the derivative is designated in an effective hedging relationship. In that case, the fair value change is either reported in profit or loss with the corresponding adjustment to the hedged item (fair value hedge) or deferred in equity (cash flow hedge) presented as "Fair value changes on cash flow hedges" under "Other comprehensive income reserve" account.

The Company's financial asset at FVPL as at December 31, 2013 consisted of bifurcated derivatives only, which derivative asset was derecognized in 2014 (see Note 36).

The interest rate swap entered in 2011 constituting the Company's financial liability at FVPL as at December 31, 2011 was preterminated on December 15, 2012 (see Note 19).

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 profit or loss. Losses arising from impairment are recognized in profit or loss. 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, short-term deposits (excluding Unit Investment Trust Fund presented as short-term deposits but classified as AFS financial assets) and long-term deposits, receivables, investments in preferred shares with mandatory redemption feature, restricted cash and other deposits, and due from related parties (see Notes 7, 8, 9, and 21).

HTM Investments. HTM investments are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities for which the Company's management has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. When the Company sells or reclassifies other than an insignificant amount of HTM investments, the entire category would be tainted for 2 years and reclassified as AFS financial assets.

After initial measurement, these investments are subsequently measured at amortized cost. The amortization is included as part of interest income in profit or loss. Gains and losses are recognized in profit or loss when the HTM investments are derecognized and impaired, as well as through the amortization process. The losses arising from impairment of such investments and the effects of restatement on foreign currency denominated HTM investments are also recognized in profit or loss. Assets under this category are classified as current assets if maturity is within 12 months from the reporting date and as noncurrent assets if maturity is more than a year from the reporting date.

The Company has investments in fixed rate retail treasury bonds of the Republic of the Philippines (ROP) that were previously classified as HTM investments prior to 2010. In view of the pretermination of the HTM investments in 2010, the fixed rate retail treasury bonds were reclassified to AFS financial assets and continues to be presented as such (see Notes 10 and 36).

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. AFS financial assets 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 and included in the "Other comprehensive income" until the investment is derecognized or determined to be impaired, at which time the cumulative gains or losses are reclassified to profit or loss. When the Company holds more than one investment in the same security, these are deemed to be disposed of on an average costing method 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 equity financial assets are recognized in profit or loss when the right of payment has been established. AFS equity financial assets that are unquoted and for which fair values cannot be reliably determined are carried at cost less any impairment in value.

As at December 31, 2014 and 2013, this category includes investments in quoted and unquoted common shares and preferred shares, Unit Investment Trust Fund, investments in golf shares and investments in bonds (see Notes 7, 10 and 11).

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

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 cost. Any effect of restatement of foreign currency-denominated liabilities are recognized in profit or loss.

All of the Company's financial liabilities, except for derivative liabilities, are classified as other financial liabilities which include the following, among others:

a. Loans and Borrowings

   All loans and borrowings are initially recognized at fair value of the consideration received less directly attributable transaction costs (referred to as "debt issue costs"). Debt issue costs are amortized over the life of the debt instrument using the effective interest method. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in 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.

b. Financial Guarantee Contracts

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

Derivatives and Hedge Accounting
Freestanding and separated embedded derivatives are classified as financial assets or financial liabilities at FVPL unless they are designated as effective hedging instruments. The Company uses derivative financial instruments, such as cross-currency swaps and interest rate swaps, to hedge its foreign currency risks and interest rate risks, respectively. 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 profit or loss.

For the purpose of hedge accounting, hedges are classified primarily as: (a) a hedge of the fair value of a recognized asset or liability or an unrecognized firm commitment except for foreign currency risk (fair value hedge); or (b) a hedge of the exposure to variability in cash flows attributable to a recognized asset or liability or a highly probable forecasted transaction or foreign currency risk in an unrecognized firm commitment (cash flow hedge); or (c) hedge of a net investment in a foreign operation. The Company has no derivatives in 2013 designated as fair value hedges or hedges of a net investment in a foreign operation as at December 31, 2013. The Company has no derivatives as at December 31, 2014.

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

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

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

When the hedge ceases to be highly effective, hedge accounting is discontinued prospectively. In this case, the cumulative gain or loss on the hedging instrument that had been recognized in other comprehensive income reserve is retained as such until the forecasted transaction occurs. When the forecasted transaction is no longer expected to occur, any net cumulative gain or loss previously reported in other comprehensive income reserve is credited or charged immediately to profit or loss.

For derivatives that are not designated as effective accounting hedges, any gains or losses arising from changes in fair value are recognized directly in profit or loss.

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 clearly and closely related to the economic characteristics 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 as at FVPL.

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 profit or loss. 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 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 a 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.

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 have occurred after the initial recognition of the asset (an incurred "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Objective evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization, and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

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

If there is objective evidence that an impairment loss on assets carried at amortized cost had 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 profit or loss. The assets and 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, the recovery is credited to profit or loss.

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 profit or loss, 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 the reversal shall be recognized in profit or loss.

Assets Carried at Cost. If there is objective evidence that an impairment loss had 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 profit or loss. The asset 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.

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 financial assets, 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 profit or loss, is removed from other comprehensive income reserve and recognized in profit or loss. Impairment losses on equity investments are not reversed through profit or loss. Increases in fair value after impairment are recognized directly in other comprehensive income reserve.

In the case of debt instruments classified as AFS financial assets, impairment is assessed based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in profit or loss. Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount future cash flows for the purpose of measuring the impairment loss. Such accrual is recorded as part of "Interest income" in profit or loss. If, in subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through profit or loss.

Derecognition of Financial Instruments

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

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

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

Financial Liabilities. A financial liability is derecognized when the obligation under the liability is discharged, cancelled or has expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability 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 profit or loss.

Offsetting of Financial Instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated 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 consolidated statement of financial position.

Inventories

Inventories, which are included as part of "Other current assets" in the consolidated statement of financial position, are valued at the lower of cost and net realizable value (NRV).

Cost includes purchase price and import duties incurred in bringing each item of inventory to its present location and condition. Cost is determined using the moving average method for the healthcare segment; weighted average method for the tollways and the water segment. Inventories and NRV basis for each of the segment are enumerated below:

Segment	Inventories	NRV basis
Water & Tollways	Spare parts, materials and supplies	Current replacement cost
Tollways	Transponders and magnetic cards	Estimated selling price in the ordinary course of business less estimated costs necessary to make the sale
Healthcare	Medicines and hospital supplies	Estimated selling price in the ordinary course of business less direct cost to sell

Real Estate for Sale

Real estate for sale, which is included as part of "Other current assets" in the consolidated statement of financial position, is carried at the lower of cost and NRV. Cost includes the acquisition cost of the land plus all costs directly attributable to the acquisition for projects where the Company is the landowner, and includes actual development costs incurred up to end of reporting period for projects where the Company is both the landowner and developer. Where the Company is only a developer, the cost of real estate for sale pertains only to the actual development costs. NRV is the selling price in the ordinary course of business less estimated costs to complete and make the sale.

Advances to Contractors and Consultants
Advances to contractors and consultants which is included as part of "Other current assets" in the consolidated statement of financial position, represent advance payments for mobilization of the contractors and consultants. These are stated at costs less any impairment in value. These amounts are reduced upon receipt of the equivalent amount of services rendered by the contractors and consultants.

Service Concession Arrangements
The Company accounts for its service concession arrangements in accordance with Philippine Interpretation IFRIC 12 under the intangible asset model as it receives the right (license) to charge users of public service (see Note 13).

Revenue and Cost Recognition. The Company recognizes and measures revenue and cost in accordance with PAS 11, *Construction Contracts* and PAS 18, *Revenue* for the services it performs. When the Company provides construction or upgrade services, the consideration received or receivable by the Company is recognized at its fair value. The revenue and cost from these services are recognized based on the percentage of completion measured principally on the basis of estimated completion of a physical proportion of the contract works, and by reference to the actual costs incurred to date over the estimated total cost of the project.

Contractual Obligations. The Company recognizes its contractual obligations to restore the toll roads to a specified level of serviceability in accordance with PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, as the obligations arises which is as a consequence of the use of the toll roads and is proportional to the number of vehicles using the toll roads and increasing in measurable annual increments (see Note 17).

Service Concession Assets. The service concession assets acquired through business combinations are recognized initially at the fair value of the concession agreement using multi-period excess earnings method. Additions subsequent to business combinations are initially measured at present value of any additional estimated future concession fee payments pursuant to the concession agreement (see Notes 13 and 18) and/or the costs of rehabilitation works incurred or additional constructions. Following initial recognition, the service concession assets are carried at cost less accumulated amortization and any impairment losses.

Following are the methods used to amortize the service concession assets:

Method	Company
UOP	Maynilad, CIC and MNTC [a]
Straight-line	PHI

[a] Prior to 2014, MNTC used the straight-line method of amortization (see Note 2 – Changes in Accounting Policies)

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

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

Deferred Project Costs. Costs directly attributable to the acquisition of a service concession are recorded as Deferred Project Costs until commencement of the concession term, whereupon the costs are transferred either to Service Concession Asset or Financial Asset depending if the concession arrangement is under an intangible asset and financial asset model, respectively.

Property and Equipment

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

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:

Leasehold improvements	2–5 years or lease term whichever is shorter
Land improvements	5 years
Building and building improvements	5–30 years
Office and other equipment, furniture and fixtures	2–5 years
Transportation equipment	2–5 years
Instruments, tools and other equipment	2–5 years
Library books	3–5 years

The assets' residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at each reporting date.

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

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

Intangible Assets

Intangible assets, other than concession assets, acquired separately are measured on initial recognition at cost. The costs of intangible assets acquired in a business combination are their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in profit or loss in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortized over their estimated useful lives and assessed for impairment whenever there is an indication that an intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in profit or loss in the expense category consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the CGU level (see Note 15). The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If no longer supportable, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in profit or loss when the asset is derecognized.

Property Use Rights. Property use rights are made up of land and building use rights that arose from transactions that qualified as business combinations, for which contracts are originally and legally in the form of lease. Property use rights are initially recognized at fair value at the date of business combination and subsequently amortized on a straight-line basis over the term of the lease (see Notes 14 and 33) and assessed for impairment whenever there is an indication that these are impaired.

Software Cost. Software cost (included as part of "Other noncurrent assets" account in the consolidated 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 of hardware, including parallel processing and data conversion. Software cost is amortized on a straight-line basis over the estimated useful life of five years. The carrying cost is reviewed for impairment whenever there is an indication that software cost may be impaired.

Impairment of Nonfinancial Assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal 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 of disposal, 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 profit or loss.

The Company bases its impairment calculation on detailed budgets and forecast calculations which are prepared separately for each of the Company's CGUs to which the individual assets are allocated. These budgets and forecast calculations are generally covering a period of five years. For longer periods, a long term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses, including impairment on inventories, are recognized in profit or loss in those expense categories consistent with the function of the impaired asset.

For nonfinancial assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognized impairment losses no longer exist or have decreased. If such indication exists, the Company estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase. After such a reversal, the depreciation (in case of property and equipment) and amortization (in case of property use rights, service concession assets and software cost) charges are adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Goodwill. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of the CGU, or group of CGUs, to which the goodwill relates. Where the recoverable amount of the CGU, or group of CGUs, is less than the carrying amount of the CGU or group of CGUs, to which goodwill had been allocated, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

Assets Held For Sale
Assets are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell and are presented as current assets in the statement of financial position.

Customers' Guaranty Deposits
Customers' guaranty deposits (included as part of "Deferred credits and other long-term liabilities" account in the consolidated statement of financial position) are initially measured at fair value. After initial recognition, these deposits are subsequently measured at amortized cost using the effective interest method. The discount is amortized over the remaining concession period using the effective interest method.

Assets Held in Trust
Assets that are owned by Metropolitan Waterworks and Sewerage System (MWSS) but are used in the operations of Maynilad under the Concession Agreement, are not reflected in the consolidated statement of financial position but treated as Assets Held in Trust, except for certain assets transferred to Maynilad as mentioned in Note 34.

Equity Attributable to Owners of the Parent Company

Common Stocks. Common stocks are classified as equity and are measured at par value for all shares issued. Proceeds and/or fair value of consideration received in excess of par value are recognized as additional paid-in capital. 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.

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 profit or loss as accrued.

Retained Earnings. Retained earnings represent accumulated earnings net of cumulative dividends declared, adjusted for the effects of equity restructuring and transactions with NCI and the effects of changes in accounting policies as may be required by the standards' transitional provisions.

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 are made up of equity transactions other than capital contributions such as equity component of a convertible financial instrument, transactions with NCI 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 or loss in subsequent periods.

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.

Provisions and Contingencies

General. 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 profit or loss, 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.

Warranties and Guarantees. Provision relates to estimated expenses of concluded and ongoing debt settlement negotiations and certain warranties extended in relation to debt for asset swap arrangements entered in prior years. The amount of provision is recognized upon entering into such arrangement and is based on historical experience or best estimate as a result of ongoing negotiations.

Provision for Heavy Maintenance. Provision for heavy maintenance pertains to the present value of the estimated contractual obligations of the Company to restore the service concession assets or toll roads to a specified level of serviceability during the service concession term and to maintain the same assets in good condition prior to turnover of the assets to the Philippine Government. The amount of provision is accrued every year and presented in profit or loss and is reduced by the actual obligations paid for heavy maintenance of the service concession.

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

Contingent Liabilities Recognized in a Business Combination. A contingent liability recognized in a business combination is initially measured at its fair value. Subsequently, it is measured at the higher of the amount that would be recognized in accordance with the requirements for provisions above or the amount initially recognized less, when appropriate, cumulative amortization recognized in accordance with the requirements for revenue recognition.

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:

Revenue and income stream recognized under "Operating Revenues":

- *Water and Sewerage Services Revenue*. Revenues from water and sewerage services are recognized upon supply of water to the customers. Billings to customers consist of water, environmental and sewerage charges.

- *Toll Fees*. Revenue from toll fees is recognized upon sale of toll tickets. Toll fees received in advance, through transponders or magnetic cards, is recognized as income upon the holders' availment of the toll road services, net of sales discounts. The unused portion of toll fees received in advance is reflected in "Unearned revenue and other deposits" under "Accounts payable and other current liabilities" account in the consolidated statement of financial position.

- *Hospital Revenue*. Revenue is recognized upon rendering of medical services and sale of medicines and other pharmaceutical products.

- *School Revenue - Tuition and Other School Fees*. Tuition and other school fees are recognized as income over the corresponding school term. Tuition and other school fees related to the succeeding school term which are collected in advance are presented in "Unearned revenue and other deposits" under "Accounts payable and other current liabilities" in the consolidated statement of financial position.

Other revenue and income stream recognized under "Other income":

- *Construction Revenue.* See accounting policy under "Service Concession Arrangements: Revenue and cost recognition".

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

- *Dividend Income.* Revenue is recognized when the right to receive the payment is established which is upon the declaration date.

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

- *Sale of Investments.* Gain or loss is recognized when risk and rewards of ownership had been transferred to the buyer.

- *Management Fees.* Fees are recognized when services are rendered.

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

Cost and Expenses Recognition
Cost and expenses are recognized in profit or loss 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. Cost and expenses are recognized in profit or loss 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 or cease to qualify, for recognition in the Company's consolidated 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. Contingent rents are recognized as revenue in the period in which they are earned.

Operating lease payments, net of aggregate of benefit of lease incentives, are recognized as income in profit or loss on a straight-line basis over the lease term.

Retirement and Other Benefits

Defined Contribution Plan. The Parent Company and MPTC each maintain 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 Parent Company, MPTC and MPTDC, being entities operating in the Philippines, are 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 Parent Company, MPTC and MPTDC account 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.

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.

Defined Benefit Plan. MPIC's subsidiaries have funded, noncontributory retirement benefit plans covering all their eligible regular employees. The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method.

Defined benefit costs comprise the following: (a) service cost; (b) net interest on the net defined benefit liability or asset; and (c) remeasurements of net defined benefit liability or asset.

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in profit or loss.

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

Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Company, nor can they be paid directly to the Company. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations). If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The Company's right to be reimbursed of some or all of the expenditure required to settle a defined benefit obligation is recognized as a separate asset at fair value when and only when reimbursement is virtually certain.

Termination benefit. Termination benefits are employee benefits provided in exchange for the termination of an employee's employment as a result of either an entity's decision to terminate an employee's employment before the normal retirement date or an employee's decision to accept an offer of benefits in exchange for the termination of employment.

A liability and expense for a termination benefit is recognized at the earlier of when the entity can no longer withdraw the offer of those benefits and when the entity recognizes related restructuring costs. Initial recognition and subsequent changes to termination benefits are measured in accordance with the nature of the employee benefit, as either post-employment benefits, short-term employee benefits, or other long-term employee benefits.

Employee leave entitlement. Employee entitlements to annual leave are recognized as a liability when they are accrued to the employees. This is measured based on undiscounted amount of liability for leave expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees rendered the related services.

Share-based Payment

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

The cost of equity-settled transactions with employees is measured by reference to the fair value of the stock options at the date at which they are granted. Fair value is determined using an option-pricing model, further details of which are set forth in Note 31. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the share price of the Parent Company ("market conditions").

The cost of equity-settled transactions is recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ("vesting date"). The cumulative expense recognized for equity-settled transactions at each 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 profit or loss credit or expense for a period represents the movement in cumulative expense recognized as at the beginning and end of that period and is recognized as employee benefits.

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

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

Long-term Employee Benefits
The Company's Long-Term Incentives Plan (LTIP) grants cash incentives to eligible key executives of the Parent 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 losses, 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 consolidated financial statements are presented in Philippine Peso, which is the Parent Company's functional and presentation currency. All subsidiaries and associates evaluate their primary economic and operating environment and determine their functional currency. Items included in the consolidated financial statements of each entity are initially measured using that functional currency.

Transactions and balances. 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 taken to profit or loss except when qualified as adjustment to borrowing costs, and as discussed below for Maynilad.

Foreign exchange differentials relating to the restatement of concession fees payable are deferred in view of the automatic reimbursement mechanism as approved by the MWSS Board of Trustees under Amendment No. 1 of the Concession Agreement of Maynilad. Net foreign exchange losses are recognized as deferred Foreign Currency Differential Adjustments (FCDA) and net foreign exchange gains are recognized as deferred credits in the consolidated statement of financial position. The write-off of the deferred FCDA or reversal of deferred credits will be made upon determination of the new base foreign exchange rate as approved by the Regulatory Office during every Rate Rebasing exercise, unless indication of impairment of the deferred FCDA would be evident at an earlier date.

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

Group companies. On consolidation, the assets and liabilities of foreign operations are translated into Philippine Peso at the rate of exchange prevailing at the reporting date and their statements of comprehensive income are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognized in OCI. On disposal of a foreign operation, the component of OCI relating to that particular foreign operation is recognized in profit or loss.

Income Taxes

Current Tax. Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the tax authority. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date 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 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, associates and joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

interest in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable income will be available against which the temporary differences can be utilized.

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

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

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, are recognized subsequently if new information about facts and circumstances change. The adjustment is either treated as a reduction in goodwill (as long as it does not exceed goodwill) if it was incurred during the measurement period or recognized in profit or loss.

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 other current assets and accounts payable and other current liabilities in the consolidated 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 Parent Company by the weighted average number of common shares outstanding during the year, after considering the retroactive effect of stock dividend declaration, if any.

Diluted earnings per share attributable to owners of the Parent Company is calculated in the same manner assuming that, the weighted average number of common shares outstanding is adjusted for potential common shares from the assumed exercise of ESOP and other dilutive instruments.

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

3. Management's Use of Judgments and Estimates

The preparation of the consolidated 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. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

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

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

On the same manner of assessment, the functional currency of each of the Company's subsidiaries are determined individually, which is either similar or different from the functional currency of the Parent Company but are translated to the presentation currency for purposes of the consolidated financial statements.

Consolidation of CIC. While presently not owning any of CIC's common voting shares, the Company, through MPTC, considers that it controls CIC by virtue of the Management Letter-Agreement (MLA) (see Note 4). Under the MLA, MPTC has the power to solely direct the entire operations, including the capital expenditure and expansion plans of CIC. MPTC shall then receive all the financial benefits from CIC's operations and all losses incurred by CIC are to be borne by MPTC.

Consolidation of structured entities. Subsidiaries included structured entities that were set-up for the benefit of the Company. Based on contractual terms, the Company assessed that the voting rights in these structured entities are not the dominant factor in deciding who controls these structured entities. Thus, these entities were assessed to be structured entities under PFRS 10 and, that the Company controls these structured entities. The voting shares of the third-party stockholders in these structured entities are accounted for as non-controlling interest in the consolidated financial statements.

Dilution in interest in a subsidiary as equity transaction. On July 2, 2014, GIC Private Limited (GIC), through Arran Investment Private Limited, invested ₱3.7 billion for a 14.4% stake in MPIC's subsidiary, MPHHI and paid ₱6.5 billion as consideration for an Exchangeable Bond which can be exchanged into a 25.5% stake in MPHHI in the future. The Exchangeable Bond is an instrument that, at a certain time in the future, converts into a fixed number of shares of

MPHHI. Moreover, the principal of Exchangeable Bond is in Philippine Peso, the same currency as the functional currency of MPIC as the issuing entity. Thus, the Exchangeable Bond qualifies as an equity instrument such that the proceeds from the Exchangeable Bond together with the share subscription of GIC in MPHHI, were considered as equity transactions with a non-controlling shareholder (see Note 22).

Power to exercise significant influence. Where the Company holds less than 20% of voting rights in an investee but the Company has the power to exercise significant influence, such an investment is treated as an associate. In an opposite situation, where the Company holds over 20% of voting rights of an investee (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:

- *Costa de Madera Corporation (Costa de Madera).* Despite ownership interest of 62%, accounted for as an associate as control and management rest with the other shareholders (see Note 11).

- *NE Pacific Shopping Center Corporation (NEPSCC).* Despite the Company having representation in the board of directors, interest in this entity was classified as AFS financial asset consistent with management's intention to sell this investment in line with strategic business review and decision to focus on infrastructure since 2008. MPIC subsequently sold all of its shares in NEPSCC on February 28, 2014 (see Note 10).

- *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 10).

Interests in Landco. Prior to December 2014, the Parent Company classified its 19% interest in Landco's common shares as investment in AFS Financial Asset. Following the restructuring plan of Landco in preparation for its eventual sale, management classified and presented its interests in Landco, including the receivables from Landco and ABHC as "Assets held for sale". The Parent Company is committed to the plan to sell its interests in Landco and has initiated actions to locate a buyer. No impairment loss was recognized on the reclassification of the interests in Landco as at December 31, 2014 as management expects that the fair value (estimated based on enterprise value) less costs to sell is higher than the carrying amount (see Note 33).

Investment in Beacon Electric Asset Holdings, Inc. (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 or long-term investment; and the accounting policy choice of the reporting entity. In applying the factors, 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 Electric; the Company intends to hold the investment indefinitely; and the Company may decide to sell the instruments anytime at its discretion.

- *Investment in Meralco directly and through Beacon Electric.* Beacon Electric has 44.96% and 49.96% interest in Meralco as at December 31, 2014 and 2013, respectively. 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. 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 (see Note 11). Thus, MPIC has significant influence over Meralco and accounts for its direct interest and indirect interest in Meralco through Beacon Electric using the equity method.

Service Concession Arrangements. In applying Philippine Interpretation IFRIC 12, the Company has made a judgment that the service concession arrangements of the Company's water (Maynilad and PHI), tollway (MNTC and CIC) and rail (LRMC) businesses qualify under the intangible asset model as these companies receive the right to charge users of public service. Details of the Company's accounting policy in respect of the service concession arrangements are set out in Note 2 to the consolidated financial statements. Other significant judgment and estimates made in relation to concession arrangements are as follows:

- *Service Concession Assets.* The methods of amortization that the Company use depends on which method best reflect the pattern of consumption of the concession assets. Beginning January 1, 2014, MNTC uses the UOP method for amortizing its service concession assets as it determined that the economic benefit of these assets are more closely aligned with traffic volume and kilometers travelled (see Note 2). The Company annually reviews the billable water volume, in the case of the water concession and the traffic volume/kilometers travelled, in the case of the toll concession, based on factors that include market conditions such as population growth and consumption of water/usage of the toll facility, and the status of the Company's projects. It is possible that future results of operations could be materially affected by changes in the Company's estimates brought about by changes in the aforementioned factors.

The total carrying values of service concession assets amounted to ₱98,259.7 million and ₱94,539.9 million as at December 31, 2014 and 2013, respectively (see Note 13).

- *Construction revenue and costs.* The Company recognizes construction revenues and costs in accordance with PAS 11 (see Note 2). Given that the rehabilitation works have been subcontracted to outside contractors (excluding the cost of some materials for some contractors), the recognized construction revenue substantially approximates the related construction cost. Construction revenue recognized in the consolidated statements of comprehensive income amounted to ₱6,669.6 million, ₱5,557.0 million and ₱6,730.7 million for the years ended December 31, 2014, 2013 and 2012, respectively. Construction costs recognized in the consolidated statements of comprehensive income amounted to ₱6,500.5 million, ₱5,432.0 million and ₱6,608.0 million for the years ended December 31, 2014, 2013 and 2012, respectively (see Note 27).

- *Provision for heavy maintenance.* The Company also recognizes its contractual obligations to restore the toll roads to a specified level of serviceability. MNTC and CIC recognize provision following PAS 37 as the obligation arises which is a consequence of the use of the toll roads and therefore it is proportional to the number of vehicles using the roads and increasing in measurable annual increments. Provision for heavy maintenance amounted to ₱272.4 million and ₱433.0 million as at December 31, 2014 and 2013, respectively, and these are presented under “Provisions” account in the consolidated statements of financial position (see Note 17).

Lease Agreement Qualifying as Business Combination. CVHMC and EMHMC entered into lease agreements with the Roman Catholic Archbishop of Manila (RCAM), and Our Lady of Lourdes Hospital, Inc. (OLLHI) and Servants of the Holy Spirit, Inc. (SSps), respectively. The Company has assessed that the lease agreements meet the definition of a business combination, particularly since EMHMC and CVHMC have obtained control over the operations and management of hospitals, hence, both lease agreements qualify as acquisitions of businesses and were accounted for in accordance with PFRS 3, resulting in the recognition of property use rights (see Note 14).

Transitional and Clarificatory Agreement (TCA). On August 9, 2007, Maynilad entered into a TCA with MWSS to prescribe the procedures for the resolution of their dispute (see Note 32). Pending resolution of the dispute, the disputed amounts of ₱5.0 billion and ₱4.9 billion as at December 31, 2014 and 2013, respectively, are considered contingent liabilities. Prior to 2012, no reversal of accrued interest payable was made pending resolution of the matter in accordance with the dispute requirements of the TCA. However, with the prescription of the TCA and in light of Maynilad’s current negotiations and outstanding offer of US$14 million to fully settle the claim of MWSS, Maynilad reversed a portion of the accrued interest payable amounting to ₱378.1 million to other income in 2012. Likewise, the Company reassessed and derecognized the contingent liability amounting to ₱686.6 million recognized in the Company’s consolidated financial statements as a result of the application of the accounting for business combinations when the Company acquired control of Maynilad (see Note 27).

Estimates

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Company based its assumptions and estimates on parameters available when the consolidated 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. 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 that are not quoted in an active market. Where valuation techniques are used to determine fair values (e.g., discounted cash flow and option pricing 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 would affect either the consolidated statement of comprehensive income or consolidated statement of changes in equity.

Fair values of financial assets and financial liabilities are presented in Note 37.

Purchase Price Allocation in Business Combinations, Goodwill and Gain on Bargain Purchase. The Company accounts for the acquired businesses using the acquisition method which requires extensive use of accounting judgments and estimates to allocate the purchase price to the fair market values of the acquiree's identifiable assets and liabilities and contingent liabilities, if any, at the acquisition date. Any difference in the purchase price and the fair values of the net assets acquired is recorded as either goodwill in the consolidated statement of financial position or gain on bargain purchase in profit or loss. Thus, the numerous judgments made in estimating the fair value to be assigned to the acquiree's assets and liabilities can materially affect the Company's financial position and performance.

The Company's acquisitions of certain subsidiaries have resulted in recognition of goodwill. The carrying value of goodwill amounted to ₱18,308.2 million as at December 31, 2014 and 2013 (see Note 12). The acquisition of CLDH in 2013 resulted in a gain on bargain purchase of ₱22.1 million based on the purchase price allocation (see Notes 4 and 27).

Impairment of Loans and Receivables. The Company estimates the allowance for doubtful accounts related to receivables using a combination of specific and collective assessments. 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 cash flows 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 values of receivables, net of allowance for doubtful accounts, amounted to ₱3,939.3 million and ₱4,342.0 million as at December 31, 2014 and 2013, respectively. Allowance for doubtful accounts amounted to ₱879.0 million and ₱866.7 million as at December 31, 2014 and 2013, respectively (see Notes 8 and 36).

Impairment of AFS Financial Assets. The Company treats an AFS equity financial asset as impaired when there had 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.

For debt instruments classified as AFS financial assets, the Company considers loss events that has an impact on the estimated future cash flows of the financial asset, among others, the issuer is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization. Other observable data may indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Impairment loss was recognized for AFS financial asset amounting to ₱100.2 million for the year ended December 31, 2014 while there was no impairment loss for the years ended December 31, 2013 and 2012. The carrying value of AFS financial assets, including UITF classified as short-term deposits (see Note 10) and investments in Beacon Electric preferred shares (see Note 11), amounted to ₱19,076.1 million and ₱16,385.3 million as at December 31, 2014 and 2013, respectively (see Notes 9, 10, 11 and 36).

Impairment of Goodwill. Goodwill is subject to annual impairment test. This requires an estimation of the value in use of CGUs to which the goodwill is allocated. Estimating the value in use requires the Company to estimate the expected future cash flows from the CGU and to choose a suitable discount rate in order to calculate the present value of those cash flows. No impairment of goodwill was recognized for each of the three years in the period ended December 31, 2014. The carrying value of goodwill amounted to ₱18,308.2 million as at December 31, 2014 and 2013 (see Note 12).

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

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

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

	2014	2013
	(In Millions)	
Service concession assets (see Note 13)	**₱98,260**	₱94,540
Equity method investees (see Note 11)	**52,846**	36,525
Property and equipment (see Note 14)	**7,368**	6,859
Deferred project costs (see Note 15)	**1,869**	–
Property use rights (see Note 14)	**608**	649
Software costs (see Note 15)	**67**	73

There were no impairment losses recognized on other non-financial assets for each of the three years in the period ended December 31, 2014.

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

There was no change in the estimated useful lives of the property use rights, property and equipment, and software costs for all the periods presented.

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 utilized. 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.

Maynilad recognized deferred tax assets on deductible temporary differences expected to reverse after the income tax holiday period, while deferred taxes on deductible temporary differences expected to reverse during the income tax holiday and to items where doubt exists as to the tax benefits they will bring in the future, are not recognized (see Note 29).

Net recognized deferred tax assets amounted to ₱1,163.6 million and ₱1,218.2 million as at December 31, 2014 and 2013, respectively. The Company's deductible temporary difference, unused NOLCO and MCIT for which no deferred tax assets have been recognized amounted to ₱6,122.7 million and ₱5,181.9 million as at December 31, 2014 and 2013, respectively (see Notes 15 and 29).

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

In accordance with MWSS-RO Resolution No. 2009-069, the new base foreign exchange rate was changed from ₱51.86 to ₱48.04 effective May 4, 2009.

Net deferred credits pertaining to these foreign exchange gains amounted to ₱602.4 million and ₱478.2 million as at December 31, 2014 and 2013, respectively (see Note 20).

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 25, are reviewed at each reporting date.

Accrued retirement liability under the defined benefit plan amounted to ₱439.5 million and ₱333.2 million as at December 31, 2014 and 2013, respectively (see Notes 20 and 25).

Share-based Payments. The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payments requires determining the most appropriate valuation model for a grant of equity instruments, which is dependent on the terms and conditions of the grant. This also requires determining the most appropriate inputs to the valuation model including the expected life of the option, volatility and dividend yield, and making assumptions about them. The assumptions and models used for estimating fair value for share-based payments are disclosed in Note 31. The Company recognizes expenses based on the estimated number of grants that will ultimately vest and will require settlement. The Company's average turnover rate over the past few years is used to determine the attrition rate in computing the benefit expense and the estimated liability.

Equity-based compensation expense recognized in 2014, 2013 and 2012 amounted to ₱64.0 million, ₱18.2 million and ₱13.4 million, respectively (see Notes 25 and 31).

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

LTIP expense for the years ended December 31, 2014, 2013 and 2012 amounted to ₱440.2 million, ₱411.0 million and ₱164.9 million, respectively, and presented as "Personnel costs" under "General and administrative expenses" in the consolidated statements of comprehensive income. LTIP liability as at December 31, 2014 and 2013 amounted to ₱850.3 million and ₱455.2 million, respectively, and is presented under "Accounts payable and other current liabilities" and "Deferred credits and other long-term liabilities" account in the consolidated statements of financial position (see Notes 16, 20 and 25).

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

Provisions mainly consist of provision for estimated expenses related to the concluded and ongoing debt settlement negotiations and certain warranties and guarantees, claims and potential claims against the Company, and provision for heavy maintenance. The provisions for the heavy maintenance requires an estimation of the periodic cost, generally estimated to be every five to seven years or the expected heavy maintenance dates, to restore the assets to a level of serviceability during the concession term and in good condition before turnover to the Grantor. This is based on the best estimate of management to be the amount expected to be incurred to settle the obligation at every heavy maintenance dates discounted using a pre-tax rate that reflects the current market assessment of the time value of money and the risk specific to the liability.

Additional provisions, excluding accretion, for the years ended December 31, 2014, 2013 and 2012 amounted to ₱1,392.0 million, ₱1,467.7 million and ₱982.1 million, respectively. Cumulative provisions amounted to ₱5,773.0 million and ₱4,988.7 million as at December 31, 2014 and 2013, respectively (see Note 17).

Contingencies. Certain subsidiaries of the Company are parties to certain lawsuits or claims arising from the ordinary course of business. However, the Company's management and legal counsel believe that the eventual liabilities under these lawsuits or claims, if any, will not have a material effect on the consolidated financial statements (see Note 32).

4. Business Combinations and Acquisition of Non-controlling Interests

The Company's intention is to maintain and continue to develop a diverse set of infrastructure assets through its investments in water utilities, toll roads, power distribution and health care services and rail. The Company is therefore committed to investing through acquisitions and strategic partnerships in prime infrastructure assets with the potential to provide synergies with its existing operations. Accordingly, the following acquisitions were made in 2014 and 2013.

With the exception of the acquisition of NCI in MNTC and Megaclinic, the acquisitions below were accounted for as business combinations using the acquisition method:

Acquisitions in 2014

There were no business combinations in 2014. However, there was an acquisition of non-controlling interest in MNTC as disclosed below.

Acquisition of NCI in MNTC

On December 23, 2013, MPTDC and Egis Projects, SA (Egis) entered into a Share Purchase Agreement for the sale and transfer of common shares of MNTC, representing 3.9% of the total issued and outstanding capital stock of MNTC, held by Egis to MPTDC on January 10, 2014 (closing date). The purchase price is ₱2,056.68 per common share or a total consideration of ₱1.5 billion, inclusive of the dividends allocable to the purchased shares amounting to ₱48.5 million declared by MNTC on December 18, 2013 with payment date of January 31, 2014.

On July 18, 2014, MPTDC, Egis and Egis Investment Partners Philippines Inc. (EIP) entered into a Share Purchase Agreement for EIP's acquisition of 10% of the issued and outstanding shares of MNTC held by Egis. Egis' receivable from EIP as a result of the sale of the MNTC shares amounted to ₱3,652.7 million ("Egis Receivable") or ₱2,056.68 per share. EIP, which is owned by MPTDC at 46% and by Egis at 54%, was incorporated for the sole purpose of holding the acquired MNTC shares. This transaction effectively provided MPTDC an additional 4.6% economic interest in MNTC for a total consideration of ₱1.7 billion representing substantially the amount paid for the assignment by Egis of 46% of the Egis' Receivable to MPTDC.

After the abovementioned transactions, MPTDC's effective economic ownership in MNTC increased from 67.10% to 75.6%. The increase in effective ownership in MNTC is accounted for as an equity transaction with the premium of ₱2,374.9 million recognized in equity (see Note 22). The premium represents the difference between the carrying value of the additional interest acquired and the total consideration paid.

Cash consideration paid to NCI	₱3,116
MNTC's net assets acquired (8.5%)	(741)
Difference recognized in equity reserve	₱2,375

Acquisitions in 2013

Acquisition of CIC

In relation to the Convertible Note Agreement executed by and between MPTC and Cavitex Holdings Inc. (CHI), MPTC, CHI with the conformity of its then subsidiary CIC, executed a Management Letter-Agreement dated December 27, 2012, for the management of CIC by MPTC. Under the Management Letter-Agreement, management of CIC by MPTC commenced on January 2, 2013 and will continue until the issuance of the New CIC Shares in favor of MPTC as a result of the conversion into or exchange of the CHI Preferred Shares for the said New CIC Shares ("Management Period"). Also under the Management-Letter Agreement, MPTC shall receive all the financial benefits from CIC's operations and all losses incurred by CIC shall be borne by MPTC. Thus, by virtue of the Management Letter-Agreement, MPTC acquired control over CIC effective January 2, 2013.

CIC holds the concession for the operation and maintenance of the Manila-Cavite Toll Expressway ("CAVITEX"). The CAVITEX is a 14-km long toll road built in two segments running from Parañaque to Cavite. The concession period extends to 2033 for the originally built road and to 2046 for a subsequent extension.

The allocation of the total cost of acquisition to identifiable assets, liabilities and contingent liabilities using fair values as at January 2, 2013 is shown below:

	Final Fair Values Recognized on Acquisition
	(In Millions)
Assets	
Cash and cash equivalents	₱746
Receivables and other current assets	3
Concession asset (see Note 13)	9,614
Advances to contractors	73
Property and equipment (see Note 14)	25
Other noncurrent assets	664
	11,125
Liabilities	
Accrued expenses and other current liabilities	367
Due to a related party	420
Long-term debt	7,005
Provision for heavy maintenance (see Note 17)	228
Contingent liability (see Note 20)	1,100
Deferred tax liability - net	163
Other noncurrent liabilities	6
	9,289
Total identifiable net assets at fair value	1,836
Goodwill arising on acquisition (see Note 12)	4,966
Consideration transferred	₱6,802

Total consideration transferred consists of the fair values of the Convertible Note and the related derivative asset arising from the conversion feature amounting to ₱6.6 billion and ₱0.2 billion, respectively. No transaction costs were incurred for the business combination.

The fair value and gross amount of the receivables amounted to ₱3.0 million. None of the receivables have been impaired and it is expected that the full contractual amounts will be collected.

A contingent liability at a fair value of ₱1,100.1 million was recognized at the acquisition date arising from probable claim from a third party. As at December 31, 2014 and 2013, the contingent liability amounted to ₱1,171.7 million and ₱1,142.2 million, respectively, with the increase arising from the passage of time. An indemnification asset (included in "Other noncurrent assets") amounting to ₱513.4 million as of acquisition date, was recognized in relation to such probable claim. As at December 31, 2014 and 2013, the indemnification asset amounted to ₱548.3 million and ₱533.0 million, respectively, with the increase arising from passage of time (see Note 15). No further disclosures regarding the contingent liability arising from the probable claim are made by MPTC at this time as MPTC believes that such further disclosures might be prejudicial to its position.

The goodwill of ₱4,966.0 million that arose on the acquisition can be attributed to the synergies expected to be derived from the business combination, particularly in connection with MPTC's other existing and planned tollroad projects. None of the goodwill is expected to be deductible for tax purposes.

Net cash outflow on acquisition is as follows:

	Amount
	(In Millions)
Total cash paid on acquisition[(a)]	₱6,772
Cash acquired with the subsidiary[(b)]	(746)
Net cash outflow	₱6,026

[(a)] *Cash paid on acquisition represents the cash consideration for the Convertible Notes Receivable.*
[(b)] *Cash acquired with the subsidiary is included in cash flows from investing activities.*

From January 2, 2013 (the date of acquisition) to December 31, 2013, CIC contributed ₱1,052.2 million and ₱251.8 million to the Company's consolidated revenue and consolidated net income, respectively.

Acquisition of DLSMC and CLDH

On June 3, 2013, the Company, through MPHHI, acquired 51% of the voting equity interest in DLSMC, a tertiary teaching and training hospital, by subscribing to 401,942 common shares. Total cash paid as consideration for the acquisition amounted to ₱132.9 million. Megaclinic, an ambulatory care center in SM Megamall, is a subsidiary of DLSMC as at acquisition date, and the Company's first investment in a non-hospital-based diagnostic center.

On October 24, 2013, the Company completed the acquisition of 51% equity ownership in Central Luzon Doctors' Hospital, Tarlac's largest private hospital, for a total nominal consideration of ₱188.8 million to be paid on a deferred arrangement. The fair value of the consideration is at ₱149.6 million, of which ₱52.1 million remains outstanding as at December 31, 2013. The funding will go towards the purchase of major medical equipment and the implementation of an infrastructure development plan highlighted by the construction of a new building to house new operating rooms, as well as additional patient beds and doctors' clinics.

The Company acquired DLSMC and CLDH as part of its strategy to grow its portfolio and increase the Company's total bed capacity and to be the largest private hospital group in the Philippines.

The net assets recognized in the December 31, 2013 financial statements were based on a provisional assessment of fair value while MPHHI sought an independent valuation for the property and equipment owned by DLSMC and CLDH. The valuation had not been completed by the date the 2013 consolidated financial statements were approved for issue by the BOD.

In 2014, the valuation was completed and there were no differences between the provisional and final fair value of the assets and liabilities. The provisional and final fair values of the identifiable assets and liabilities of DLSMC and CLDH as at the date of acquisition are as follows:

	DLSMC	CLDH
	(In Millions)	
Assets		
Cash and cash equivalents	₱164	₱128
Receivables	95	36
Other current assets	43	19
Property and equipment (see Note 14)	178	217
Other noncurrent assets	26	52
	506	452
Liabilities		
Accounts payable and accrued expenses	160	70
Other current liabilities	11	–
Long term debt	64	–
Deferred tax liability - net	–	25
Other noncurrent liabilities	23	24
	258	119
Total identifiable net assets at fair value	248	333
Non-controlling interest	(122)	(161)
Goodwill arising on acquisition (see Note 12)	7	–
Bargain purchase	–	(22)
Consideration transferred	₱133	₱150

Net cash inflow on acquisition is as follows:

	DLSMC	CLDH
	(In Millions)	
Cash acquired with the subsidiary[(a)]	₱164	₱128
Total cash paid on acquisition	(133)	(97)
Net cash inflow	₱31	₱31

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

The fair value and gross amount of DLSMC's trade receivables amounted to ₱95.0 million and ₱154.0 million, respectively. The fair value and gross amount of CLDH's trade receivables amounted to ₱36.0 million and ₱56.1 million, respectively. The difference between the fair value and the gross amount of the receivables represents the portion expected to be uncollectible.

The goodwill arising from the acquisition of DLSMC is primarily attributed to the expected synergies and other benefits from combining the assets and activities of DLSMC with those of the hospitals of the Company. The goodwill is not deductible for income tax purposes. Bargain purchase resulting from the acquisition of CLDH is included in "Construction revenue and other income" in the statement of comprehensive income (see Note 27).

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

From the date of acquisition, DLSMC and CLDH have contributed ₱250.4 million and ₱61.4 million, respectively, to the consolidated revenue and ₱24.9 million of net profit and ₱0.4 million of net loss, respectively, to the consolidated net income of the Company. If the combination had taken place at the beginning of the year, contributions to the consolidated revenue and consolidated net income would have been ₱388.4 million of revenue and ₱16.9 million of net profit for DLSMC and ₱356.0 million of revenue and ₱5.8 million of net loss for CLDH, respectively, for the year ended December 31, 2013.

Total transaction costs of ₱5.3 million have been expensed. Of the total transaction costs, ₱2.1 million was included in "General and administrative expenses" in the consolidated statement of comprehensive income and are part of operating cash flows for the year ended December 31, 2013. The remaining ₱3.2 million portion of the transaction costs were recognized in the latter part of 2012.

Acquisition of NCI in Megaclinic
As at June 3, 2013, DLSMC had a 77.24% direct ownership interest in Megaclinic. On August 16, 2013, DLSMC sold its entire ownership in Megaclinic to its shareholders, resulting in the sale of 51% of its direct ownership interest in Megaclinic to MPHHI for a cash consideration of ₱17.3 million. The 11.61% increase in effective ownership in Megaclinic is accounted for as an equity transaction.

5. 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 the following segments based on services and products:

- *Water utilities*, which relate to the provision of water and sewerage services by MWHC and its subsidiaries Maynilad and PHI, and bulk water supply by MPWIC.
- *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), and MPIC's associate, Don Muang Tollway Public Ltd (DMT).
- *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.
- *Rail,* which primarily relates to the operations and maintenance of the Light Rail Transit Line 1 (LRT) and construction of the LRT1 south extension by LRMC and ticketing services by Automated Fare Collection Services, Inc. (AFCSI).
- *Others*, which represent holding companies and operations of subsidiaries involved in real estate and provision of services.

The rail segment is a new segment beginning 2014. Although the rail segment does not meet the quantitative thresholds required by PFRS 8, *Operating Segments* for reportable segments as the companies are still under the pre-operating stage, management has concluded that this segment should be reported as it is closely monitored by the BOD, comprises of significant investments in the Government's public-private partnership (PPP) initiatives and is expected to materially contribute to the Group's revenue in the future.

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:

Maynilad
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 (RO). 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 RO Resolution No. 13-010-CA dated September 10, 2013 on the rate rebasing adjustment for the rate rebasing period 2013 to 2017 reducing Maynilad's 2012 average all-in basic water charge by 4.82% or ₱1.46 per cubic meter (cu.m) or ₱0.29 per cubic meter (cu.m) per year over the next five years. Maynilad formally notified its objection and initiated arbitration proceedings. On October 4, 2013, Maynilad filed its Dispute Notice before the Appeals Panel. On December 17, 2013, the RO released Resolution No. 13-011-CA regarding the implementation of a status quo for Maynilad's Standard Rates and Foreign Currency Differential Adjustment (FCDA) for any and all its scheduled adjustments until such time that the Appeals Panel has issued the Final Award.

In a decision dated December 29, 2014, the Appeals Panel upheld the alternative rebasing adjustment of Maynilad. This will result in a 9.8% increase in the 2013 average basic water charge of ₱31.28 per cu.m., inclusive of the ₱1.00 Currency Exchange Rate Adjustment which the MWSS has incorporated into the basic charge (the "Award"). The Award translates to an average increase of ₱3.06/cu.m. For a typical household whose monthly water consumption is 20 cu.m., this would mean an increase in the average water charge of ₱1.68 per cu.m.

While there has been a two (2)-year delay in implementing an adjustment in the average basic water charge - the Concession Agreement between MWSS and Maynilad expressly provides for a one-time implementation of a positive rebasing adjustment - Maynilad is willing to implement the increase on a staggered basis in order to mitigate the impact of the Award on its customers in the West Zone of Metro Manila subject to approval of the MWSS.

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

On February 20, 2015, Maynilad wrote the Philippine Government, through the Department of Finance, with reference to the undertaking which the Republic of the Philippines (the "Republic") issued in favor of Maynilad on July 31, 1997 and March 17, 2010 (the "Undertaking"). This Undertaking provides, amongst other things, that the Republic shall indemnify Maynilad in respect of any losses occasioned by a delay caused by the Republic or any government-owned agency in implementing any increase in the Standard Rates beyond the date for its implementation in accordance with the Concession Agreement. Maynilad's call on the Undertaking comes after the MWSS and its RO, have chosen to defer the implementation of the Award, despite the Award being final, binding and executory on MWSS, the RO, and Maynilad.

As at February 26, 2015, Maynilad is still awaiting the MWSS Board of Trustees to approve the 2015 tariff table showing the adjusted rates and the DOF reply.

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. Subject to the Toll Regulatory Board validating the calculation of the toll rate adjustment in accordance with the formula, toll rate adjustment is scheduled every two calendar years for the NLEX and every three calendar years for the CAVITEX.

As at February 26, 2015, MPTC continues to await approval by the Government of toll rate adjustments for Radial Road 1 (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 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 1st and ends on June 30th of the following year. 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 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 the 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 consolidated financial statements. For the years ended December 31, 2014, 2013 and 2012, no revenue transactions with a single customer accounted for 10% or more of the Company's consolidated revenues. Except for the equity in net earnings recognized from the Company's investment in DMT (see Note 11), all revenues of the Company were primarily derived from within the Philippines.

Segment capital expenditure is the total cost incurred during the period to acquire service concession assets, property and equipment, and intangible assets other than goodwill. For the consolidated statements of financial position, difference between the combined segment assets and the consolidated assets consist of adjustments and eliminations comprising of goodwill, deferred tax and derivative assets. Difference between the combined segment liabilities and the consolidated liabilities largely consist of deferred tax and derivative liabilities.

The following table shows the reconciliations of the Company's consolidated Core EBITDA to consolidated net income for the years ended December 31, 2014, 2013 and 2012.

	2014	2013	2012
		(In Millions)	
Consolidated Core EBITDA	**₱19,188**	₱17,264	₱15,644
Depreciation and amortization	**(4,007)**	(3,766)	(3,845)
Consolidated EBIT	**15,181**	13,498	11,799
Adjustments to reconcile with consolidated net income:			
Interest income	**385**	462	651
Share in net earnings of equity method investees	**3,226**	2,294	1,993
Interest expense	**(4,290)**	(3,990)	(3,668)
Non-recurring gains (losses) - net	**(850)**	50	94
Provision for income tax	**(1,078)**	(835)	(1,662)
Consolidated net income for the year	**₱12,574**	₱11,479	₱9,207

The following table shows the reconciliations of Company's consolidated core income to the Company's consolidated net income for the years ended December 31, 2014, 2013 and 2012.

	2014	2013	2012
		(In Millions)	
Consolidated core income for the year	**₱8,508**	₱7,229	₱6,564
Foreign exchange gains (losses) - net	**18**	70	885
Other non-recurring losses	**(456)**	(340)	(855)
Net tax effect of aforementioned adjustments	**(130)**	250	(687)
Net income for the year attributable to owners of the Parent Company	**7,940**	7,209	5,907
Net income for the year attributable to non-controlling interest	**4,634**	4,270	3,300
Consolidated net income for the year	**₱12,574**	₱11,479	₱9,207

The segment revenues, net income for the year, assets, liabilities, and other segment information of the Company's reportable operating segments as at and for the years ended December 31, 2014, 2013 and 2012 are detailed in the succeeding tables.

The following table presents consolidated information on core income and certain assets and liabilities regarding business segments for the years ended December 31, 2014, 2013 and 2012:

	Year Ended December 31, 2014 *(In Millions)*							
	Water Utilities	**Toll Operations**	**Healthcare**	**Power Distribution**	**Rail**	**Other Businesses**	**Adjustments/ Eliminations**	**Consolidated**
Total revenue from external sales	**₱18,363**	**₱8,641**	**₱6,828**	**₱–**	**₱–**	**₱–**	**₱–**	**₱33,832**
Cost of sales	**(5,431)**	**(3,575)**	**(3,912)**	**–**	**–**	**–**	**–**	**(12,918)**
Gross Margin	**12,932**	**5,066**	**2,916**	**–**	**–**	**–**	**–**	**20,914**
Operating expenses	**(2,116)**	**(832)**	**(2,040)**	**–**	**(27)**	**(994)**	**–**	**(6,009)**
Other income (charges) - net	**(530)**	**270**	**161**	**405**	**–**	**(30)**	**–**	**276**
Profit before Financing Charges	**10,286**	**4,504**	**1,037**	**405**	**(27)**	**(1,024)**	**–**	**15,181**
Interest expense - net	**(2,007)**	**(1,184)**	**(187)**	**–**	**2**	**(529)**	**–**	**(3,905)**
Profit before NCI and Income Tax	**8,279**	**3,320**	**850**	**405**	**(25)**	**(1,553)**	**–**	**11,276**
Non-controlling interest	**(3,933)**	**(717)**	**(272)**	**–**	**5**	**1**	**–**	**(4,916)**
Benefit from (provision for) income tax	**40**	**(845)**	**(258)**	**–**	**4**	**(19)**	**–**	**(1,078)**
Contribution from Subsidiaries	**4,386**	**1,758**	**320**	**405**	**(16)**	**(1,571)**	**–**	**5,282**
Share in net earnings of equity method investees	**(10)**	**481**	**145**	**2,622**	**(12)**	**–**	**–**	**3,226**
Contribution from Operations - Core Income	**4,376**	**2,239**	**465**	**3,027**	**(28)**	**(1,571)**	**–**	**8,508**
Non-recurring income (charges)	**(278)**	**(92)**	**(33)**	**(55)**	**(52)**	**(58)**	**–**	**(568)**
Segment Income (Loss)	**₱4,098**	**₱2,147**	**₱432**	**₱2,972**	**(80)**	**(₱1,629)**	**₱–**	**₱7,940**
Core EBITDA	**₱12,841**	**₱5,240**	**₱1,709**	**₱405**	**(₱27)**	**(₱980)**	**₱–**	**₱19,188**
Core EBITDA Margin	**70%**	**61%**	**25%**	**–%**	**–%**	**–%**	**–%**	**57%**
Non-recurring Income (Charges)	**(₱488)**	**(₱5)**	**(₱29)**	**(₱55)**	**(₱65)**	**(₱78)**	**₱–**	**(₱720)**
Provision for (benefit from) income tax	**(33)**	**(92)**	**(2)**	**–**	**–**	**(3)**	**–**	**(130)**
Non-controlling interest	**243**	**5**	**(2)**	**–**	**13**	**23**	**–**	**282**
Net Non-recurring Income (Charges)	**(₱278)**	**(₱92)**	**(₱33)**	**(₱55)**	**(₱52)**	**(₱58)**	**₱–**	**(₱568)**
Assets and Liabilities								
Segment assets	**₱84,733**	**₱42,340**	**₱13,082**	**₱–**	**₱1,654**	**₱7,556**	**₱19,472**	**₱168,837**
Investments and advances	**123**	**6,651**	**2,382**	**55,310**	**488**	**221**	**–**	**65,175**
Consolidated Total Assets	**₱84,856**	**₱48,991**	**₱15,464**	**₱55,310**	**₱2,142**	**₱7,777**	**₱19,472**	**₱234,012**
Segment Liabilities	**₱45,275**	**₱34,447**	**₱4,848**	**₱7,188**	**₱73**	**₱8,381**	**₱4,228**	**₱104,440**
Other Segment Information								
Capital expenditures -								
Service concession assets and property and equipment	**₱4,701**	**₱2,569**	**₱856**	**₱–**	**₱–**	**₱60**	**₱–**	**₱8,186**
Depreciation and amortization	**2,555**	**736**	**672**	**–**	**–**	**44**	**–**	**4,007**

	Year Ended December 31, 2013 *(In Millions)*						
	Water Utilities	Toll Operations	Healthcare	Power Distribution	Other Businesses	Adjustments/ Eliminations	Consolidated
Total revenue from external sales	₱16,895	₱8,154	₱5,828	₱–	₱–	₱–	₱30,877
Cost of sales	(5,145)	(3,358)	(3,342)	–	–	–	(11,845)
Gross Margin	11,750	4,796	2,486	–	–	–	19,032
Operating expenses	(2,428)	(775)	(1,645)	–	(986)	–	(5,834)
Other income (charges) - net	(515)	200	149	405	61	–	300
Profit before Financing Charges	8,807	4,221	990	405	(925)	–	13,498
Interest expense - net	(1,957)	(944)	(232)	–	(395)	–	(3,528)
Profit before NCI and Income Tax	6,850	3,277	758	405	(1,320)	–	9,970
Non-controlling interest	(3,322)	(782)	(96)	–	–	–	(4,200)
Benefit from (provision for) income tax	261	(848)	(220)	–	(28)	–	(835)
Contribution from Subsidiaries	3,789	1,647	442	405	(1,348)	–	4,935
Share in net earnings of equity method investees	–	227	139	1,928	–	–	2,294
Contribution from Operations - Core Income	3,789	1,874	581	2,333	(1,348)	–	7,229
Non-recurring income (charges)	88	37	28	(9)	(164)	–	(20)
Segment Income (Loss)	₱3,877	₱1,911	₱609	₱2,324	(₱1,512)	₱–	₱7,209
Core EBITDA	₱11,078	₱5,083	₱1,578	₱405	(₱880)	₱–	₱17,264
Core EBITDA Margin	66%	62%	27%	–%	–%	–%	56%
Non-recurring Income (Charges)	₱47	(₱106)	₱32	(₱9)	(₱156)	₱–	(₱192)
Provision for (benefit from) income tax	119	134	(3)	–	(8)	–	242
Non-controlling interest	(78)	9	(1)	–	–	–	(70)
Net Non-recurring Income (Charges)	₱88	₱37	₱28	(₱9)	(₱164)	₱–	(₱20)
Assets and Liabilities							
Segment assets	₱80,566	₱35,368	₱9,379	₱–	₱6,859	₱19,558	₱151,730
Investments and advances	134	2,125	2,310	44,087	198	–	48,854
Consolidated Total Assets	₱80,700	₱37,493	₱11,689	₱44,087	₱7,057	₱19,558	₱200,584
Segment Liabilities	₱48,547	₱22,362	₱5,183	₱–	₱7,438	₱3,774	₱87,304
Other Segment Information							
Capital expenditures -							
Service concession assets and property and equipment	₱5,769	₱474	₱843	₱–	₱37	₱–	₱7,123
Depreciation and amortization	2,272	862	588	–	44	–	3,766

	Year Ended December 31, 2012 *(In Millions)*						
	Water Utilities	Toll Operations	Healthcare	Power Distribution	Other Businesses	Eliminations	Consolidated
Total revenue from external sales	₱15,883	₱6,784	₱5,140	₱–	₱–	₱–	₱27,807
Cost of sales	(5,375)	(2,816)	(2,977)	–	–	–	(11,168)
Gross Margin	10,508	3,968	2,163	–	–	–	16,639
Operating expenses	(2,071)	(664)	(1,471)	–	(942)	–	(5,148)
Other income (charges) - net	(605)	157	154	561	41	–	308
Profit before Financing Charges	7,832	3,461	846	561	(901)	–	11,799
Interest expense - net	(1,898)	(549)	(240)	–	(329)	–	(3,016)
Profit before NCI and Income Tax	5,934	2,912	606	561	(1,230)	–	8,783
Non-controlling interest	(2,691)	(688)	(56)	–	–	–	(3,435)
Benefit from (provision for) income tax	305	(861)	(177)	–	(43)	–	(776)
Contribution from Subsidiaries	3,548	1,363	373	561	(1,273)	–	4,572
Share in net earnings of equity method investees	–	208	134	1,651	–	–	1,993
Contribution from Operations - Core Income	3,548	1,571	507	2,212	(1,273)	–	6,565
Non-recurring charges	(109)	(101)	(5)	(226)	(216)	–	(657)
Segment Income (Loss)	₱3,439	₱1,470	₱502	₱1,986	(₱1,489)	₱–	₱5,908
Core EBITDA	₱10,452	₱4,145	₱1,350	₱–	(₱303)	₱–	₱15,644
Core EBITDA Margin	66%	61%	26%	–%	–%	–%	56%
Non-recurring Income (Charges)	₱719	(₱179)	(₱4)	(₱226)	(₱216)	₱–	₱94
Provision for (benefit from) income tax	(911)	26	–	–	–	–	(885)
Non-controlling interest	83	52	(1)	–	–	–	134
Net Non-recurring Charges	(₱109)	(₱101)	(₱5)	(₱226)	(₱216)	₱–	(₱657)
Assets and Liabilities							
Segment assets	₱74,263	₱28,903	₱8,015	₱–	₱3,498	₱13,717	₱128,396
Investments and advances	–	668	2,259	41,973	184	–	45,084
Consolidated Total Assets	₱74,263	₱29,571	₱10,274	₱41,973	₱3,682	₱13,717	₱173,480
Segment Liabilities	₱45,436	₱11,986	₱2,749	₱–	₱15,469	₱3,450	₱79,090
Other Segment Information							
Capital expenditures -							
Service concession assets and property and equipment	₱8,076	₱254	₱643	₱–	₱76	₱–	₱9,049
Depreciation and amortization	2,619	685	504	–	37	–	3,845

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 its performance, makes decision and allocates resources, for the years ended December 31, 2014, 2013 and 2012, and is provided to reconcile the preceding consolidated segment information, amounts and balances with the consolidated statements of income:

	2014				2013				2012			
	Core	NRI	Reclassification	Consolidated	Core	NRI	Reclassification	Consolidated	Core	NRI	Reclassification	Consolidated
						(In Millions)						
OPERATING REVENUES												
Water and sewerage services revenue	**₱18,363**	**₱–**	**₱–**	**₱18,363**	₱16,895	₱–	₱–	₱16,895	₱15,883	₱–	₱–	₱15,883
Toll fees	**8,641**	**–**	**–**	**8,641**	8,154	–	–	8,154	6,784	–	–	6,784
Hospital revenue	**6,677**	**–**	**–**	**6,677**	5,700	–	–	5,700	5,034	–	–	5,034
School revenue	**151**	**–**	**–**	**151**	128	–	–	128	106	–	–	106
	33,832	**–**	**–**	**33,832**	30,877	–	–	30,877	27,807	–	–	27,807
COST OF SALES AND SERVICES	**(12,918)**	**(164)**	**–**	**(13,082)**	(11,845)	–	–	(11,845)	(11,168)	–	–	(11,168)
GROSS PROFIT	**20,914**	**(164)**	**–**	**20,750**	19,032	–	–	19,032	16,639	–	–	16,639
General and administrative expenses	**(6,009)**	**(814)**	**–**	**(6,823)**	(5,834)	(427)	–	(6,261)	(5,148)	(236)	–	(5,384)
Interest expense	**(4,290)**	**(11)**	**–**	**(4,301)**	(3,990)	(11)	–	(4,001)	(3,668)	(11)	–	(3,679)
Share in net earnings of equity method investees	**3,631**	**(59)**	**(405)**	**3,167**	2,699	(8)	(405)	2,286	2,554	(228)	(561)	1,765
Interest income	**385**		**–**	**385**	462	–	–	462	651	–	–	651
Other income and expenses	**(129)**	**328**	**405**	**604**	(105)	254	405	554	(253)	569	561	877
INCOME BEFORE INCOME TAX	**14,502**	**(720)**	**–**	**13,782**	12,264	(192)	–	12,072	10,775	94	–	10,869
PROVISION FOR (BENEFIT FROM) INCOME TAX												
Current	**1,155**	**5**	**–**	**1,160**	1,050	11	–	1,061	1,099	(2)	–	1,097
Deferred	**(77)**	**125**	**–**	**48**	(215)	(253)	–	(468)	(323)	888	–	565
	1,078	**130**	**–**	**1,208**	835	(242)	–	593	776	886	–	1,662
NET INCOME	**₱13,424**	**(₱850)**	**₱–**	**₱12,574**	₱11,429	₱50	₱–	₱11,479	₱9,999	(₱792)	₱–	₱9,207
Net Income Attributable to:												
Owners of the Parent Company	**₱8,508**	**(₱568)**	**₱–**	**₱7,940**	₱7,229	(₱20)	₱–	₱7,209	₱6,564	(₱657)	₱–	₱5,907
NCI	**4,916**	**(282)**	**–**	**4,634**	4,200	70	–	4,270	3,435	(135)	–	3,300
	₱13,424	**(₱850)**	**₱–**	**₱12,574**	₱11,429	₱50	₱–	₱11,479	₱9,999	(₱792)	₱–	₱9,207

6. **Material partly-owned subsidiaries**

In determining whether an NCI is material to the Company, management employs both quantitative and qualitative factors to evaluate the nature of, and risks associated with, the Company's interests in these entities; and the effects of those interests on the Company's financial position. Factors considered include, but not limited to, carrying value of the subsidiary's NCI relative to the NCI recognized in the Company's consolidated financial statements, the subsidiary's contribution to the Company's consolidated revenues and net income, and other relevant qualitative risks associated with the subsidiary's nature, purpose and size of activities.

Based on management's assessment, the Company has concluded that as at December 31, 2013, MWHC and MNTC are the subsidiaries with NCI that are material to the Company. As at December 31, 2014, MPHHI and LRMH are included as subsidiaries with NCI that are material to the Company with the sell-down of MPIC's interest in the Hospital group (see Note 22) and awarding of the concession for the *LRT Line 1 Cavite Extension and Operations and Maintenance Project* to LRMH's subsidiary, LRMC (see Note 33).

The ability of these subsidiaries to pay dividends or make other distributions or payments to their shareholders (including the Company) is subject to applicable laws and other restrictions contained in financing agreements, shareholder agreements and other agreements that prohibit or limit the payment of dividends or other transfers of funds. Such applicable restrictions are as follows:

- Under the financing agreements as disclosed in Note 19, which include satisfying certain financial ratios in order to be able to declare or pay cash dividends;

- Under Philippine law, a corporation is permitted to declare dividends only to the extent that it has unrestricted retained earnings that represent the undistributed earnings of the corporation which have not been allocated for any managerial, contractual or legal purposes and which are free for distribution to the shareholders as dividends; and

- Under MNTC's shareholders' agreement, unless otherwise agreed upon by the shareholders, no amounts shall be distributed by way of dividends until Philippine National Construction Corporation's (PNCC) share in the project revenue collection has been repaid in full.

On February 23, 2015, Maynilad's BOD approved the appropriation of its retained earnings amounting to ₱3.5 billion for various water and sewerage projects expected to be implemented in the next two years.

Total dividends declared to NCI amounted to ₱1,045.0 million, ₱2,107.4 million and ₱1,469.8 million for the years ended December 31, 2014, 2013 and 2012. Of the total dividends declared to NCI, ₱1,003.0 million, ₱2,087.1 million and ₱1,460.0 million were allocable to the NCI in MWHC and MNTC in 2014, 2013 and 2012, respectively. As at December 31, 2014 and 2013, MNTC has unpaid dividends to non-controlling shareholders amounting to ₱291.2 million and ₱409.0 million, respectively (see Note 16).

Total dividends declared to the NCI at consolidated MPHHI level amounted to ₱42 million for the year ended December 31, 2014. No dividends have been declared to the NCI in LRMC for the year ended December 31, 2014.

The summarized financial information are presented before inter-company eliminations but after consolidation adjustments for goodwill, other fair value adjustments on acquisition and adjustments required to apply uniform accounting policies at group level.

	December 31, 2014				December 31, 2013		December 31, 2012	
	MWHC	**MNTC**	**MPHHI***	**LRMH**	MWHC	MNTC	MWHC	MNTC
Equity share held by NCI	**47.20%**	**24.50%**	**39.89%**	**45.00%**	47.20%	33.00%	43.19%	33.00%
				(In Millions)				
Summarized statements of financial position								
Current assets	**₱11,865**	**₱9,043**	**₱6,148**	**₱508**	₱10,785	₱4,152	₱8,110	₱3,076
Non-current assets**	**79,980**	**26,633**	**10,148**	**1,129**	77,491	23,639	73,348	23,015
Current liabilities	**13,420**	**4,619**	**2,702**	**71**	15,035	3,164	13,540	2,722
Non-current liabilities	**33,855**	**16,831**	**2,169**	**–**	35,298	10,801	34,308	9,814
Total equity	**44,570**	**14,226**	**11,425**	**1,566**	37,943	13,826	33,610	13,555
Attributable to:								
Equity holders of MPIC	**26,092**	**12,150**	**6,238**	**859**	23,334	11,162	21,719	10,981
NCI	**18,478**	**2,076**	**5,187**	**707**	14,609	2,664	11,891	2,574
Summarized statements of comprehensive income								
Revenues	**18,363**	**7,517**	**6,828**	**–**	16,895	7,101	15,882	6,784
Net income (loss)	**7,817**	**2,536**	**756**	**(22)**	7,277	2,341	6,305	1,922
Total comprehensive income (loss)	**7,830**	**2,567**	**756**	**(22)**	7,392	2,329	6,053	1,960
Net income (loss) attributable to NCI	**3,690**	**679**	**379**	**(10)**	3,434	772	2,608	634
Dividends declared to NCI	**472**	**531**	**42**	**–**	1,407	680	897	563
Dividends paid to NCI	**472**	**648**	**39**	**–**	1,405	546	897	325
Summarized statements of cash flows								
Operating	**9,996**	**3,943**	**1,513**	**59**	11,073	3,433	12,045	3,474
Investing	**(4,081)**	**(6,518)**	**(1,096)**	**(1,129)**	(9,626)	(3,192)	(7,060)	(189)
Financing	**(4,593)**	**4,027**	**3,352**	**1,577**	(2,474)	(1,417)	(5,293)	(1,728)
Net increase (decrease) in cash and cash equivalents	**1,322**	**1,452**	**3,769**	**507**	(1,027)	(1,176)	(308)	1,557
Cash and cash equivalents at beginning of the year	**2,905**	**1,502**	**858**	**–**	3,932	2,678	4,240	1,121
Cash and cash equivalents at end of the year	**₱4,227**	**₱2,954**	**₱4,627**	**₱507**	₱2,905	₱1,502	₱3,932	₱2,678

**Includes the 25.51% equivalent shares of the Exchangeable bond (see Note 22)*

***Includes goodwill recognized as at acquisition date (see Note 12)*

7. Cash and Cash Equivalents, Short-term Deposits and Restricted Cash

Cash and Cash Equivalents and Short-term Deposits. This account consists of:

	2014	2013
	(In Millions)	
Cash and cash equivalents	**₱17,725**	₱11,636
Short-term deposits (see Note 10)	**8,033**	3,627
	₱25,758	₱15,263

Cash and cash equivalents include cash in banks and temporary placements that are made for varying periods of up to three months depending on the immediate cash requirements of the Company. Cash in banks and temporary placements earn interest at the prevailing bank and temporary placements rates, respectively.

Short-term deposits are deposits with original maturities of more than three months to one year from dates of acquisition and earn interest at the prevailing short-term deposits rates. Beginning 2014, the short-term deposit account included UITF (see Note 10).

For the purpose of the consolidated statements of cash flows, cash and cash equivalents comprise of the following as at December 31:

	2014	2013	2012
		(In Millions)	
Cash on hand and in banks	**₱3,261**	₱2,556	₱1,528
Short-term deposits that qualify as cash equivalents	**14,464**	9,080	7,577
	₱17,725	₱11,636	₱9,105

Restricted Cash. Restricted cash classified as part of current assets pertains to sinking fund or debt service account (DSA) representing amounts set aside for semi-annual principal and interest payments of certain long-term debt. This DSA is maintained and replenished in accordance with the provision of the loan agreements. Restricted cash, classified as noncurrent asset and shown separately in the consolidated statements of financial position pertains to cash held in escrow account in relation with the construction contract for the NLEX Segment 10 (see Note 33).

Interest income from the restricted cash is for the account of the Company (see Notes 19 and 26).

Interest earned from cash and cash equivalents, short-term deposits and restricted cash amounted to ₱253.0 million, ₱295.0 million and ₱504.6 million for the years ended December 31, 2014, 2013 and 2012, respectively (see Note 26).

8. **Receivables**

This account consists of:

	2014	2013
	(In Millions)	
Trade receivables (see Note 21)	**₱3,466**	₱2,780
Advances to customers	**373**	441
Notes receivable (see Note 21)	**150**	1,033
Advances to affiliates	**102**	102
Advances to officers and employees	**73**	80
Accrued interest receivables	**51**	285
Dividends receivable (see Note 11)	**41**	28
Others	**562**	460
	4,818	5,209
Less allowance for doubtful accounts	**879**	867
	3,939	4,342
Less current portion	**3,676**	3,749
Noncurrent portion	**₱263**	₱593

Notes Receivable. Notes receivable as at December 31, 2014 and 2013 consist of the following:

Description	Terms	Maturity	**2014**	2013
			(in Millions)	
₱164.1 million loan to Landco [(a)]	12% interest rate per annum	December 31, 2014	**₱–**	₱164
₱133.4 million loan to AB Holding Corporation (ABHC) [(a)]	10% interest rate per annum	August 30, 2015	–	133
₱100.0 million loan to Landco Pacific Corporation (Landco) [(a)]	10% interest per annum	March 15, 2017	–	100
Preferred Shares issued by Landco [(b)]	With mandatory redemption feature	August 2020	–	355
₱101.4 million loan by MetroPac Water Investments Corp. (MPWIC) to Manila Water Consortium, Inc. (MWCI) [(c)]	7% interest per annum	Payable within one year from issuance	–	101
Others [(d)]	Various	Various	**150**	180
Total notes receivable			**₱150**	₱1,033

Additional information on the notes receivable as follows:

a. The loans to ABHC and Landco as at December 31, 2013 are secured by a pledge of Landco shares owned by ABHC. In 2014, following the restructuring plan of Landco in preparation for its eventual sale, management classified its interests in Landco, including the receivables in Landco and ABHC, as assets held for sale (see Note 33).

b. In 2014, the carrying value of the preferred shares, including dividends in arrears and the derivative asset arising from the conversion option feature, were classified as common shares following conversion of the preferred shares to 2,429,504 common shares of Landco.
The conversion of the preferred shares to common shares, which is part of the restructuring plan of Landco in preparation for its eventual sale, resulted to an increase in the interest in Landco from 19.0% to 38.1%. Management classified its entire interests in Landco as assets held for sale as at December 31, 2014 (see Note 33).

c. In May 2013, MPWIC and MWCI entered into a loan agreement in relation to the project with Cebu Manila Water Development, Inc. (CMWD) amounting to ₱70.2 million payable within one year from issuance (see Note 21). An additional loan of ₱31.2 million was made in September 2013. These loans, together with corresponding interest were fully settled in January 2014.

d. Other notes receivable aggregating ₱150.0 million and ₱180.0 million comprising of defaulted loans are fully provided with allowance as at December 31, 2014 and 2013.

Trade Receivables. Trade receivables mainly include receivables from customers arising from:

- Water, sewerage services and bulk water supply, which receivables are non-interest bearing and generally have 60-day term;

- Health care services, which the Company generally provides a 30-day credit term to its self-pay, HMO, international insurance, PhilHealth and corporate accounts.

Advances and Other Receivables. Advances include advances to customers, affiliates and officers and employees and generally collectible within a year. Other receivables mainly represent advances to former subsidiaries and related parties (see Note 21). Certain of these advances to former subsidiaries and affiliates of the Company are fully provided.

Movements in the allowance of individually and collectively assessed impaired receivables in 2014 and 2013 are as follows:

	2014			
	Balance at January 1, 2014	**Provisions** (see Note 24)	**(Write-off)/ Reclassification**	**Balance at December 31, 2014**
		(In Millions)		
Individually impaired:				
Trade receivables	**₱5**	**₱5**	**₱–**	**₱10**
Notes receivable	**180**	**–**	**(30)**	**150**
Others[(a)]	**8**		**(7)**	**1**
	193	**5**	**(37)**	**161**
Collectively impaired:				
Trade receivables	**662**	**62**	**(18)**	**706**
Advances to other affiliates	**12**	**–**	**–**	**12**
	674	**62**	**(18)**	**718**
	₱867	**₱67**	**(₱55)**	**₱879**

	2013			
	Balance at January 1, 2013	Provisions (see Note 24)	(Write-off)/ Reclassification	Balance at December 31, 2013
		(In Millions)		
Individually impaired:				
Trade receivables	₱2	₱5	(₱2)	₱5
Notes receivable	180	–	–	180
Others	16	–	(8)	8
	198	5	(10)	193

(Forward)

	2013			
	Balance at January 1, 2013	Provisions (see Note 24)	(Write-off)/ Reclassification	Balance at December 31, 2013
		(In Millions)		
Collectively impaired:				
Trade receivables	₱536	₱155	(₱29)	₱662
Advances to other affiliates	12	–	–	12
	548	155	(29)	674
	₱746	₱160	(₱39)	₱867

9. **Other Current Assets**

Other current assets consist of the following:

	2014	2013
	(In Millions)	
AFS financial assets (see Note 10)	**₱302**	₱2,042
Advances to contractors and consultants [(a)]	**560**	507
Creditable withholding tax (CWT) [(b)]	**517**	504
Inventories - at cost [(c)]	**453**	426
Input VAT (see Note 32)	**393**	137
Prepaid expenses [(d)]	**235**	223
Real estate for sale - at lower of cost or NRV [(e)]	**135**	151
Miscellaneous deposits and others [(f)]	**198**	187
	2,793	4,177
Less allowance for decline in value [(b)]	**335**	356
	₱2,458	₱3,821

a. Advances to contractors and consultants mainly represent the advance payments for mobilization of the contractors and consultants for various contracts relating to the tollways and water operations. These are progressively reduced upon receipt of the equivalent amount of services rendered by the contractors and consultants.

b. This represents amount withheld by counterparty for services rendered by the Company which can be claimed as tax credits. Management provided allowance for decline in value representing CWT recognized in prior years that the Company may no longer be able to utilize.

c. Cost of inventories charged to “Cost of sales and services” account in the consolidated statements of comprehensive income amounted to ₱2,375.0 million, ₱2,033.0 million and ₱1,839.0 million for the years ended December 31, 2014, 2013 and 2012, respectively (see Note 23).

d. Prepaid expenses mainly pertains to insurance, premium bond and taxes and licenses.

e. This account consists of the following as at December 31, 2014 and 2013:

	2014	2013
	(In Millions)	
Land	**₱50**	₱50
Development costs:		
Residential resort community and Central Business District	**47**	47
Condominium units, including parking lots	**38**	54
	₱135	₱151

Certain condominium units and parking slots were carried at NRV, the cost of which amounted to ₱23.8 million as at December 31, 2014 and 2013. Allowance for impairment loss amounted to ₱2.3 million as at December 31, 2014 and 2013.

f. This account mainly consists of advances to suppliers and other miscellaneous deposits.

10. **Available-for-Sale Financial Assets**

This account consists of:

	2014	2013
	(In Millions)	
Shares of stock in:		
Listed	**₱15**	₱15
Unlisted	**511**	1,282
UITFs	**5,039**	1,995
Investment in bonds and notes	**1,938**	1,520
	7,503	4,812
Less: UITFs presented as short term deposits (see Note 7)	**5,039**	–
Current portion (see Note 9)	**302**	2,042
Noncurrent portion	**₱2,162**	₱2,770

The movements in the AFS financial assets are as follows:

	2014	2013
	(In Millions)	
Balance at beginning of year	**₱4,812**	₱1,512
Additions	**4,351**	4,238
Disposal and maturity	**(1,120)**	(1,137)
Changes in fair value:		
Recycled to profit or loss	**(222)**	(14)
Unrealized fair value changes	**44**	213
Reclassification (see Note 33)	**(262)**	–
Impairment	**(100)**	–
Balance at end of year	**₱7,503**	₱4,812

The movements in the fair value changes of AFS financial assets are as follows:

	2014	2013
	(In Millions)	
Balance at beginning of year	**₱243**	₱44
Change in fair value during the year (see Note 28)	**44**	213
Reclassification to profit and loss (see Note 28)	**(222)**	(14)
Balance at end of year	**₱65**	₱243

Quoted shares of stock represent investments in golf clubs shares stated at their fair values.

Unlisted shares of stock represent the Company's investment in the entities (all incorporated in the Philippines) enumerated below. These investments in equity instruments are stated at cost, except for NEPSCC shares, as there are no reliable sources and bases for subsequent fair value determination. Management believes that these investments, except Subic Water Sewerage Co., Inc. (Subic Water), are not impaired since the investee companies continue to report income and show stable financial conditions.

		Ownership Interest		Amounts	
	Principal Activities	**2014**	2013	**2014**	2013
		(In %)		*(In Millions)*	
Citra Metro Manila Tollways Corporation	Design, construction and financing of the Metro Manila Skyway	**2.0**	2.0	**₱316**	₱316
Subic Water [(a)]	Sewerage services	**10.0**	10.0	**111**	211
Bonifacio Land Corporation (BLC)	Real estate	Less than 1%		**47**	47
Pacific Global One Aviation Company, Inc.	Aircraft transportation services	**15.0**	15.0	**37**	37
NE Pacific Shopping Center Corporation (NEPSCC) [(b)]	Leasing properties in mall spaces	**–**	36.9	**–**	459
Landco Pacific Corporation [(c)]	Real estate	**–**	19.0	**–**	212
Total				**₱511**	₱1,282

a. Impairment loss of ₱100.2 million was recognized on the Company's investment in Subic Water.

b. For the year ended December 31, 2014, disposal activity included the sale of all the Company's investment in shares of NEPSCC. On February 28, 2014, MPIC sold to Cosco Capital Inc. all of its shares representing 36.89% of the issued and outstanding capital stock of NEPSCC (see Note 27).

c. In 2014, following the restructuring plan of Landco in preparation for its eventual sale, management classified its interests in Landco, including the receivables in Landco and ABHC as *assets held for sale* (see Note 33).

Investment in UITF. UITFs are ready-made investments that allow the pooling of funds from different investors with similar investment objectives. These UITFs are managed by professional fund managers and may be invested in various financial instruments such as money market securities, bonds and equities, which are normally available to large investors only. A UITF uses the mark to market method in valuing the fund's securities. It is a valuation method which calculates the Net Asset Value (NAV) based on the estimated fair market value of the assets of the fund based on prices supplied by independent sources. As at December 31, 2014, while the UITF remains to be classified as AFS financial assets, the entire investment in UITF has been reclassified to short-term deposits account as the fund comprises of short-term money market securities, time and special deposit accounts with average maturity of less than 30 days (see Note 7).

Investment in bonds and notes. As at December 31, 2014 and 2013, this account consists of investments in ROP retail treasury bonds, fixed rate treasury notes, long-term negotiable certificate of deposits and corporate bonds, stated at fair value. This account included investment in Meralco's corporate notes with maturity of up to 2020 and bear fixed interest rate of 4.38%. Gain on changes in fair value of investment in bonds are recognized in OCI (see Note 28). Interest earned on and maturity profile of these investments are disclosed in Notes 26 and 35. Fair values and corresponding principal amounts are disclosed in Note 37.

11. Investments and Advances

The account "Investment and advances" consist of the following:

	2014	2013
	(In Millions)	
Equity method investees:		
Associates	**₱23,174**	₱4,767
Joint ventures	**29,672**	31,758
	52,846	36,525
Investment in Beacon Electric's preferred shares classified as AFS investments	**11,573**	11,573
Advances to Beacon Electric	**756**	756
	₱65,175	₱48,854

Movements in the "Equity method investees":

	2014	2013
	(In Millions)	
Acquisition costs		
Balance at beginning of year	**₱30,569**	₱31,196
Additions during the period	**17,993**	1,846
Disposal and others	–	(2,473)
Balance at end of year	**48,562**	30,569
Accumulated equity in net earnings		
Balance at beginning of year	**5,905**	2,311
Share in net earnings	**3,167**	2,286
Disposal and others	–	1,640
Dividends	**(4,954)**	(332)
Balance at end of year	**4,118**	5,905
Accumulated share in the investees' other comprehensive income		
Balance at beginning of year	**725**	558
Share in investees' other comprehensive income (see Note 28)	**115**	167
Balance at end of year	**840**	725
Less allowance for impairment loss		
Balance at beginning of year	**674**	1,310
Additions	–	164
Disposal and others	–	(800)
Balance at end of year	**674**	674
	₱52,846	₱36,525

Equity Method Investees

Investments in Equity Method Investees pertain to the Company's investments in associates and joint ventures. In determining whether an equity method investee is material to the Company, management employs both quantitative and qualitative factors to evaluate the nature of, and risks associated with, the Company's interests in these entities; and the effects of those interest on the Company's financial position. Factors considered include, but not limited to, carrying value of the investee relative to the total equity method investments recognized in the Company's consolidated financial statements, the equity investee's contribution to the Company's consolidated net income, and other relevant qualitative risks associated with the equity investee's nature, purpose and size of activities.

The carrying value of material and immaterial investments in associates and joint ventures are as follows:

	2014	2013
	(In Millions)	
Associates:		
Material - Meralco	**₱13,414**	₱–
Immaterial	**9,760**	4,767
	23,174	4,767
Joint ventures:		
Material - Beacon Electric	**29,566**	31,758
Immaterial	**106**	–
	29,672	31,758
	₱52,846	₱36,525

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

	Place of Incorporation	Principal Activities	Ownership Interest in % 2014	2013
Associates:				
TMC[(a)]	Philippines	Tollways	**46.00**	46.00
Davao Doctors Hospital, Inc. (DDH) [(b)]	Philippines	Hospital	**34.85**	34.85
Medical Doctors Inc. [(b)]	Philippines	Hospital	**33.17**	33.28
Manila Water Consortium Inc. (MWCI)[(c)]	Philippines	Investment holding	**39.00**	39.00
FPM Infra [(d)]	BVI	Investment holding	**–**	25.00
Don Muang Tollway Public Ltd (DMT) [(d)]	Thailand	Tollways	**29.45**	–
Automated Fare Collection Services, Inc. (AFCSI) [(e)]	Philippines	Operator of contactless payment system	**20.00**	–
Prime Media Holdings, Inc. (PMHI) [(f)]	Philippines	Media holding company	**44.60**	44.60
First Gen Northern Energy Corp. (FGNEC)	Philippines	Power generation	**33.33**	33.33
Costa De Madera (see Note 3)	Philippines	Real estate	**62.00**	62.00
Metro Pacific Land Holdings, Inc.	Philippines	Real estate	**49.00**	49.00
Joint Venture -				
Easytrip Services Corporation (ESC) [(g)]	Philippines	Tollways	**50.00**	–

a. Pursuant to the Operation and Maintenance Agreement with MNTC, TMC is responsible for the operation and maintenance of both the North Luzon Expressway Project and Segment 7. TMC also operates and manages the Subic-Clark-Tarlac Expressway, a 94-km tollroad, pursuant to its agreement with the Bases Conversion and Development Authority (BCDA) (see Note 21).

b. Included as part of the hospitals transferred to MPHHI (see Note 2). Ownership interests reflected above as at December 31, 2014 are at MPHHI level. MPIC's effective ownership interest in DDH and MDI are 20.95% and 19.94%, respectively, on a fully diluted basis as at December 31, 2014.

c. MPWIC, the Company's wholly-owned subsidiary, acquired 20% effective ownership interest in Cebu Manila Water Development, Inc. (CMWD) through a 39% direct ownership interest in MWCI. The cost of the Company's investment in MWCI is at ₱133.8 million. On December 13, 2013, CMWD received a Notice of Award for the bulk supply of water to the Metropolitan Cebu Water District (MCWD). CMWD and MCWD signed a 20-year Water Purchase Agreement (WPA) for the supply of 18 million liters of water per day for the first year and 35 million liters per day of water for the second to 20th year. CMWD made its initial delivery of water in January 2015.

d. On November 15, 2013, MPIC and FPC announced a joint venture to spearhead new infrastructure investments in emerging Asian economies. FPC held 75% of the venture, FPM Infra and MPIC held the remaining 25%, through a wholly owned subsidiary, MIHL. FPM Infra's sole asset is a 29.45% interest in DMT, held through AIF (see Note 2).

   On July 31, 2014, FPC transferred its 75% shareholding in FPM Infra to MPIC for a consideration of approximately US$101.25 million (or ₱4.3 billion). As a result of the transaction, FPM Infra became a wholly-owned subsidiary of MIHL. The transaction was settled on August 7, 2014 with the acquisition of 4,875 shares of FPM Infra for US$20,769.23 per share. After the acquisition, MPIC's effective ownership interest in DMT increased from 7.36% to 29.45%.

   DMT is a major toll road operator in Bangkok, Thailand. The concession for DMT runs until 2034 for the operation of a 21.9-kilometer six-lane elevated toll road from central Bangkok to Don Muang International Airport and further to the National Monument, north of Bangkok.

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

   Notice of award for the AFCS Project was received on February 23, 2014 and on March 31, 2014, the concession agreement was signed. On February 10, 2014, the AFCSI was incorporated by the members of the AF Consortium with the Parent Company holding 20% of the total shares subscribed.

   As at December 31, 2014, investment in AFCSI amounted to ₱488.3 million, including ₱203.2 million of unpaid subscription but net of share in accumulated net loss of ₱14.9 million. Since AFCSI is still under pre-operating stage, this investee is assessed to be individually immaterial to the consolidated results of the Company.

f. As at December 31, 2012, investment in PMHI (held through NOHI), has been fully provided with valuation allowance. In 2013, NOHI converted its ₱119.7 million advances to PMHI into equity and subscribed to additional PMHI shares for ₱114.6 million with an outstanding subscription payable of ₱69.8 million. The subscription was funded by a loan from a third party and the loan was secured by a pledge over the existing shares owned by NOHI excluding the newly subscribed shares. On the same year, the third party lender sent a notice to NOHI that it will foreclose on the pledged PMHI shares due to the default in payment of the loan. In connection with the foreclosure proceedings, the Company took out the cost of the shares subject to the foreclosure and the related accumulated equity in net loss and allowance for impairment loss included as "disposal and others" in the table above. The Company's investment in PMHI after effecting the foreclosure is at 44.60% with a carrying value of ₱69.8 million net of impairment loss amounting to ₱164.5 million. The last trade value on December 29, 2014 registered in the PSE was ₱1.38 per share or an aggregate market value amounting to ₱433.4 million.

g. On June 30, 2014, MPTDC, Egis Easytrip Services SA (ESSA) and ESC executed a Share Purchase Agreement covering the acquisition of equity interest equivalent to 50% plus one share of the capital stock of ESC through a combination of subscription to a total of 87,000 new shares of ESC and purchase of 13,001 shares from Egis Easytrip Services SA (ESSA). The total consideration is ₱1,030 average price per share or a total of ₱103.0 million. Subscription payment for new shares was fully paid on June 30, 2014 while the purchase price for acquired shares from ESSA was paid on July 31, 2014, upon completion of the relevant conditions precedent.

   ESC, a company incorporated in the Philippines, is primarily engaged in the business of providing services related to electronic toll collection (ETC) system to include among others, the implementation of inter-operability of the different toll collection systems of tollways in the country, account management and funding and management of all electronic pass issued. ESC is the exclusive tag issuer at the NLEX.

The following table analyzes, in aggregate, the Company's share in the net income and OCI of these investees:

	2014		2013
	Joint Venture	**Associate**	Associate
		(In Millions)	
Carrying amount of investment	**₱106**	**₱9,760**	₱4,767
Share in:			
Net income	**3**	**597**	367
OCI	**–**	**30**	(22)
Total comprehensive income	**3**	**627**	345

The following table summarizes, in aggregate, the assets and liabilities of these investees:

	2014		2013
	Joint Venture	**Associate**	Associate
		(In Millions)	
Current assets	**₱507**	**₱3,952**	₱2,976
Noncurrent assets	**41**	**27,469**	14,881
Current liabilities	**519**	**2,421**	5,523
Noncurrent liabilities	**2**	**11,211**	2,090

Dividend income from these investees amounted to ₱504.0 million and ₱332.0 million in 2014 and 2013, respectively. Cumulative unrecognized share in net losses of these investees amounted to ₱412.0 million, ₱411.4 million and ₱411.5 million as at December 31, 2014, 2013 and 2012, respectively.

Other transactions with these associates are disclosed in Note 21.

Material Associate and Joint Venture. The Company's investments in material associate and joint venture substantially comprise of MPIC's investment in Meralco (held directly by MPIC and indirectly through its investment in Beacon Electric) and investment in Beacon Electric, respectively. Meralco is a Philippine corporation with its shares listed on the PSE. It is the largest distributor of electricity in the Philippines with its franchise valid until June 2028. The Company has 50% ownership interest in Beacon Electric, a joint venture. 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.

As at December 31, 2013, Beacon Electric owned 563.12 million Meralco shares, or 49.96% of the outstanding shares. On June 24, 2014, MPIC entered into a Share Purchase Agreement with Beacon Electric for the sale of the latter's 56.35 million shares, comprising approximately 5%, in Meralco at a price of ₱235.0 per share for an aggregate consideration of ₱13.24 billion. Thus, the Company's aggregate effective interest in Meralco after this transaction increased from 24.98% to 27.48%. The transaction was completed through a block sale at the Philippine Stock Exchange on June 26, 2014.

The consideration payable by MPIC to Beacon Electric was settled as to ₱3.0 billion immediately and the balance due on or before February 2015. MPIC will receive a dividend from Beacon Electric at the same time as it settles payments for this transaction such that MPIC's net cash investment in the transaction will be ₱6.6 billion. In accordance with PAS 28, MPIC had not recognized its share in Beacon Electric's gain from the partial sale of its investment in Meralco.

As at December 31, 2014, MPIC's payable to Beacon Electric (included in *due to related parties* in the consolidated statement of financial position; see Note 21) related to this transaction amounted to ₱7.19 billion (net of impact of discounting amounting to ₱55.5 million) after payment of ₱1.55 billion on transaction date and ₱4.45 billion through offsetting with MPIC's share of dividends on common shares declared by Beacon Electric on June 24, 2014 and November 17, 2014.

The carrying values and fair values of the Meralco shares held indirectly through Beacon Electric and held directly by the Parent Company are as follows:

		Effective Ownership Interest in Meralco (in %)	Carrying Value	Fair Value
			(In Millions)	
As of December 31, 2014	**Indirect*[(a)]**	**22.48**	**₱56,410**	**₱64,740**
	Direct	**5.00**	**13,414**	**14,399**
As of December 31, 2013	Indirect*[(b)]	24.98	62,095	70,644
	Direct	–	–	–

* *Represents MPIC's proportionate share in Beacon Electric's investment in Meralco (using equity method and at fair value),which include MPIC's proportionate share in subsumed goodwill at approximately* [(a)] *₱36 billion and* [(b)] *₱40 billion.*

Summarized financial information of Meralco and Beacon Electric.

Meralco - *Associate*
The summarized financial information is based on Meralco's December 31, 2014 consolidated financial statements:

Consolidated statement of comprehensive income	*(In Millions)*
Revenue	₱266,336
Income before income tax	26,484
Net income	18,131
Total comprehensive income	17,940
Dividends received by MPIC from 5% common shares in Meralco	–
Statements of financial position	
Current assets	113,743
Noncurrent assets	156,170
Current liabilities	81,137
Noncurrent liabilities	109,302
Net assets	79,474
Less: Equity attributable to NCI	(320)
Net assets attributable to common shareholders of Meralco	79,154
MPIC's direct ownership interest in Meralco	5%
MPIC's 5% share in net assets of Meralco	3,958
Provisional goodwill and purchase price allocation adjustments	9,456
Carrying amount of MPIC's direct investment in Meralco	₱13,414

Beacon Electric - *Joint Venture*
The summarized financial information is based on Beacon Electric's financial statements using the equity method of accounting for investment in Meralco:

	2014	2013	2012
		(In Millions)	
Consolidated statement of comprehensive income			
Equity in net earnings in Meralco	**₱8,202**	₱8,017	₱7,408
Interest expense	**(2,373)**	(2,459)	(2,986)
Interest income	**205**	29	94
Income tax expense	**–**	–	–
Net income	**6,438**	5,451	4,452
Total comprehensive income	**6,456**	5,840	5,391
Dividends received by MPIC from Beacon Electric's common shares	**4,450**	–	–

	2014	2013
	(In Millions)	
Statements of financial position - Beacon Electric		
Current assets	**₱10,774**	₱686
Investment in Meralco	**112,819**	124,189
Current liabilities	**4,539**	1,206
Noncurrent liabilities	**35,004**	36,533
Net assets	**84,050**	87,136
Less: Equity attributable to preferred shareholder (including dividends in arrears)	**25,576**	24,766
Net assets attributable to common shareholders of Beacon Electric	**58,474**	62,370

(Forward)

	2014	2013
	(In Millions)	
MPIC's ownership interest in Beacon Electric	**50%**	50%
MPIC's share in net assets of Beacon Electric	**29,237**	31,185
Unification of accounting policies	**431**	431
Nonrecognition of MPIC's share on gain on sale of Meralco shares	**(246)**	–
Purchase price allocation adjustments and others*	**144**	142
Carrying amount of MPIC's investment in Beacon Electric	**₱29,566**	₱31,758
The above amounts of Beacon Electric's assets and liabilities include the following:		
Cash and cash equivalents	**₱3,577**	₱683
Current financial liabilities**	**1,260**	936
Non-current financial liabilities**	**33,935**	36,492

**Includes equity in net earnings in Meralco prior to the transfer of investment in Meralco to Beacon Electric*
***Excluding trade and other payables and provisions*

The following facilities entered into by Beacon Electric are secured by a pledge over Meralco shares held by it and are not guaranteed by the Company. As Beacon Electric is accounted for using the equity method, these facilities are not included in Company's consolidated debt. Neither MPIC nor PCEV guarantees Beacon Electric's debt.

Description	Interest Rate (per annum)	Terms	2014	2013
			(In Millions)	
₱17,000.0 Million Corporate Notes:		Availed of in 2013; 10 years with semi-annual interest and principal repayments with final repayment in March 2023		
• ₱2,285.0 million (Tranche A)	6.00%		**₱2,233**	₱2,268
• ₱14,715.0 million (Tranche B)	5.75% for the first five years; subject to repricing on the 5th year		**14,384**	14,605
₱11,000.0 Million Fixed Corporate Notes		Availed of beginning 2011; 10 years payable in semi-annual interest and principal repayments and with final repayment in May 2021		
• ₱4,000.0 million (1st Tranche)	8.00%		**3,700**	3,920
• ₱7,000.0 million (2nd Tranche)	7.09%		**6,475**	6,860
₱9,000.0 Million Corporate Notes:		Availed of in 2013; 10 years payable with semi-annual interest and principal repayments with final repayment in July 2023		
• ₱2,950.0 million (Tranche A)	6.00%		**2,884**	2,928
• ₱6,050.0 million (Tranche B)	5.50% for the first five years; subject to repricing on the 5th year		**5,914**	6,004
Total			**35,590**	36,585
Less unamortized debt issue cost			**395**	454
			35,195	36,131
Less current portion (net of unamortized debt issue cost)			**1,260**	936
Noncurrent portion			**₱33,935**	₱35,195

The proceeds of the *₱9,000.0 Million Corporate Notes* were used to prepay outstanding debt and partially finance the acquisition of additional Meralco shares purchased in July 2013. The proceeds of the *₱17,000.0 Million Corporate Notes Facility* were used to partially finance the prepayment of outstanding debt in March 2013. As at December 31, 2014 and 2013, Beacon Electric is in compliance with all the requirements stipulated in the loan agreements.

On May 27, 2013, Beacon Electric entered into a Forward Starting Interest Rate Swap (Forward Starting IRS) to hedge the interest repricing risk on the outstanding balance of the Tranche B (₱14,715 million) of the *₱17,000.0 Million Corporate Notes Facility* by the end of the fifth year. The Forward Starting IRS will have a receive leg based on a rate which will be determined on March 26, 2018 and pay leg of 6.98% fixed rate that virtually matches the debt's critical terms (i.e, benchmark rate and fixing date). The hedge is expected to be highly effective and as such Beacon Electric designates the Forward Starting IRS as a cash flow hedge. The changes in fair value of the Forward Starting IRS will be deferred in equity under Beacon Electric's Other Comprehensive Income (Loss) Reserve account. For the periods ended December 31, 2014 and 2013, the Company's share in the Beacon Electric's other comprehensive income and loss from the Forward Starting IRS amounted to ₱134.6 million (income) and ₱180.6 million (loss), respectively, recognized as "share in the fair value changes in cash flow hedges of equity method investees" in the Company's consolidated statement of comprehensive income (see Note 28).

Beacon Electric's loans are secured by a pledge on Meralco shares owned by Beacon Electric and shall, from the date of the pledge over the Meralco shares, maintain the loan to value ratio at 50%. The loan agreements also contain certain provisions which include the maintenance of a Debt Service Account to be used by Beacon Electric to service interest payments and principal repayments and maintenance of financial ratios such as debt to equity ratio, debt service coverage ratio and loan to value ratio.

As at December 31, 2014 and 2013, Beacon Electric is in compliance with all the requirements stipulated in the loan agreements.

Investment in Beacon Electric's preferred shares classified as AFS investments

The Company owns 50% of the Beacon Electric's issued preferred shares as at December 31, 2014 and 2013. The preferred shares of Beacon Electric are non-voting, non-convertible to common shares or any shares of any class of Beacon, have no pre-emptive rights to subscribe to any share or convertible debt securities or warrants issued or sold by Beacon Electric. The preference shareholder is entitled to liquidation preference and yearly cumulative dividend at the rate of 7% of the issue value subject to (a) availability of unrestricted retained earnings; and (b) dividend payment restrictions imposed by Beacon Electric's bank creditors. For the years ended December 31, 2014, 2013 and 2012, the Parent Company received dividends from Beacon Electric's preferred shares amounting to ₱405.1 million, ₱405.1 million and ₱561.4 million, respectively (see Note 27). As at December 31, 2014 and 2013, total cumulative dividends on preferred shares owned by both MPIC and PCEV not yet declared by Beacon Electric amounted to a total of ₱2,430.4 million and ₱1,620.3 million, respectively.

Advances to Beacon Electric

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 equity method investees.

12. Goodwill

The movements in the goodwill account as follows:

	2014	2013
	(In Millions)	
Balance at beginning of year	**₱18,308**	₱13,155
Additions from:		
Acquisitions (see Note 4)	**–**	4,973
Finalization of purchase price allocation*	**–**	180
	₱18,308	₱18,308

**PHI acquisition in 2012 with the purchase price allocation finalized in 2013.*

The carrying amount of goodwill allocated to each of the CGU (determined to be at the subsidiary level):

	2014	2013
	(In Millions)	
Water utilities:		
MWHC/Maynilad	**₱6,803**	₱6,803
PHI	**288**	288
Toll operations:		
MPTC	**5,749**	5,749
CIC (see Note 4)	**4,966**	4,966
Healthcare:		
CVHMC	**234**	234
AHI	**192**	192
RMCI	**69**	69
DLSMC (see Note 4)	**7**	7
	₱18,308	₱18,308

The Company performs its annual impairment test close to year-end, after finalizing the annual financial budgets and forecasts. The impairment test of goodwill is based on VIU calculations that use the discounted cash flow model. Cash flow projections are based on most recent financial budgets and forecast. Discount rates applied are based on market weighted average cost of capital with estimated premium over cost of equity. The key assumptions used to determine the recoverable amount for the different CGUs are discussed below.

Based on the impairment tests performed for each of the CGUs, management did not identify impairment losses for these CGUs. Management also believes that no reasonably possible change in any of the key assumptions would cause the carrying values of the CGUs to materially exceed their respective recoverable amounts.

Water utilities and toll operations segments

	December 31, 2014		December 31, 2013	
	CGUs of the water utilities segment			
	Maynilad	**PHI**	Maynilad	PHI
Volume growth rate [(a)]	**3.0%**	**2.0%**	3.0%	3.0%
Average forecast period	**23 years**	**21 years**	24 years	22 years
Discount rate	**8.7%**	**8.7%**	8.6%	9.2%

	December 31, 2014		December 31, 2013	
	CGUs of the toll operations segment			
	MPTC	**CIC**	MPTC	CIC
Average growth [a, b]	**1.6%**	**3.4% up to 2033 and 5.3% afterwards**	1.6%	3.0% up to 2033 and 4.9% afterwards
Average forecast period	**23 years**	**19 and 31 years**	24 years	20 and 32 years
Discount rate	**8.1%**	**8.1%**	7.3%	7.3%

[a] *Average growth represents average of year-over-year growth during the entire concession period.*
[b] *Traffic volume for the Open system and Journey for the Closed system.*

The forecasted period for Maynilad and PHI is greater than five (5) years as management can reliably estimate the cash flow for the entire duration of Maynilad's and PHI's concession period. The average forecast period is consistent with the period covered by the concession agreements (see Note 13).

MPTC's cash flows reflect cash flows from the NLEX and CIC's from the CAVITEX. The forecasted period is greater than five (5) years as management can reliably estimate the cash flow for the entire duration of these CGUs' concession periods. The average forecast period is consistent with the period covered by the concession agreements (see Note 13).

Healthcare segment

	December 31, 2014				December 31, 2013		
	RMCI	**CVHMC**	**AHI**	**DLSMC**	RMCI	CVHMC	AHI
Average occupancy rate	**83.0%**	**73.0%**	**56.0%**	**60.0%**	87.0%	77.0%	56.0%
Discount rate	**12.4%**	**12.4%**	**12.4%**	**12.4%**	11.2%	11.2%	11.2%

Average forecast period for purposes of goodwill impairment testing for DLSMC, RMCI and AHI is at 5 years with terminal value computed based on a zero-growth assumption for forecasts beyond the 5 year period. The length of the projection for CVHMC is consistent with the remaining lease term of its agreement with RCAM (see Note 33). Goodwill acquired from the Company's acquisition of DLSMC in 2013 is based on provisional values (see Note 4) and therefore the amount of goodwill has yet to be allocated to specific CGUs. Impairment testing commenced in 2014 after finalization of the purchase price allocation.

13. Service Concession Assets

The movements in the service concession assets follow:

	2014		
	Toll Operations	**Water Utilities**	**Total**
		(In Millions)	
Cost:			
Balance at beginning of year	**₱29,071**	**₱80,713**	**₱109,784**
Additions	**2,507**	**4,171**	**6,678**
Balance at end of year	**31,578**	**84,884**	**116,462**
Accumulated amortization:			
Balance at beginning of year	**3,369**	**11,875**	**15,244**
Additions (see Note 23)	**688**	**2,270**	**2,958**
Balance at end of year	**4,057**	**14,145**	**18,202**
	₱27,521	**₱70,739**	**₱98,260**

	2013		
	Toll Operations	Water Utilities	Total
		(In Millions)	
Cost:			
Balance at beginning of year	₱19,046	₱75,243	₱94,289
From business combinations (see Note 4)	9,614	101	9,715
Additions and reclassifications	411	5,369	5,780
Balance at end of year	29,071	80,713	109,784
Accumulated amortization:			
Balance at beginning of year	2,561	9,858	12,419
Additions and reclassifications (see Note 23)	808	2,017	2,825
Balance at end of year	3,369	11,875	15,244
	₱25,702	₱68,838	₱94,540

Service Concession Assets – Toll Operations. This represents MNTC's and CIC's concession comprising the rights, interests and privileges to finance, design, construct, operate and maintain toll roads, toll facilities and other facilities generating toll-related and non-toll related income.

- *MNTC.* In August 1995, First Philippine Infrastructure Development Corporation (FPIDC), the then parent company of MNTC, entered into a joint venture agreement with PNCC, in which PNCC assigned its rights, interests and privileges under its franchise to construct, operate and maintain toll facilities in the NLEX and its extensions, stretches, linkages and diversions in favor of MNTC, including the design, funding, construction, rehabilitation, refurbishing and modernization and selection and installation of an appropriate toll collection system therein during the concession period subject to prior approval by the President of the Philippines. In April 1998, the Philippine government, acting by and through the Toll Regulatory Board (TRB) as the grantor, PNCC as the franchisee and MNTC as the concessionaire executed a Supplemental Toll Operation Agreement (STOA) whereby the Philippine government recognized and accepted the assignment by PNCC of its usufructuary rights, interests and privileges under its franchise in favor of MNTC as approved by the President of the Philippines and granted MNTC concession rights, obligations and privileges including the authority to finance, design, construct, operate and maintain the NLEX project roads as toll roads commencing upon the date the STOA comes into effect until December 31, 2030 or 30 years after the issuance of the Toll Operation Permit for the last completed phase, whichever is earlier. In October 2008, the concession agreement was extended for another seven years to 2037. Pursuant to the STOA, MNTC is required to pay franchise fees to PNCC and to pay for the government's project overhead expenses based on certain percentages of construction costs and maintenance works on the project roads. Upon expiry of the concession period, MNTC shall hand over the project roads to the Philippine government without cost, free from any and all liens and encumbrances and fully operational and in good working condition, including any and all existing land required, works, toll road facilities and equipment found therein directly related to and in connection with the operation of the toll road facilities.

The Manila-North Expressway Project consists of three phases as follows:

Phase		Description	Status / Date of Operation
Phase I (Segments 1, 2, 3and 7)	Expansion and rehabilitation	i. 84 kilometers (km) of the existing NLEX ii. 8.8-km stretch of a Greenfield expressway	February 5, 2005
Phase II (Segments 8.1, 8.2, 9 and 10)	Construction	i. 17-km circumferential road C-5 which connects the current C-5 expressway to the NLEX	Segment 8.1 – June 5, 2010
		ii. 5.85-km road from McArthur to Letre	Segments 9 and 10 – Ongoing construction Segment 8.2 – Pre construction
Phase III (Segments 4, 5 and 6)	Construction	i. 57-km Subic arm of the NLEX to Subic Expressway	Not started

- *CIC.* CIC is exclusively responsible for the design, financing and construction of the CAVITEX, pursuant to a toll operation agreement dated July 26, 1996 entered into with the Philippine Reclamation Authority (PRA) and the Government, acting through the TRB. Responsibility for the supervision of the operation and maintenance of the toll road, initially undertaken by the PRA, was also transferred to CIC pursuant to an operations and maintenance agreement dated November 14, 2006 and a voting trust agreement dated November 16, 2006. The concession for CAVITEX extends to 2033 for the originally built road and to 2046 for a subsequent extension. Upon expiry of the concession period, CIC shall hand over the project to the Philippine government.

  Under the amended Joint Venture Agreement with PRA, each of the following expressways shall be constructed in segments:

Phase		Description	Status / Date of Operation
Phase I	Design and improvement	i. 6.5 km R-1 Expressway which connects the Airport Road to Zapote	May 1998
		ii. Extension of the 7 km R-1 Expressway which connects the existing R-1 Expressway at Zapote to Noveleta	May 2011
Phase II	Design and construction	i. Extension of the C-5 Link Expressway which connects the R-1 Expressway to the South Luzon Expressway (SLEX)	Not started

Additions in 2013 and 2014 to the service concession asset included civil works construction on MNTC's Segments 9 and 10 and CAVITEX's Modified Zapote Interchange and fixed operating equipment design, supply and installation for the toll collection system migration. Additions also include pre-construction costs of Segment 8.2 of Phase II of the NLEX.

On June 14, 2013, MNTC entered into an agreement with Egis Projects, Phils. and Indra Philippines, Inc. for the front end and design works for the toll collection system migration with a total contract price of €6.2 million or ₱365.3 million. Of the total project cost, ₱144.3 million was capitalized in 2013 and ₱194.7 million was capitalized in 2014.

Borrowing costs capitalized amounted to ₱335.9 million and ₱11.4 million in 2014 and 2013, respectively.

In 2013, additions also included the service concession asset through acquisition of CIC.

Service Concession Assets – Water Utilities. This represents the exclusive right granted to Maynilad and PHI to provide water distribution and sewerage services and charge users for these services during the concession period.

- *Maynilad.* In February 1997, Maynilad entered into a concession agreement with MWSS, with respect to the MWSS West Service Area. Under the concession agreement, MWSS grants Maynilad, the sole right to manage, operate, repair, decommission and refurbish all fixed and movable assets required to provide water and sewerage services in the West Service Area for 25 years ending in 2022. In September 2009, MWSS approved an extension of its concession agreement with Maynilad for another 15 years to 2037. The legal title to all property, plant and equipment contributed to the existing MWSS system by Maynilad during the concession period remains with Maynilad until the expiration date at which time, all rights, titles and interests in such assets will automatically vest to MWSS. Under the concession agreement, Maynilad is entitled to (a) an annual standard rate adjustment to compensate for increases in the consumer price index subject to a rate adjustment limit; (b) an extraordinary price adjustment to account for the financial consequences of the occurrence of certain unforeseen events subject to grounds stipulated in the concession agreement; and (c) a rate rebasing mechanism which allows rates to be adjusted every five years to enable Maynilad to efficiently and prudently recover expenditures incurred, Philippine business taxes and payments corresponding to debt service on concession fees and Maynilad loans incurred to finance such expenditure. In accordance with the concession agreement, Maynilad posted a performance bond in the amount of US$80.0 million to secure the performance of its obligations under certain provisions of its concession agreement (see Note 33).

- *PHI.* In August 2012, Maynilad acquired a 100% interest in PHI, which engages in water distribution business in certain areas in central and southern Luzon. PHI is granted the sole right to distribute water in these areas under certain concession agreements granted by the Philippine government for 25 years to 2035.

Additions to the service concession assets for the water utilities substantially relate to cost of rehabilitation, additional constructions and to the additional concession fees (see Note 18) pertaining to the drawn portion of the MWSS loans relating to new projects. To date, Maynilad had capitalized ₱3.44 billion on wastewater projects, of which ₱465.8 million was capitalized in 2014.

14. Property and Equipment and Property Use Rights

Property and Equipment. This account consists of:

	December 31, 2013	**Purchase Price Allocation**	**Additions**	**Disposals/ Reclassifications**	**December 31, 2014**
			(In Millions)		
Cost					
Land and land improvements	₱1,152	**₱–**	**₱–**	**₱–**	**₱1,152**
Leasehold improvements	197	**–**	**39**	**7**	**243**
Building and building improvements	3,630	**–**	**71**	**289**	**3,990**
Office and other equipment, furniture and fixtures	1,020	**–**	**144**	**(17)**	**1,147**
Transportation equipment	412	**–**	**118**	**(60)**	**470**
Instruments, tools and other equipment	2,689	**–**	**722**	**(51)**	**3,360**
Library books	19	**–**	**1**	**–**	**20**
	9,119	**–**	**1,095**	**168**	**10,382**
Accumulated Depreciation					
Leasehold and land improvements	50	**–**	**30**	**–**	**80**
Building and building improvements	434	**–**	**230**	**–**	**664**
Office and other equipment, furniture and fixtures	559	**–**	**138**	**(17)**	**680**
Transportation equipment	298	**–**	**64**	**(44)**	**318**
Instruments, tools and other equipment	1,158	**–**	**518**	**(62)**	**1,614**
Library books	12	**–**	**1**	**–**	**13**
	2,511	**–**	**981**	**(123)**	**3,369**
	6,608	**–**	**113**	**292**	**7,013**
Allowance for impairment loss	(23)	**–**	**–**	**–**	**(23)**
Construction-in-progress	274	**–**	**413**	**(309)**	**378**
	₱6,859	**₱–**	**₱525**	**(₱16)**	**₱7,368**

	December 31, 2012	Purchase Price Allocation* (Note 4)	Additions	Disposals/ Reclassifications	December 31, 2013
			(In Millions)		
Cost					
Land and land improvements	₱1,044	₱140	₱62	(₱94)	₱1,152
Leasehold improvements	165	–	32	–	197
Building and building improvements	3,272	88	41	229	3,630
Office and other equipment, furniture and fixtures	786	29	221	(16)	1,020
Transportation equipment	335	8	115	(46)	412
Instruments, tools and other equipment	2,146	146	401	(4)	2,689
Library books	17	–	2	–	19
	7,765	411	874	69	9,119
Accumulated Depreciation					
Leasehold and land improvements	27	–	23	–	50
Building and building improvements	241	–	193	–	434
Office and other equipment, furniture and fixtures	494	–	91	(26)	559
Transportation equipment	211	–	122	(35)	298
Instruments, tools and other equipment	752	–	435	(29)	1,158
Library books	9	–	3	–	12
	1,734	–	867	(90)	2,511
	6,031	411	7	159	6,608
Allowance for impairment loss	(23)	–	–	–	(23)
Construction-in-progress	41	7	469	(243)	274
	₱6,049	₱418	₱476	(₱84)	₱6,859

**Includes both acquisitions through business combination and completion of purchase price allocation.*

Land and certain property and equipment were pledged as security for certain interest-bearing loans of the Company (see Note 19).

Property Use Rights. This account consists of:

	December 31, 2013	Adjustment from Completion of Purchase Price Allocation	Amortizations	December 31, 2014
			(In Millions)	
Cost				
Land use rights	₱208	₱–	₱–	**₱208**
Building use rights	540	–	–	**540**
	748	–	–	**748**
Accumulated Amortization				
Land use rights	26	–	**12**	**38**
Building use rights	73	–	**29**	**102**
	99	–	**41**	**140**
	₱649	₱–	**(₱41)**	**₱608**

	December 31, 2012	Adjustment from Completion of Purchase Price Allocation	Amortizations	December 31, 2013
			(In Millions)	
Cost				
Land use rights	₱208	₱–	₱–	₱208
Building use rights	540	–	–	540
	748	–	–	748
Accumulated Amortization				
Land use rights	15	–	11	26
Building use rights	44	–	29	73
	59	–	40	99
	₱689	₱–	(₱40)	₱649

The Company entered into lease agreements for the operation and management of hospitals, OLLH and CSMC (see Note 33). The lease agreements qualified as business combinations where the identifiable assets consist of property use rights for the use of existing land and building over the term of the lease of twenty (20) years.

15. Other Noncurrent Assets

This account consists of:

	2014	2013
	(In Millions)	
Deferred tax assets (see Note 29)	**₱1,164**	₱1,218
Deferred project costs (see Note 33) [(a)]	**1,869**	–
Indemnification asset (see Notes 4 and 20)	**548**	533
Deposits [(b)]	**474**	462
Deposits for LTIP (see Note 25) [(c)]	**345**	131
Long-term cash and miscellaneous deposits [(d)]	**157**	187
Sinking fund [(e)]	**139**	126
Basketball franchise [(f)]	**100**	–

(Forward)

	2014	2013
	(In Millions)	
Software costs [g]	**₱67**	₱73
Pension asset (see Note 25)	**22**	24
Derivative asset (see Notes 8, 33 and 36)	**–**	32
Others [h]	**325**	271
	₱5,210	₱3,057

a. Deferred project costs substantially comprise of costs directly attributable to the acquisition of the service concession relating to the *₱65-billion Light Rail Transit Line 1 Cavite Extension and Operations & Maintenance Project* incurred prior to Effective Date (see Note 33). The Effective Date is expected to be the date of the handover to LRMC of the operation and maintenance of the existing system of the LRT. Upon handover of the existing system, the accumulated deferred project costs shall be reclassified to service concession asset. As at December 31, 2014, the deferred project costs substantially consist of ₱105.0 million of transaction advisory fee paid to Development Bank of the Philippines and International Finance Corporation and ₱935.0 million as 10% of the bid amount of ₱9.35 billion paid to Department of Transportation and Communication and Light Rail Transit Authority (see Note 33). Accumulated deferred project costs for the LRT project amounted to ₱1.11 billion as of December 31, 2014.

b. 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.

c. This account consists of funding for the Long-term Incentive Plan (LTIP) which is expected to be paid in 2016 following the LTIP program 3-year performance cycle ending in 2015. The LTIP fund is covered by an Investment Management Agreement with a Trustee Bank (see Note 25).

d. Included in this account are long-term cash investments representing time deposits with maturities of more than one year and earn interest at the respective long-term cash deposit rates, and miscellaneous deposits comprising of rental deposits and deposits for restoration works.

e. This pertains to CIC’s sinking fund established to finance the future major road repairs, re-pavements and other extraordinary costs and expenses of the R-1 Expressway.

f. Basketball franchise represents cost of MPTC’s Philippine Basketball Association (PBA) franchise named “NLEX Road Warriors”. The PBA franchise is an intangible asset with an indefinite life, and thus, subject to annual impairment review. As at December 31, 2014, no impairment has been recognized.

g. Software cost represents costs of the Company's developed and implemented accounting and reporting system with estimated useful life of five years. Cost amounted to ₱134.3 million and ₱113.4 million as at December 31 2014 and 2013, respectively. Accumulated depreciation amounted to ₱67.1 million and ₱40.1 million as at December 31 2014 and 2013, respectively. Amortization expense amounted to ₱27.0 million, ₱40.0 million, and ₱30.0 million for the years ended December 31, 2014, 2013, and 2012, respectively.

h. This account includes advances to contractors and consultants.

16. Accounts Payable and Other Current Liabilities

This account consists of:

	2014	2013
	(In Millions)	
Trade and accounts payable [a]	**₱4,313**	₱4,496
Accrued construction costs (see Note 21) [b]	**2,680**	4,655
Accrued personnel costs	**1,051**	1,034
Accrued expenses [c]	**944**	662
Interest and other financing charges (see Note 19)	**721**	620
Accrued outside services	**564**	421
Dividends payable (see Notes 6 and 22)	**299**	425
LTIP payable (see Note 25)	**228**	46
Retention payable [d]	**260**	218
Withholding taxes payable	**212**	169
Payable to CHI [e]	**163**	163
Output taxes payable	**154**	138
Unearned revenue and other deposits	**86**	96
Lease payable - current portion (see Note 20)	**49**	55
Accrued PNCC fees (see Note 33)	**48**	42
Pretermination fees and transaction cost	**–**	30
Others	**277**	206
	₱12,049	₱13,476

a. This account includes unpaid billings of creditors, suppliers and contractors. It also includes liabilities relating to assets held in trust used in Maynilad's operations amounting to ₱97.3 million as at December 31, 2014 and 2013 (see Note 34). Trade and accounts payables are non-interest bearing and are normally settled on 30 to 60 day terms.

b. This represents unbilled construction costs from contractors and normally settled upon receipt of billings (see Note 21).

c. This account includes accrued professional fees, utilities and repairs and maintenance charges. This account also included accruals in relation to the cases pending before the courts or quasi-judical bodies. Detailed disclosure of which are not provided as allowed under PAS 37, as this may prejudice the Company's positions in relation to these cases.

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

e. Payable to CHI as at December 31, 2013 relates to noninterest-bearing advances obtained by CIC in 2012 for its debt service requirements. Although payable within the year, the amount is yet to be settled as at December 31, 2014.

17. Provisions

The table below present the movements in this account:

	Warranties and Guarantees [(a)] (see Note 32)	Heavy Maintenance [(b)]	Other Provisions [(c)]	Total
		(In Millions)		
Balance at January 1, 2013	₱489	₱336	₱3,097	₱3,922
Additions from business combination (see Note 4)	–	228	6	234
Additions* and accretion	–	196	1,046	1,242
Payments	–	(327)	(82)	(409)
Balance at December 31, 2013	489	433	4,067	4,989
Additions* and accretion	–	**263**	**1,141**	**1,404**
Reversal	–	**(123)**	**(34)**	**(157)**
Payments	–	**(301)**	**(162)**	**(463)**
Balance at December 31, 2014	**₱489**	**₱272**	**₱5,012**	**₱5,773**
At December 31, 2013:				
Current portion	₱489	₱121	₱4,067	₱4,677
Noncurrent portion	–	312	–	312
At December 31, 2014:				
Current portion	**489**	**69**	**4,987**	**5,545**
Noncurrent portion	**–**	**203**	**25**	**228**

* *See Note 23.*

a. This includes certain warranties and guarantees extended by NOHI in relation to debt for asset swap arrangements entered in prior years. Certain warranties and guarantees are secured by Pacific Plaza Tower (PPT) condominium units and BLC shares with carrying values of ₱18.9 million and ₱46.5 million, respectively (see Notes 9 and 10).

b. This pertains to the contractual obligations of MNTC and CIC to restore the service concession assets to a specified level of serviceability during the service concession term and to maintain the same assets in good condition prior to turnover of the assets to the Philippine government. In 2014, CIC reversed excess provision for heavy maintenance as result of an updated study conducted by an independent engineer. Portion of the reversal amounting to ₱4.9 million was deducted against the sinking fund while the remaining ₱118.2 million was recorded as reversal of provisions and included in “Other income” account in the consolidated statement of comprehensive income.

c. These consist of estimated liabilities for losses on claims by third parties. The information usually required by PAS 37 is not disclosed as it may prejudice the Company’s negotiation with third parties.

18. **Service Concession Fees Payable**

This account consists of:

	2014	2013
	(In Millions)	
Service concession fees payable	**₱7,771**	₱8,512
Less current portion	**500**	603
	₱7,271	₱7,909

Concession fees relate to and arise from Maynilad's service concession agreement (see Note 13) and are denominated in various currencies. These are payable monthly following an amortization table up to the end of the concession period and are non-interest bearing.

The schedule of undiscounted estimated future concession fee payments, based on the extended life of Maynilad's concession agreement as of December 31, 2014, is as follows:

	In Original Currency		
Year	Foreign Currency Loans (Translated to US$)*	Peso Loans/ Project Local Support	Total Peso Equivalent*
		(In Millions)	
2015	$15.6	₱803.5	₱1,500.8
2016	16.5	529.7	1,266.1
2017	14.2	518.9	1,155.2
2018	14.2	537.0	1,172.2
2019-2037	73.0	10,218.2	13,484.6
	$133.5	₱12,607.3	₱18,578.9

** Translated using the December 31, 2014 exchange rate of ₱44.72:US$1.*

Concession fee payments relating to the extension of the concession agreement (see Note 13) are only determinable upon loan drawdown of MWSS and their actual construction of the related concession projects. Accretion expense for the years ended December 31, 2014, 2013 and 2012 amounted to ₱644.0 million, ₱659.0 million and ₱644.0 million, respectively (see Note 26).

19. **Note Payable and Long-term Debt**

Note Payable. On December 27, 2012, the Company availed a short-term unsecured note in the amount of ₱4.7 billion from a local bank, the proceeds of which were invested in MPTC for the latter's capital requirements. The note bears fixed interest of 4.5% per annum, payable 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 the related interest.

Long-term Debt. This account consists of:

	2014	2013
	(In Millions)	
Current portions	**₱3,573**	₱3,512
Noncurrent portions	**57,494**	47,536
	₱61,067	₱51,048

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

	December 31, 2014		
	Loans	**Long-term Bonds**	**Total**
		(In Millions)	
MWHC and subsidiaries	**₱24,277**	**₱–**	**₱24,277**
MPTC and subsidiaries	**19,907**	**6,957**	**26,864**
MPIC	**6,383**	**–**	**6,383**
AIF	**2,721**	**–**	**2,721**
AHI	**846**	**–**	**846**
Others	**303**	**–**	**303**
	54,437	**6,957**	**61,394**
Less unamortized debt issue cost	**257**	**70**	**327**
	₱54,180	**₱6,887**	**₱61,067**

	December 31, 2013			
	Loans	Convertible Preferred Shares	Long-term Bonds	Total
		(In Millions)		
MWHC and subsidiaries	₱25,424	₱–	₱–	₱25,424
MPTC and subsidiaries	17,869	–	–	17,869
MPIC	6,448	–	–	6,448
AHI	1,121	–	–	1,121
Others	387	6	–	393
	51,249	6	–	51,255
Less unamortized debt issue cost	207	–	–	207
	₱51,042	₱6	₱–	₱51,048

The table below presents the movements in unamortized debt issue costs:

	2014	2013
	(In Millions)	
Balance at beginning of year	**₱207**	₱151
Amortization during the year charged to interest expense (see Note 26)	**(42)**	(46)
Debt issue costs incurred during the year (see Note 26)	**162**	543
Amortization during the year charged to other expenses (see Note 27)	**–**	(441)
Balance at end of year	**₱327**	₱207

The repayments of loans based on existing terms are scheduled as follows:

	2014		2013
	(In Millions and undiscounted)		*(In Millions and undiscounted)*
2015	**₱3,558**	2014	₱3,496
2016	**3,642**	2015	3,189
2017 and onwards	**53,950**	2016 and onwards	44,253
	₱61,150		₱50,938

The credit agreements provides for certain restrictions with respect to, among others, availing other loans or advances to any of the Company's affiliates, subsidiaries, stockholders, directors and officers except in compliance with formally established and existing fringe benefit program of the Company. These restrictions were complied with by the Company.

<u>MWHC and Subsidiaries</u>
Long-term debt consists of:

Description	Interest Rate (per annum)	Terms	2014	2013
				(In Millions)
₱21.2 Billion Term Loan Facility	5.75% p.a. for the first 5 years, subject to repricing on 5th year	Availed of in March 2013, payable in semi-annual installment within 10 years with final repayment in March 2023; contains negative pledge	**₱18,614**	₱20,306
₱5.0 Billion loan with BDO	5.75% p.a. for the first 5 years, subject to repricing on 5th year	Availed of in April 2013, payable in semi-annual installments within 10 years; contains negative pledge	**5,000**	5,000
US$137.50 million loan with Land Bank of the Philippines (LBP)	Same rate of interest payable by LBP under the World Bank Loan Agreement + 1.25% per annum	Interest and principal payable in semi-annual installments within 25 years, inclusive of seven years grace period, contains negative pledge	**663**	89
Various peso-denominated loan of PHI	Various	Payable in quarterly installments over seven years from 2007 and 2009	**–**	29
			24,277	25,424
Less unamortized debt issue costs			**75**	82
Less current portion of long-term debt			**1,692**	1,703
Noncurrent portion of long-term debt			**₱22,510**	₱23,639

On March 22, 2013, Maynilad entered into a Concessionaire Lenders' Agreement for a *₱21.2 billion Term Loan Facility* which was used to refinance certain outstanding debt. The interest rate floor on the ₱21.2 Billion Term Loan Facility is an embedded derivative that was assessed by Maynilad as not for bifurcation based on the provisions of PAS 39. The Term Loan contains a negative pledge.

The World Bank (WB), through the Metro Manila Wastewater Management Project (MWMP), provided a US$275 million loan to the Land Bank of the Philippines (LBP) for relending to Maynilad and Manila Water Company, Inc., the concessionaire for the east service area. The loan was divided equally to these two concessionaires. The MWMP is intended to finance investments in wastewater collection and treatment, and septage management in Metro Manila. As at December 31, 2013, Maynilad had drawn US$2.0 million from the facility and in 2014, Maynilad made additional drawdown amounting to US$12.8 million.

Covenants. Maynilad's loan agreements contain, among others, covenants regarding the maintenance of certain financial ratios such as debt-to-equity ratio not to exceed 2.6 times and debt service coverage ratio not to exceed 1.3 times, and maintenance of debt service account (see Note 7). As at December 31, 2014 and 2013, Maynilad has complied with these covenants.

Significant covenants for the PHI's loan included maintenance of certain financial ratios and the prohibition against declaration or payment of dividends to PHI's stockholders (other than dividends payable solely in shares of its capital stock) if payment of any sum due to the lenders is in arrears or if it would negatively affect PHI's financial condition. As at December 31, 2014 and 2013, PHI has complied with these covenants.

PHI's loans are secured by the assigned guarantee coverage of PHI at 85% of the customers' monthly billing obligation but not to exceed ₱75.0 million and ₱150.0 million for the loans obtained in 2009 and 2007, respectively. In addition to this guarantee, the loan obtained in 2007 is secured by certain property and equipment while the loan obtained in 2009 is secured by a continuing surety made by PHI's former shareholder. The loan obtained in 2007 has been fully paid in April 2013 while the loan obtained in 2009 was preterminated in 2014.

MPTC and Subsidiaries
Loans consist of:

Description	Interest Rate (per annum)	Terms	**2014**	2013
			(In Millions)	
₱7.0 Billion Fixed-rate Bonds due 2021 and 2024	5.5% and 5.07% for the 10-year and 7-year bonds, respectively	Bond issued in 2014 with 7-year fixed rate bonds amounting to ₱4.4 billion due in 2021 and 10-year fixed rate bonds amounting to ₱2.6 billion due in 2024; contains negative pledge	**₱6,957**	₱–
Term Loan Facility Agreement with BDO	5.8% p.a. for the first 5 years, subject to repricing on 5th year	₱3.25 billion drawn on various dates in 2014; principal and interest payable semi-annually within 10 years based on the amortization schedule	**3,201**	–
₱6.2 Billion Series A Notes (unsecured)	Weighted average fixed interest rate of 7.22% p.a.	Availed of in April 2011 and have tenors of 5 years, 7 years and 10 years, subject to bullet like repayment	**6,024**	6,086
₱2.1 Billion loan with Philippine National Bank (PNB) (unsecured)	6-month PDST-F + 0.50% margin	Availed of in March 2009 payable within 7 years, balloon type semiannual payment starting June 15, 2011, 85% payable on the last 4 semiannual periods	**893**	1,785
₱1.0 Billion Term Loan Facility with the Insular Life Assurance Company Ltd. (Insular) and the Philippine American Life and General Insurance Company (Philam) (unsecured)	Average fixed interest rate of 7.10% p.a.	Availed of in December 2011. Final maturity date of 15 years with two bullet repayment tranches of ₱500.0 million each after 10 and 15 years	**1,000**	1,000
₱1.0 Billion Term Loan Facility with Philam (unsecured)	Fixed interest rate of 5.80% p.a.	Availed of in December 2013, payable in lump sum after 15 years	**1,000**	1,000
₱800.0 million Term Loan Facility with Sun Life of Canada (Philippines), Inc. (unsecured)	Fixed interest rate of 5.30% p.a.	Availed of in October 2013, payable in lump sum after 10 years	**800**	800
₱200.0 million Term Loan Facility with Insular (unsecured)	Fixed interest rate of 5.03% p.a.	Availed of in November 2013, payable in lump sum after 10 years	**200**	200
Series 2010-1 Dollar-denominated Notes	Fixed rate of 12.0%	Principal payments payable quarterly, commencing March 2013 with final payment in September 2022	**792**	854
₱6.1 Billion Loan with BDO-RCBC	6.50% subject to repricing on the fifth year	Availed of in 2013, payable quarterly within 10 years starting January 13, 2014 to December 26, 2023	**₱5,997**	₱6,144
			26,864	17,869
Less unamortized debt issue costs			**189**	125
Less current portion of long-term debt			**1,220**	1,158
Noncurrent portion of long-term debt			**₱25,455**	₱16,586

An interest rate swap (IRS) transaction was entered into to convert the floating rate *₱2.1 billion loan with PNB* into a fixed rate loan effective March 14, 2011. The interest rate swap effectively fixed the floating rate of the said loan over the remaining tenor at 5.9% per annum. However, on December 28, 2012, MNTC issued a notice for early termination of the IRS transaction covering the period December 15, 2012 up to December 15, 2015. The early termination fee was recognized as interest expense amounting to ₱175.0 million in the 2012 consolidated statement of comprehensive income.

The proceeds from the *₱7.0 Billion Fixed-rate Bonds due 2021 and 2024* issued by MNTC shall be used primarily to partially fund the 5.65 km Segment 10 of the Manila-North Expressway Project which will connect the MacArthur Highway in Valenzuela City to C-3 Road in Caloocan City.

On January 9, 2014, MPTDC entered into *Term Loan Facility Agreement with BDO* for up to ₱3,250 million loan due 2024 for the purpose of financing its acquisition of approximately 8.5% of the total issued and outstanding capital stock of MNTC from EGIS Projects SA (Egis) and for other corporate purposes.

Proceeds from the *₱6.2 Billion Series A Notes* were used for the partial and full prepayment of certain outstanding debt of MNTC.

The *Series 2010-1 Dollar-denominated Notes* and *₱6.1 Billion Loan with BDO-RCBC* resulted from the consolidation of CIC effective January 2013 (see Note 4). On December 26, 2013, CIC availed a *₱6.1 Billion Loan with BDO-RCBC*, the proceeds of which was used primarily to refinance CIC's existing loan (which included the long-term debt assumed upon by the Company's acquisition of CIC) and other obligations, repayment of the advances owed to MPTC, refinancing certain short-term loan obligations of the borrower to BDO and for general working capital requirements of the borrower. The refinancing did not qualify as extinguishment of debt and as such, the additional transaction costs were capitalized and a new effective interest rate was computed. The prepayment option and interest rate floor were assessed to be clearly and closely related to the host loan, thus not bifurcated. The *Series 2010-1 Dollar-denominated Notes,* which was issued by CIC through a consolidated structured entity, stipulates certain "Repurchase Events" which would require CIC to repurchase certain concession collections and contract rights under CIC's concession agreement, for a repurchase price. Repurchase Events included, among others, failure to make payments due under the transaction documents, attachment of CIC's assets having a value in excess of US$5.0 million, and abandonment, or other than during the continuance of an event that constitutes force majeure under CIC's Toll Operation Agreement. The Series 2010-1 Dollar-denominated Notes is secured by future toll collections from CAVITEX; pledge over transaction accounts and 40,000 preferred shares of CIC held by CHI.

CIC provided collateral security in connection with the *₱6.1 Billion loan with BDO-RCBC*, which included a mortgage on certain debt instruments, equity investments of CIC, voting shares in the structured entity owned by the third party stockholders amounting to ₱0.2 million and assignment of a reserve account amounting to ₱433.3 million. The agreement covering this loan generally provides, among others, that for as long as the loans remain outstanding, CIC is subject to certain negative covenants requiring prior approval of the creditors for specified corporate acts.

Covenants. The bonds and the loans contain, among others, covenants regarding the maintenance of certain financial ratios such and maintenance of reserve account. As at December 31, 2014 and 2013, MPTDC, MNTC and CIC are in compliance with their respective debt covenants.

MPIC
As at December 31, 2014 and 2013, MPIC's outstanding loan comprise of *₱6.48 Billion Fixed Rate Note* with BDO. The loan, which is due in 2023, is payable in ten years; with semiannual interest and principal payments. The note bears an interest per annum of 7.5%, fixed for the first five (5) years and subject to repricing on the fifth year. Proceeds from the *₱6.48 Billion Fixed Rate Note* was used to repay then outstanding debt.

MPIC also has available committed short-term credit facility of up to ₱7.0 billion with various financial institutions.

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 1.3 times. 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, 2014 and 2013, MPIC is in compliance with its debt covenants.

AIF
On August 1, 2014, AIF Toll Road Holdings (Thailand) Limited (AIF), a 100% owned subsidiary of FPM Infra, entered into Term Loan Facility Agreement with Thanachart, a bank incorporated under the laws of Thailand, of up to Baht 2,100 million (or approximately US$65 million) loan for the purpose of reorganizing AIF's capital structure. AIF availed of the full amount of the facility on August 6, 2014. Interest is to be paid monthly while the principal is to be paid semi-annually in 15 instalments with the final instalment due November 2021. The loan is subject to a floating interest rate of Minimum Lending Rate minus 1.50% per annum, and is secured by a standby letter of credit issued by MPIC with a face amount of US$45 million and a pledge over all the AIF shares owned by FPM Tollway (Thailand) Limited and substantially all the DMT shares owned by AIF. The carrying value of the investment in DMT amounted to ₱5,929.0 million as at December 31, 2014.

Covenants. All dividend proceeds in respect of the investment in DMT shall be applied to repay this loan (see Note 11). The loan agreement also contains, among others, covenants regarding the maintenance of certain financial ratios such as debt-to-equity ratio and debt service coverage ratio, maintenance of ownership in DMT of at least 29.45%, and maintenance of debt service reserve account. AIF is in compliance with its debt covenants.

AHI
Loans consist of:

Description	Interest Rate	Terms	2014	2013
			(In Millions)	
₱1.26 billion loan with International Finance Corporation (IFC)	8.5% p.a. on first drawdown; 8.1% p.a. on second drawdown	Availed of on February 8, 2008 and payable in 16 unequal semiannual principal beginning May 15, 2010	**₱543**	₱730
₱595.0 million loan with Deutsche Investitions-und Entwicklungsgeselleschaft mbH (DEG)	9.1% p.a. on first drawdown; 8.6% p.a. on second drawdown	Availed of on February 8, 2008 and payable in 16 unequal semiannual principal beginning March 15, 2010	**258**	347
US$1.0 million IFC Subordinated Loan	LIBOR plus Income participation amount from 1% to 2% of EBITDA	Availed of on February 8, 2005 and payable on April 30, 2017	**45**	44
			846	1,121
Less current portion of long-term debt			**272**	276
Noncurrent portion of long-term debt			**₱574**	₱845

AHI's property and equipment with a carrying value of ₱3,235.4 million and ₱3,398 million as at December 31, 2014 and 2013, respectively, are pledged as collaterals for its long-term loan (see Note 14).

Covenants. The agreements covering the loans generally provide, among others, that for as long as the loans remain outstanding, AHI is subject to certain negative covenants and maintenance of certain financial ratios. While the *₱1.26 billion loan with IFC* and *₱595.0 million loan with DEG* are outstanding, AHI is prohibited, among others, from: (i) declaring dividends or making cash distributions on its share capital unless payment is out of its retained earnings subject to maintenance of certain financial ratios and notification made to the lenders; (ii) incurring expenditures or commitments for acquisitions of fixed or other noncurrent assets except for expansion projects or necessary repairs and maintenance; (iii) entering into financial leases exceeding US$500,000 of annual lease payments; (iv) entering into guarantees and derivative transactions; and (v) creating lien on AHI's property, revenue and other assets.

As at December 31, 2014 and 2013, AHI's current ratio is below the minimum and is therefore prohibited from declaring dividends. However, after obtaining the approval from IFC and DEG, AHI was able to declare dividends in 2014 and 2013. As long as AHI was not able to meet the requirements set out in the loan agreement, AHI needs to obtain the approval from IFC and DEG prior to any dividend declaration.

Others
Consist of:

Description	Interest Rate	Terms	2014	2013
			(In Millions)	
CVHMC				
• Loans with local bank *(unsecured)*	Fixed rates ranging from 4.0% to 5.5% p.a.	₱150 million availed of in 2012 and fully paid in 2013; ₱200 million availed of in 2013 and to be fully paid in 2014	**₱65**	₱125
RMCI and a subsidiary				
• Various loans with local banks	2% p.a. + PDST-F rate for the loan with ₱300 million principal; prevailing market rates for the remaining loans	Availed of in various dates from 2008 to 2013, and all payable quarterly	**148**	162
EMHMC				
• ₱100 million loan with local bank *(unsecured)*	5.50% p.a.	Availed of in 2012 payable monthly from March 19, 2012 to March 14, 2013	**90**	92
Others			**–**	14
			303	393
Less current portion of long-term debt			**180**	310
Noncurrent portion of long-term debt			**₱123**	₱83

RMCI's loans are secured by continuing suretyship of some of the stockholders of RMCI and real mortgage constituted over various parcel of land and improvements of RMCI and RCI with aggregate carrying amount of ₱348.1 million, as at December 31, 2014 and 2013 (see Note 14). The loan agreements provide for certain restrictions with respect to, among others, incurrence of any other loans, advances or other obligations. These restrictions were complied with by RMCI in 2014 and 2013.

20. **Other Long-term Liabilities**

	2014	2013
	(In Millions)	
Contingent liabilities arising from business combinations (see Notes 4 and 32) [(a)]	**₱1,172**	₱1,142
Lease payable (see Notes 3, 16 and 33) [(b)]	**1,013**	1,020
Customers' guaranty deposits [(c)]	**804**	783
LTIP payable (see Note 25)	**622**	409
Accrued interest payable to MWSS [(d)]	**607**	607
Deferred credits [(e)]	**602**	478
Accrued retirement liability (see Note 25)	**440**	333
Payable to CHI [(f)]	**257**	257
Subscription payable (see Note 11)	**203**	–
Interest payable [(g)]	**143**	–
Financial guarantee obligation (see Note 21)	**–**	65
Others	**156**	58
	₱6,019	₱5,152

a. Contingent liability arising from probable claim from a third party at fair value of ₱1,100.1 million was recognized in January 2013 in relation to the acquisition of CIC which was accounted for under PFRS 3, *Business Combination* (see Note 4). The increase in the contingent liability from December 31, 2013 to 2014 is attributable to accretion charge resulting from the passage of time (see Note 26). An indemnification asset (included in "Other noncurrent assets") was recognized in relation to such probable claim (see Note 15).

b. Lease payable represents present value of future minimum lease payments relating to the lease agreements entered into by EMHMC and CVHMC, which lease agreements qualify as business combinations. The lease payable was initially determined at acquisition date and subsequently adjusted for payments and accretion (see Notes 3 and 33). Current portion of the lease payable is included in the "Accounts payable and other current liabilities" (see Note 16). Total lease payable has nominal value of ₱2,390.0 million and ₱2,522.0 million as at December 31, 2014 and 2013, respectively.

c. Customers' guaranty deposits serve to guarantee payment of bills by customers. These deposits are non-interest bearing and normally refunded upon termination of water service connection and are initially measured at fair value. After initial recognition, these deposits are subsequently measured at amortized cost using the effective interest rate method. The discount is amortized over the remaining concession period using the effective interest rate method (see Note 26).

d. In connection with Maynilad's disputes with MWSS over certain charges billed by MWSS relating to (a) the basis of the computation of interest; (b) MWSS cost of borrowings; and (c) additional penalties, and as further discussed in Note 32, Maynilad has accrued interest on its payable to MWSS accumulating to ₱985.3 million as at December 31, 2011, which was disputed by Maynilad before the Rehabilitation Court. In 2012, in line with Maynilad's negotiations and outstanding offer of US$14 million to fully settle the claim of MWSS, Maynilad reduced the accrued interest payable to MWSS to ₱607.2 million as at December 31, 2012. The reduction of ₱378.1 million in accrued interest payable and the related contingent liability of ₱686.6 million was released to "Other income" (see Note 27) in the 2012 consolidated statement of comprehensive income.

e. Deferred credits represent the net effect of unrealized foreign exchange gain or loss on service concession payable to MWSS, and restatement of foreign currency-denominated interest bearing loans and related interest. Deferred credits are calculated as the difference between the drawdown or rebased rate versus the closing rate. In 2013, Maynilad realized foreign exchange gain amounting to ₱1.0 billion arising from the refinancing of dollar-denominated Corporate Notes which resulted in a significant FCDA refund to the customers. This foreign exchange gain was fully refunded as at June 30, 2014.

f. On October 20, 2011, CIC and CHI executed a Memorandum of Agreement (MOA), wherein, CHI shall grant CIC a right-of-way to certain segments of the property CHI plans to reclaim to allow CIC to construct four feeder roads. The four feeder roads are estimated to cost ₱520 million where CHI shall be liable for approximately fifty (50%) percent of construction costs. Actual contribution of CHI amounting to ₱256.7 million was received by CIC in 2012. As at December 31, 2014, the construction of the feeder roads has not yet started.

g. Interest payable represents present value of the interest due on the Exchangeable Bond (see Note 22).

21. Related Party Transactions

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

Transactions with Related Parties
Transactions with related parties, whether or not conducted under normal terms and conditions similar to those with unrelated parties, are disclosed below. See tabular presentation for the recorded transactions with with these related parties.

- *Transactions with TMC.* The Operation & Maintenance (“O&M”) of the NLEX and Segment 7 is undertaken by TMC pursuant to the O&M Agreement between MNTC and TMC. This agreement was signed on July 6, 2001 and shall be effective for the entire concession period.

  TMC oversees the day-to-day operations of the NLEX, including securing toll collection, depositing of funds to MNTC's accounts, facilitating smooth and uninterrupted flow of traffic, carrying out of routine maintenance, ensuring effective and safe responses to emergency situations.

  In exchange for performing its duties, TMC receives an O&M fee based on a base fee plus a variable fee. The base fee is a fixed annual amount, payable in twelve (12) monthly installments and is escalated on a quarterly basis. The variable fee is the amount assessed and paid by MNTC to TMC for the cost of performing its services over and above the agreed base traffic volume assumption. TMC’s services have been expanded to include the O&M of the NLEX Mindanao Avenue link as well as the Balagtas Interchange and the Bocaue Northbound Exit.

On January 22, 2014, MNTC and TMC agreed on the following base fees effective January 1, 2012: ₱1,470.1 million for the Phase 1 of the NLEX, ₱94.3 million for Segment 7; ₱7.8 million for Dau Interchange; and ₱36.9 million for Segment 8.1. All compensations payable to TMC shall be escalated in accordance with the O&M Agreement with a new Base Date of January 1, 2012.

On August 22, 2014, MNTC and TMC entered into another O&M side letter to amend the Base Fee in view of the VAT inclusion in the revised O&M Base Fee, which should be VAT exclusive, effective January 9, 2012.

Under the corporate guarantee agreement, TMC was required to pay annual guarantee fee to MPTDC equivalent to 2.5% of the gross value of the corporate guarantee issued by MPTDC. The guarantee was issued in favor of MNTC for the liability of TMC under the O&M. The guarantee income is included as "Construction revenue and other income" in the consolidated statement of comprehensive income (see Note 27). Interest also accrues to the receivable from TMC and the related financial guarantee obligation. In connection with the corporate guarantee arrangement, MPTDC recognized a receivable from TMC equivalent to the financial guarantee obligation calculated as the present value of the guaranteed portion of the liability of TMC under the O&M. The receivable on financial guarantee obligation (included as "Due from related parties" in the consolidated statement of financial position) and the financial guarantee obligation amounted to nil and ₱64.8 million as at December 31, 2014 and 2013. The corporate guarantee agreement was terminated effective January 1, 2014.

MPTC and MPTDC perform management, operational and financial advisory services for TMC. MPTC and MPTDC are in the process of formalizing their management agreements with TMC as at February 26, 2015.

See tabular presentation for the recorded transactions with TMC relating to operator's fee, guarantee fee, interest income on receivable on financial guarantee obligation, management fee and the outstanding balances of amounts due from TMC.

- *Transaction with MWCI.* As disclosed in Note 8, MPWIC extended a loan to MWCI in relation to the project with CMWD.

- *Transaction with Landco.* Refer to Notes 8, 10 and 33 for the details of the transaction with Landco.

- *Transactions with PLDT, SMART and Digitel.* The Company's primary telecommunications carriers are PLDT (an associate of FPC) for its wireline and SMART (PLDT's subsidiary) for its wireless services. The Company also has transactions with Digitel Mobile Philippines, Inc., (Digitel) which became a subsidiary of PLDT in 2011. Such services are covered by standard service contracts between the telecommunications carriers and each entity within the Company. Other than these service contracts, the Company also has the following transactions with these telecommunication carriers:

  - *Northern Fiesta Campaign*, a joint sponsorship agreement among MNTC, SMART and PLDT, which is a collaborative tourism promotion of local fiestas and festivals in the North and of safety and traffic discipline along NLEX through print media and through banners and traffic control gates stickers in the NLEX toll plazas.

- *Utilities Facilities Contract*, between MNTC and SMART whereby MNTC provides SMART an access for the construction, operation and maintenance of a cellsite inside the NLEX right of way for an annual fee of ₱0.3 million which shall then be escalated annually at 4.5% starting on the fourth year of the contract and every year thereafter. The contract is effective for a period of five years from April 26, 2010 which may be renewed or extended upon mutual agreement by MNTC and SMART.

- *Agreement for the naming rights of the SMART Connect Interchange*, where MNTC grants SMART the exclusive rights to name the NLEX-Mindanao Avenue Cloverleaf as a SMART Connect Interchange and put up outdoor advertising structures near the interchange. The annual package is based on a predetermined timetable of when the official road signs are progressively built. The base price is from ₱175.0 million to ₱228.2 million and may increase depending on the final features and characteristics of the cloverleaf.

- *Utilities Facilities Contract* between MNTC and PLDT for the Fiber Optic Overlay along Phase I and Phase II Segment 8.1 of the NLEX. PLDT pays an annual fee presented as “Others” under “Contruction costs and other expenses”.

- *Advertising arrangements* between MNTC and Digitel related to various advertising mediums which include rental, material production, installation and maintenance at several locations along NLEX covering the period up to November 2013. Income from this arrangement is presented in Note 27 as other income.

- *MNTC’s plan asset invested in unsecured notes issued by PLDT and SMART*. MNTC’s plan asset included unsecured Fixed Rate Corporate Notes (FXCNs) of PLDT amounting to ₱2.4 million as at December 31, 2012. The PLDT FXCNs were disposed of in 2013. As at December 31, 2014 and 2013, MNTC’s plan assets included unquoted and unsecured term loans of SMART amounting to ₱0.9 million. The SMART term loans are due in 2022 and earns interest at 6.26% per annum.

- Other transactions with PLDT include various administrative assistance extended to the Company and rentals from lease of office space.

▪ *Transactions with DM Consunji Inc.* Maynilad, entered into certain construction contracts with D.M. Consunji, Inc. (Consunji), a subsidiary company of DMCI (a non-controlling shareholder in MWHC), in relation to the provision of engineering, procurement and construction services to Maynilad.

▪ *Transactions with Meralco*. Meralco, sells electricity to the Company for the Company’s facilities within Meralco’s franchise area. The rates charged by Meralco are the same mandated rates by the ERC applicable to customers within the franchise area.

On April 13, 2012, CVHMC entered into a Memorandum of Agreement (MOA) with Meralco for the operation and management of the Meralco Corporate Wellness Center (Wellness Center), an outpatient diagnostic and consultation center for its employees and their dependents. In accord of the contract, CVHMC agreed to take steps to improve healthcare services, expand diagnostic services, enhance customer services levels, increase operational efficiencies, rationalize equipment upgrade and renovate and improve infrastructure. Income recognized for this arrangement in 2014 and 2013 amounted to ₱42.7 million and ₱41.1 million included as part of hospital revenue in the consolidated statements of comprehensive income. The total revenue comprises of retainer’s fee, pharmacy handling and manpower and administrative reimbursement plus margin.

- *Transactions with Beacon Electric*. Refer to Note 11 for other related parties transactions with respect to MPIC's acquisition of Meralco shares from Beacon Electric and investment in Beacon Electric. Due to Beacon Electric as at December 31, 2014 pertains to the outstanding amount for the purchase price of Meralco shares acquired in June 2014 (see Note 11).

- *Transactions with ESC.* On December 5, 2007, MNTC engaged the services of ESC to assist MNTC in increasing the usage of the electronic toll collection (ETC) facility along the NLEX which ended on April 30, 2010. On November 24, 2010, MNTC and ESC signed the Supplemental Agreement to the Service Agreement extending the services of ESC as ETC service provider for another eight years effective on May 1, 2010 with a five year extension. In accordance with the Supplemental Agreement, MNTC will pay ESC an annual fixed fee of ₱14.0 million for Class 1 vehicles and annual fixed fee of ₱5.0 million for Class 2 and 3 vehicles, which are to be maintained and escalated every year for labor index and consumer price index (CPI). MNTC shall also pay for variable fees of ₱0.75 and ₱2.5 per transaction for Class 1 vehicles depending on the number of transactions achieved during the year compared with prior year; and ₱3.0 and ₱4.0 per transactions for Class 2 and 3, respectively, which are also to be maintained and escalated every year for labor index and CPI.

  Pursuant to the Service Agreement, amounts due to MNTC arising from the use of Easytrip tags in the NLEX shall be remitted by ESC to the designated MNTC bank accounts within seven (7) days immediately following the date when any vehicle using the Easytrip tags pass through the electronic payment lane of the NLEX. Any amount due to ESC arising from the reloading of the Easytrip tags in the NLEX shall be remitted by MNTC to the designated ESC bank accounts within seven (7) days immediately following the date of reloading.

- *Other transactions. Other transactions with related parties* Metro Pacific Investments Foundation, Inc. (MPIFI), Ideaspace Foundation, Inc. (Ideaspace; Philippines' largest privately-funded idea incubator supported by FPC), Lucena Land Corporation (LLC; a subsidiary of Landco), FPC and others mainly relate to advances to finance various projects as well as intercompany charges for share in certain operating and administrative advances.

The following table provides the total amount of transactions with related parties for the years ended December 31, 2014, 2013 and 2012 (amounts in millions):

Name		Management Income (see Note 27)	Guarantee Income	Interest Income (see Note 26)	Income from Utility Facilities (see Note 27)	Income from Advertising (see Note 27)	Dividend Income from Preferred shares (see Notes 11 and 27)	Construction Cost (see Note 27)	Operator's Fee (see Note 23)	Outside services	Utilities (see Notes 23 and 24)	Rentals (see Notes 23 and 24)	Provision for Impairment (see Notes 27 and 32)
Associates and Joint Venture:													
TMC	**2014**	**₱56**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**(₱1,711)**	**₱–**	**₱–**	**₱–**	**₱–**
	2013	56	24	11	–	–	–	–	(1,532)	–	–	–	–
	2012	60	23	11	–	–	–	–	(1,493)	–	–	–	–
PMHI	**2014**	–	–	–	–	–	–	–	–	–	–	**–**	**–**
	2013	–	–	–	–	–	–	–	–	–	–	–	(164)
	2012	–	–	–	–	–	–	–	–	–	–	–	(9)
	2014	–	–	–	–	–	**405**	–	–	–	–	**–**	**–**
Beacon Electric	2013	–	–	–	–	–	405	–	–	–	–	–	–
	2012	–	–	–	–	–	561	–	–	–	–	–	–
Meralco	**2014**	–	–	–	–	–	–	–	–	–	**(1,006)**	**–**	**–**
	2013	–	–	–	–	–	–	–	–	–	(974)	–	–
	2012	–	–	–	–	–	–	–	–	–	(948)	–	–
ESC	**2014**	**–**	**–**	**–**	**–**	**1**	**–**	**–**	**–**	**54**	–	**–**	**–**
MWCI	2013	–	–	4	–	–	–	–	–	–	–	–	–
Other related parties:													
SMART	**2014**	–	–	–	–	**58**	–	–	–	–	**(33)**	**–**	**–**
	2013	–	–	–	–	59	–	–	–	–	(33)	–	–
	2012	–	–	–	–	38	–	–	–	–	(23)	–	–
PLDT	**2014**	–	–	–	**2**	–	–	–	–	–	**(46)**	**(15)**	**–**
	2013	–	–	–	2	–	–	–	–	–	(41)	(11)	–
	2012	–	–	–	2	–	–	–	–	–	(50)	(11)	–
Digitel	**2014**	–	–	–	–	**11**	–	–	–	–	–	**–**	**–**
	2013	–	–	–	–	8	–	–	–	–	–	–	–
	2012	–	–	–	–	1	–	–	–	–	–	–	–
DM Consunji, Inc.	**2014**	–	–	–	–	–	–	**(583)**	–	–	–	**–**	**–**
	2013	–	–	–	–	–	–	(504)	–	–	–	–	–
	2012	–	–	–	–	–	–	(1,100)	–	–	–	–	–
Total	**2014**	**₱56**	**₱–**	**₱–**	**₱2**	**₱70**	**₱405**	**(₱583)**	**(₱1,711)**	**(₱54)**	**(₱1,085)**	**(₱15)**	**₱–**
	2013	56	24	15	2	67	405	(504)	(1,532)	–	(1,048)	(11)	(164)
	2012	60	23	11	2	39	561	(1,100)	(1,493)	–	(1,021)	(11)	(9)

Outstanding balances of transactions with related parties are carried in the consolidated statement of financial position under the following accounts provided below (amounts in millions). Except for the noncurrent portion of the amount due from TMC, trade receivable, accounts payable and due to/from related parties are due and demandable, non-interest bearing, unsecured and requires cash settlement.

The noncurrent portion of the amount due from TMC is due more than 1 year, unsecured, interest-bearing at 12% per annum and requires cash settlement. Terms and conditions of the notes receivable from Landco are provided in Note 8.

	Accounts Receivable (see Note 8)		Notes Receivable (see Note 8)		Due from related parties		Accounts payable and other current liabilities (see Note 16)		Due to related parties	
Company	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013
Associates and Joint Venture										
TMC - current	**₱–**	₱–	**₱–**	₱–	**₱106**	₱107	**₱436**	₱337	**₱–**	₱–
TMC - noncurrent	**–**	–	**–**	–	**–**	65	**–**	–	**–**	–
Meralco	**15**	12	**–**	–	**–**	2	**21**	26	**–**	–
Beacon	**–**	–	**–**	–	**5**	5	**–**	–	**7,188**	–
MWCI	**–**	5	**–**	101	**–**	–	**–**	–	**–**	–
ESC	**404**	–	**–**	–	**–**	–	**44**	–	**–**	–
Other related parties:										
Digitel	**–**	4	**–**	–	**–**	–	**–**	–	**–**	–
DM Consunji Inc.	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
FPC	**–**	–	**–**	–	**4**	88	**–**		**–**	–
FPCL	**–**	–	**–**	–	**–**	–	**–**	–	**–**	1
Ideaspace	**–**	–	**–**	–	**2**	–	**–**	–	**–**	1
Landco	**–**	–	**–**	620	**44**	44	**–**	–	**15**	15
LLC	**–**	–	**–**	–	**7**	7	**–**	–	**–**	–
MPIF	**–**	–	**–**	–	**1**	1	**–**	–	**–**	–
PLDT	**1**	1	**–**	–	**–**	–	**7**	1	**–**	–
Smart	**53**	9	**–**	–	**–**	–	**1**	1	**72**	72
Others	**4**	–	**–**	–	**2**	6	**–**	–	**4**	4
	477	31	**–**	721	**171**	325	**509**	365	**7,279**	93
Less allowance for impairment	**–**	–	**–**	–	**31**	31	**–**	–	**–**	–
Total	**477**	31	**–**	721	**140**	294	**509**	365	**7,279**	93
Less current portion	**477**	31	**–**	266	**140**	229	**509**	365	**7,279**	93
	₱–	₱–	**₱–**	₱455	**₱–**	₱65	**₱–**	₱–	**₱–**	₱–

Directors' Remuneration
Annual remuneration of the directors amounted to ₱3.8 million, ₱7.0 million and ₱8.2 million in 2014, 2013 and 2012, respectively.

Non-executive directors are entitled to a per diem allowance of ₱50 thousand for each attendance in the Parent Company's BOD meetings. The Parent Company's By-Laws provide that an amount equivalent to 1.0% of net profit after tax of the Parent Company shall be allocated and distributed among the directors of the Parent Company who are not officers of the Parent Company or its subsidiaries and affiliates, in such manner as the BOD may deem proper. No accruals were made with respect to this scheme for the years ended December 31, 2014, 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.

Compensation of Key Management Personnel
Compensation of key management personnel of the Company is as follows:

	2014	2013	2012
		(In Millions)	
Short-term employee benefits	**₱867**	₱749	₱746
Share-based payment (see Note 31)	**64**	18	12
Post employment benefits - Retirement costs	**54**	47	45
Other long-term benefits:			
LTIP expense (see Note 25)	**440**	411	165
Others	**5**	8	4
	₱1,430	₱1,233	₱972

22. Equity

Details of authorized and issued capital stock are in the following tables:

		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, 2014, 2013 and 2012		28,500,000,000	1.00	5,000,000,000	0.01	1,500,000,000	1.0

(Forward)

		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
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		–		–	
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		–		–	
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		–		–	
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		5,000,000,000		–	
Various	Exercise of stock option plan	32,310,000	2.12*	–	–	–	–
As at December 31, 2010		20,160,464,522		5,000,000,000		–	
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		5,000,000,000		–	
Various	Exercise of stock option plan	20,530,000	2.41*	–	–	–	–
As at December 31, 2012		24,613,823,752		5,000,000,000		–	
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		5,000,000,000		–	
Various	Exercise of stock option plan	20,297,000	2.88*	–	–	–	–
As at December 31, 2014		26,046,270,752		5,000,000,000			–

**Weighted average exercise price.*

Authorized Capital Stock

On May 31, 2011, the SEC approved 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, 5.0 billion Class A Preferred Shares and 1.5 billion Class B Preferred Shares with a par value of ₱1.0 per share.

Common Shares

The increase in common shares for the years ended 2014, 2013 and 2012 resulted from the following transactions:

- At various dates in 2014, 2013 and 2012, a total of 20.30 million, 82.15 million and 20.53 million, common shares, respectively, were issued in connection with the Parent Company stock option plan (see Note 31).

- On January 22, 2013, MPIC raised ₱6.12 billion in an overnight placement of 1.33 billion in new MPIC shares worth ₱4.60 per share. The shares came from the shareholdings of MPHI. As a result of this transaction, MPHI's interest in MPIC was reduced to 55.8% from 59.0% shareholding prior to this transaction.

In February 2015, MPIC raised ₱8.9 billion in an overnight placement of 1,812,000,000 common shares (see Note 39).

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 in 2014, 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:

				Number of holders of securities as of December 31,	
Issue	Offer price	Date of SEC approval	Number of registered shares securities	**2014**	2013
Tender offer to shareholders of Metro Pacific Corporation (MPC) covering common shares and 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*	**1,334**	1,358
			Subscription warrants of 170,636,298	–	–

**Covered the 2006 registered shares only*

The shares relating to the transaction above were exchanged in the PSE on December 15, 2006, effectively listing MPIC via listing by way of Introduction. Out of the total warrants available for conversion, 143,976,756 warrants were converted as of December 31, 2007 and 2,549,211 warrants expired on December 15, 2007.

Retained Earnings and Cash Dividends
Of the Company's consolidated retained earnings, ₱12,439.4 million and ₱8,773.5 million is available for dividend declaration as at December 31, 2014 and 2013, respectively. These amounts represent the Parent Company's retained earnings available for dividend declaration calculated based on the regulatory requirements of the Philippine SEC. The difference between the consolidated retained earnings and the Parent Company's retained earnings available for dividend declaration primarily consist of undistributed earnings of subsidiaries and equity method investees. Stand-alone earnings of the subsidiaries and share in net earnings of equity method investees are not available for dividend declaration by the Parent Company until declared by the subsidiaries and equity investees as dividends.

Dividends paid and declared and proposed are as follows:

	2014	2013	2012
		(In Millions)	
Paid and declared:			
Final dividend in respect of the previous financial year approved and paid during the following interim period			
Common shareholders (₱0.022, ₱0.02 and ₱0.015 per share in 2014, 2013 and 2012, respectively)	**₱572.6**	₱519.9	₱368.9
Class A preferred shareholders	**2.5**	2.5	1.8
Interim dividend declared and paid during the interim period			
Common shareholders (₱0.026, ₱0.015 and ₱0.012 per share in 2014, 2013 and 2012, respectively)	**677.1**	390.3	295.2
Class A preferred shareholders	**3.7**	2.5	2.5
Special one off dividend:			
Common shareholders (₱0.04 per share in 2014)	**1,041.1**	–	–
	₱2,297.0	₱915.2	₱668.4
Proposed final dividend:			
Common shareholders (₱0.037, ₱0.022 and ₱0.02 per share in 2014, 2013 and 2012, respectively)	**₱1,030.8**	₱572.6	₱519.9
Class A preferred shareholders	**1.3**	2.5	2.5
	₱1,032.1	₱575.1	₱522.4

Proposed final dividends on both common and Class A preferred shares were declared after end of reporting date and as such, are not recognized as a liability as at year-end.

On February 26, 2015, the BOD approved the declaration of the cash dividends of ₱0.037 per common share in favor of the Parent Company's shareholders of record as at March 25, 2015 with payment date of April 17, 2015. On the same date, the BOD approved the declaration of cash dividends amounting to ₱1.25 million in favor of the preferred shareholders.

Equity Reserves
This account consists of:

	2014	2013	2012
		(In Millions)	
Effect of MPIC acquisition of NOHI shares [(a)]	**₱690**	₱690	₱690
Equity transactions[(b)]:			
Disposal or dilution of equity interest in a subsidiary[(b.1)]	**7,809**	1,842	(122)
Acquisition of NCI[(b.2)]	**(2,377)**	31	31
Other reserve from ESOP[(c)] (see Note 31)	**123**	80	108
	₱6,245	₱2,643	₱707

a. This relates to the difference between the par value of NOHI shares in exchange for MPIC shares in relation to the Parent Company's acquisition of NOHI shares through share swap in 2006.

b. "Equity transactions" represent impact on the equity attributable to owners of the Parent Company when the Parent Company's ownership interest in its subsidiaries increases or decreases but does not result in loss of control:

   b.1 *Disposal or dilution of equity interest in a subsidiary*

   i. On February 13, 2013, MCNK JV Corporation (MCNK) completed and fully paid its total subscription of 678,470,727 common shares of stock of MWHC at a total subscription price of ₱10,400 million giving it 21.54% equity interest in MWHC. With the entry of MCNK as an investor in MWHC, the Company's effective ownership in Maynilad decreased from 56.81% as at December 31, 2012, to 52.80% as at December 31, 2013. MCNK is 90.0% owned by Marubeni Corporation, a company incorporated in Japan and 10% owned by MAPL Holdings B.V., a company incorporated in Netherlands.

   ii. On July 2, 2014, GIC, through Arran Investment Private Limited, invested ₱3.7 billion for a 14.4% stake in MPHHI and paid ₱6.5 billion as consideration for an Exchangeable Bond which can be exchanged into a 25.5% stake in MPHHI in the future, subject to certain conditions. This transaction was accounted for in MPIC's consolidated financial statements as an equity transaction with the amount recognized in 'equity reserve' representing the difference between (a) the total net proceeds from GIC's investments in MPHHI shares and MPIC's Exchangeable Bond aggregating to ₱9.7 billion (net of deferred tax and transaction costs) and (b) sum of the interest payable of ₱149.2 million on the Exchangeable Bond and carrying value of the non-controlling interest of ₱3.5 billion.

   b.2 *Acquisition of NCI.* In 2014, MPTDC increased its ownership in MNTC (see Note 4).

c. This reserve 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 31 for further details of these plans.

Other Comprehensive Income Reserve

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

	2014	2013	2012
Share in the OCI of equity method investees	**₱840**	₱725	₱558
Fair value changes on AFS financial assets	**35**	210	25
Fair value changes on cash flow hedges	**(1)**	(5)	(11)
Actuarial losses	**(8)**	(3)	(52)
Cumulative translation adjustment	**(30)**	–	–
Revaluation reserve and others	**–**	–	(33)
	₱836	₱927	₱487

Refer to Note 28 for the movements and analysis of the other comprehensive income.

23. Costs of Sales and Services

This account consists of:

	2014	2013	2012
		(In Millions)	
Amortization of service concession assets (see Note 13)	**₱2,958**	₱2,818	₱3,073
Cost of inventories* (see Note 9)	**2,375**	2,033	1,839
Personnel cost (see Note 25)	**2,366**	2,025	1,671
Operator's fees (see Note 21)	**1,877**	1,707	1,493
Utilities (see Note 21)	**1,120**	1,037	977
Repairs and maintenance	**617**	592	539
Contracted services	**448**	417	548
PNCC fees (see Note 33)	**443**	418	400
Depreciation and amortization (see Notes 14 and 15)	**312**	288	265
Provision for heavy maintenance (see Note 17)	**225**	167	107
Rentals (see Note 21)	**140**	123	144
Insurance	**65**	51	43
Toll collection and medical services	**16**	18	20
Others	**120**	151	49
	₱13,082	₱11,845	₱11,168

**Includes cost of medical services, materials and supplies.*

24. General and Administrative Expenses

This account consists of:

	2014	2013	2012
		(In Millions)	
Personnel costs (see Note 25)	**₱2,532**	₱2,397	₱2,152
Depreciation and amortization (see Notes 14 and 15)	**737**	659	507
Outside services	**645**	639	648
Taxes and licenses	**503**	338	307
Professional fees	**459**	392	163
Transportation and travel	**268**	248	208
Advertising and promotion	**181**	106	130
Utilities (see Note 21)	**171**	149	108
Repairs and maintenance	**164**	127	120
Administrative supplies	**129**	102	112
Collection charges	**122**	109	–
Entertainment, amusement and representation	**101**	144	109
Provision for corporate initiatives and other provisions	**99**	159	121
Insurance	**84**	85	80
Rentals (see Note 21)	**81**	62	49
Provision for doubtful accounts (see Note 8)	**67**	160	158
Public relation	**60**	78	60
Commissions	**25**	15	121
Miscellaneous	**395**	292	231
	₱6,823	₱6,261	₱5,384

25. Personnel Costs and Employee Benefits

This account consists of:

	2014	2013	2012
		(In Millions)	
Salaries and wages	**₱3,162**	₱3,022	₱2,701
LTIP expense (see Notes 16 and 20)	**440**	411	165
Retirement costs (gain)	**(64)**	198	181
Provision for ESOP (see Note 31)	**64**	18	13
Severance cost	**524**	–	–
Other employee benefits	**772**	773	763
	₱4,898	₱4,422	₱3,823
Cost of sales and services (see Note 23)	**₱2,366**	₱2,025	₱1,671
General and administrative expenses (see Note 24)	**2,532**	2,397	2,152
	₱4,898	₱4,422	₱3,823

Long-Term Incentive Plan (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 for MPIC's LTIP and 2012 to 2014 for MPTC's LTIP) with payment intended to be made at the end of the 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 respective boards of directors of the entities of the Company.

As at December 31, 2014, 2013 and 2012, the accrued LTIP is as follows:

	2014	2013	2012
		(In Millions)	
Balance at beginning of year	**₱455**	₱446	₱281
Current service cost	**433**	407	159
Interest	**9**	2	6
Actuarial loss (gain)	**(1)**	2	–
Payment	**(46)**	(402)	–
Balance at end of year	**₱850**	₱455	₱446
Current (see Note 16)	**₱228**	₱46	₱407
Noncurrent (see Note 20)	**622**	409	39
	₱850	₱455	₱446

On October 7, 2011 and December 18, 2013, MPIC entered into an Investment Management Agreement (IMA) with a Trustee Bank to fund the 2010-2012 and 2013-2015 LTIP programs, respectively. The LTIP fund will continue to accumulate until the LTIP target payout. 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, 2014 and 2013, the balance of the LTIP fund for the 2013-2015 LTIP program amounted to ₱344.9 million and ₱131.0 million, respectively, and presented as "Deposits for LTIP" under Other noncurrent assets in the consolidated financial statements (see Note 15).

Pension

Regulatory Environment. 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 entities of the Company operate in the Philippines, they provide for either a defined contribution retirement plan or a defined benefit plan that consider the minimum benefit guarantee mandated under R.A. 7641.

Defined Contribution Retirement Plan. As at December 31, 2014, the retirement benefits of employees of MPIC, MPTC, MPTDC and CVHMC are provided through a defined contribution scheme. Each of these companies operates its own retirement plan. The retirement plan is a contributory plan wherein the employer 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 plans are being managed and administered by these companies' respective compensation committee. Each entity has an appointed trustee bank which holds and invests the assets of the retirement fund in accordance with the provisions of the retirement plan.

Contributions to the retirement 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 employer 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 employees' monthly salary. Although the retirement plans of these entities have a defined contribution format, MPIC, MPTC and MPTDC are covered under R.A. 7641, which provides a defined benefit minimum guarantee for its qualified employees. 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, MPIC, MPTC and MPTDC account 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 MPIC, MPTC and MPTDC's retirement plans and are provided together with the defined benefit retirement plans of the other subsidiaries of the Parent Company.

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.

Defined Benefit Retirement Plan. These plans provide for a lump sum benefit payments upon retirement.

Maynilad, MNTC, RMCI, CLDH and AHI have funded noncontributory defined benefit retirement plan covering all their eligible regular employees. The retirement benefit plans of AHI, RMCI, Maynilad and MNTC are funded and managed as follows:

- RMCI's retirement fund is being monitored by its Treasury Officer under the supervision of the RMCI's Chief Financial Officer.
- The plan assets of AHI, Maynilad and MNTC are maintained in trust accounts with local banks.

While there are no minimum funding standards in the Philippines, the companies annually engage the services of an actuary to conduct a valuation study to determine the retirement obligations and the level of funding to ensure that the assets currently in the fund would be sufficient to cover expected benefit payments.

As at December 31, 2014, CIC, EMHMC and DLSMC each has an unfunded, noncontributory defined benefit retirement plan covering substantially all of their respective employees. While there are no minimum funding standards in the Philippines, these entities also annually engage the services of an actuary to conduct a valuation study to determine the retirement obligations and ensure that should there be maturing obligations in the immediately succeeding periods, these are appropriately considered in the budgeting process.

Retirement Costs. The following tables summarize the components of the retirement costs under the defined benefit plans and the defined contribution plans included in "Personnel costs" under "Cost of services" and "General and administrative expenses" account in the consolidated statement of comprehensive income.

	2014	2013	2012
		(In Millions)	
Current service cost	**₱173**	₱180	₱164
Net interest cost	**20**	17	17
Past service cost	**–**	1	–
Curtailment gain	**(257)**	–	–
Retirement costs for the year	**(₱64)**	₱198	₱181
Actual return on plan assets	**₱91**	₱77	₱158

In line with its strategic goal to improve operational efficiency, Maynilad offered a Special Opportunity Program (SOP), a redundancy and right-sizing program in 2014. This program offered a separation package based on the number of years, or fractions thereof, on a pro-rated basis, of service with Maynilad plus monetary equivalent of some benefits. Total severance for the separated employees amounted to ₱524.0 million, of which, ₱263.0 million is paid out of Maynilad's funds while the remaining was paid out of Maynilad's retirement plan asset. The reduction in the number of employees resulted in a curtailment gain of ₱257.3 million.

Pension Assets and Accrued Retirement Costs. Reconciliation of net liability/(asset) recognized in the consolidated statement of financial position as at December 31 follows:

	2014	2013	2012
		(In Millions)	
Present value of defined benefit obligation (PVDBO)	**₱1,589**	₱1,589	₱1,452
Fair value of plan assets (FVPA)	**1,171**	1,280	1,174
Net liability	**₱418**	₱309	₱278
Pension asset[(a)]	**(₱22)**	(₱24)	(₱49)
Accrued retirement liability [(b)]	**440**	333	327
Net liability	**₱418**	₱309	₱278

[(a)]*Included under "Other noncurrent asset" account (see Note 15).*
[(b)]*Included under "Deferred credits and other long-term liabilities" (see Note 20).*

Changes in PVDBO are as follows:

	2014	2013	2012
		(In Millions)	
PVDBO at beginning of the year	**₱1,589**	₱1,452	₱1,175
PVDBO from acquired subsidiaries	**–**	48	43
Interest cost	**73**	86	78
Current service costs	**173**	180	164
Past service cost	**–**	1	–

(Forward)

	2014	2013	2012
		(In Millions)	
Benefits paid from:			
Plan asset	**(₱7)**	(₱30)	(₱26)
Company funds	**(20)**	(19)	(13)
Curtailment	**(257)**	–	–
Actuarial losses (gains) due to:			
Changes in financial assumptions	**48**	(119)	25
Changes in demographics	**(5)**	(13)	(16)
Experience adjustments	**(5)**	3	22
PVDBO at end of the year	**₱1,589**	₱1,589	₱1,452

Changes in FVPA are as follows:

	2014	2013	2012
		(In Millions)	
FVPA at beginning of the year	**₱1,280**	₱1,174	₱939
FVPA from acquired subsidiaries	**–**	6	6
Interest income included in net interest cost	**53**	69	61
Benefits paid	**(270)**	(30)	(26)
Contributions by employer	**72**	53	97
Remeasurement in OCI from return on plan asset excluding amount included in net interest cost	**36**	8	97
FVPA at end of the year	**₱1,171**	₱1,280	₱1,174

Maynilad, CIC, EMHMC, AHI, CVHMC and DLSMC are not expecting any contribution to their respective retirement plan assets for 2015. MPIC, MPTC, MNTC, RMCI and CLDH expect to make a total of ₱74.7 million of expected contribution to their respective retirement fund in 2015.

The major categories of the plan assets are the following:

	2014	2013
	(In Millions)	
Philippine bonds and treasury notes	**₱567**	₱577
Philippine equity securities	**271**	316
Cash in bank	**162**	221
Unit trust funds	**87**	74
Philippine life insurance plans	**21**	17
Receivables and other assets	**63**	75
	₱1,171	₱1,280

The plan asset's carrying amount approximates its fair value since these are short-term in nature or marked-to-market. Plan assets consist of the following:

- *Philippine bonds and treasury notes.* Consist of government issued securities and corporate bonds and subordinated notes. Government securities consist primarily of fixed-rate treasury notes and retail treasury bonds that bear interest ranging from 2.3% to 9.4% (2014) and 3.5% to 9.4% (2013) and have varying maturities of up to 2037 as at December 31, 2014 and 2013.

- *Philippine equity securities*. This substantially pertains to investment in shares of various entities (not related parties of the Company) which stocks are traded in the PSE.

- *Unit trust funds.* Include mutual funds invested in quoted shares.

- *Receivables and others assets.* Include a seven year certificate of deposit with interest of 5.25% and certain unsecured fixed-rate notes of a related party and unsecured notes of an unaffiliated company with interests ranging from 6.3% to 6.7%.

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 trust managers.

- *Share Price Risk.* Exposure arises from holdings of shares of stock being traded at the PSE. The price risk emanates from the volatility of the stock market. Policy is to limit investments 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.

Actuarial assumptions. Principal assumptions used as at December 31, 2014 and 2013 in determining retirement obligations are shown below:

	2014	2013
	(In Percentage)	
Annual discount rate	**4.09 to 5.19**	3.78 to 6.38
Future range of annual salary increases	**3.00 to 10.00**	3.00 to 10.00

The discount rate represents the range of single weighted average discount rate used by each of the entities within the group 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.

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 as at December 31 would have increased (decreased) as a result of change in the respective assumptions by:

	% Change	**2014**	2013
		(In Millions)	
Annual discount rate	+ 1.0%	**(₱125)**	(₱124)
	- 1.0%	**149**	148
Future range of annual salary increases	+ 1.0%	**140**	142
	- 1.0%	**(120)**	(120)

The following table provides for the maturity analysis of the undiscounted benefit payments as at December 31:

	2014	2013
	(In Millions)	
Less than one year	**₱155**	₱136
More than one year to five years	**481**	676
More than five to ten years	**1,035**	1,201
Beyond ten years	**6,264**	5,602
Total expected benefit payments	**₱7,935**	₱7,615

The average duration of the defined benefit obligation is 20 years as at December 31, 2014 and 2013.

26. **Interest Income and Interest Expense**

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

	2014	2013	2012
		(In Millions)	
Cash and cash equivalents, short-term deposits and restricted cash (see Note 7)	**₱253**	₱295	₱505
Notes receivable (see Note 8)	**67**	96	100
Investments in bonds and treasury notes (see Note 10)	**50**	39	35
Accretion on noncurrent financial assets	**15**	20	–
Receivable on financial guarantee (see Note 21)	**–**	11	11
Others	**–**	1	1
	₱385	₱462	₱652

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

	2014	2013	2012
		(In Millions)	
Notes payable and long-term debt (see Note 19)	**₱3,267**	₱3,093	₱2,793
Accretion on service concession fees payable (see Note 18)	**644**	659	644
Accretion on financial liabilities (see Note 20)	**215**	140	10
Amortization of debt issue costs (see Note 19)	**42**	46	93
Financial guarantee obligation (see Note 21)	**30**	11	11
Others	**103**	52	128
	₱4,301	₱4,001	₱3,679

27. Construction revenue and other income and Construction costs and other expenses

	2014	2013	2012
		(In Millions)	
Construction revenue and other income:			
Construction revenue (see Notes 3 and 13)	**₱6,670**	₱5,557	₱6,731
Dividend income (see Notes 10 and 11)	**471**	405	561
Gain on sale of investment (see Note 10)	**222**	–	–
Reversal of provision for heavy maintenance (see Note 17)	**118**	–	–
Management fees (see Note 21)	**103**	153	82
Income from advertising (see Note 21)	**95**	64	45
Rental income	**94**	95	82
Deferred credits and foreign exchange gains - net	**44**	763	886
Income from toll service and utility facilities (see Note 21)	**24**	23	19
Reversal of provisions and accruals	**20**	63	99
Reversal of provisions for doubtful accounts	**–**	196	–
Guarantee fees (see Note 21)	**–**	24	23
Gain on bargain purchase (see Note 4)	**–**	22	–
Reversal of contingent liabilities [a]	**–**	–	687
Reversal of accrued interest payable to MWSS [a]	**–**	–	378
Others [b]	**630**	748	522
	₱8,491	₱8,113	₱10,115
Construction costs and other expenses:			
Construction costs (see Notes 3 and 13)	**₱6,501**	₱5,432	₱6,608
Refinancing costs (see Notes 16 and 19)	**–**	814	331
Other provisions (see Note 32)	**1,049**	845	785
FCDA (see Note 20)	**110**	174	960
Adjustment to amortized cost due to change in expected cash flows [c]	**–**	–	374
Mark-to-market loss on derivatives (see Note 36)	**–**	–	45
Others [d]	**227**	294	136
	₱7,887	₱7,559	₱9,239

a. As discussed in Note 3, in light of the Maynilad's current negotiation and outstanding offer of US$14.0 million to fully settle the claim of MWSS, Maynilad reversed ₱378.1 million of accrued interest and the Company derecognized the recorded contingent liability amounting to ₱686.6 million resulting from the application of the accounting for business combinations when the Company acquired control of Maynilad.

b. "Others" under "Construction revenue and other income" included gains on sale of investments, property and equipment, and real estate inventory, reversal of provision for decline in value of an asset, adjustment on projected to actual payments, gain on remeasurements of existing investments, other recoveries and incidental income.

c. Relates to portion of the unamortized debt issue cost that was expensed as a result of change in expected cash flow arising from refinancing of various long term debt.

d. "Others" under "Construction costs and other expenses" consists of provision for decline in value of an asset, loss on remeasurements of previously held interest, loss on sale and conveyance of certain assets and other incidental expenses.

28. Other Comprehensive Income

Other comprehensive income recognized in the consolidated statements of comprehensive income consists of the following:

	2014	2013	2012
		(In Millions)	
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Share in the OCI of an equity method investee coming from (see Note 11):			
Fair value changes in cash flow hedges	**₱135**	(₱181)	₱–
Exchange differences on translation of foreign operations	**32**	(21)	–
Exchange differences on translation of foreign operations	**(23)**	–	–
Fair value changes of cash flow hedges	**8**	11	11
Change in fair value of AFS financial assets (see Note 10)	**(178)**	199	17
Income tax	**2**	(22)	(7)
	(24)	(14)	21
Items not to be reclassified to profit or loss in subsequent periods:			
Share in the actuarial gains on defined benefit plans of equity method investees (see Note 11)	**(52)**	369	469
Re-measurement gains (losses) on defined benefit plans (see Note 25)	**(1)**	137	68
Revaluation increment	**–**	(94)	94
Income tax	**1**	(14)	(50)
	(52)	398	581
	(₱76)	₱384	₱602

29. Income Tax

a. The Company's deferred tax components as at December 31 are as follows:

	2014	2013
	(In Millions)	
Provisions	**₱281**	₱619
Accrued retirement cost and other accrued expenses	**547**	156
NOLCO	**165**	203
Lease payable	**117**	113

(Forward)

	2014	2013
	(In Millions)	
Debt issue cost	**₱51**	₱42
MCIT	**32**	20
Unamortized past service cost	**42**	12
Excess of fair values over book values	**(3,114)**	(3,140)
Timing difference in depreciation method	**(681)**	(555)
Equity transaction (see Note 22)	**(483)**	–
Unamortized foreign exchange losses capitalized as service concession assets	**(20)**	(21)
Improvement of facilities	**(3)**	(5)
Others	**2**	–
Net deferred tax assets/(liabilities)	**(₱3,064)**	(₱2,556)

Reflected in the Statement of Financial Position:

	2014	2013	Net Movement
		(In Millions)	
Deferred tax assets (see Note 15)	**₱1,164**	₱1,218	(₱54)
Deferred tax liabilities	**(4,228)**	(3,774)	(454)
	(₱3,064)	(₱2,556)	(₱508)

Net movement recognized in:	
Profit or loss	(₱48)
Equity (OCI and Equity reserve)	(460)
	(₱508)

As at December 31, 2013, deferred taxes included balances of acquired subsidiaries amounting to ₱165.3 million of net deferred tax liability (see Note 4).

b. The Company has the following temporary differences for which no deferred tax assets have been recognized since management believes that it is not probable that these will be realized in the near future.

	2014	2013
	(In Millions)	
NOLCO	**₱4,203**	₱3,762
Allowance for doubtful accounts	**1,267**	1,267
Provisions and other accruals	**635**	54
Accrued retirement cost and others	**—**	82
MCIT	**18**	17
	₱6,123	₱5,182

c. As at December 31, 2014 and 2013, NOLCO of the Parent Company and various subsidiaries can be carried forward and claimed as deduction from regular taxable income as follows:

Year Incurred	Amount	Acquisition	Addition	Expired	Application	Balance	Expiry Year
					(In Millions)		
2014	₱–	₱–	₱1,635	₱–	₱–	₱1,635	2017
2013	1,454	–	–	–	(7)	1,447	2016
2012	1,670	–	–	–	–	1,670	2015
2011	1,314	–	–	(1,188)	(126)	–	2014
	₱4,438	₱–	₱1,635	(₱1,188)	(₱133)	₱4,752	

d. The following carryforward benefits of MCIT can be claimed as tax credits against future income taxes payable:

Year Incurred	Amount	Acquisition	Addition	Expired	Application	Balance	Expiry Year
					(In Millions)		
2014	₱–	₱–	₱17	₱–	₱–	₱17	2017
2013	18	–	–	–	–	18	2016
2012	15	–	–	–	–	15	2015
2011	4	–	–	(4)	–	–	2014
	₱37	₱–	₱17	(₱4)	₱–	₱50	

e. The current provision for income tax for year ended December 31 consists of the following:

	2014	2013	2012
		(In Millions)	
RCIT	**₱1,086**	₱978	₱977
MCIT	**19**	18	7
Final tax	**55**	65	113
	₱1,160	₱1,061	₱1,097

The reconciliation of provision for income tax computed at the statutory income tax rate to provision for income tax as shown in the consolidated statements of comprehensive income is summarized as follows:

	2014	2013	2012
		(In Millions)	
Income before income tax	**₱13,782**	₱12,072	₱10,869
Income tax at statutory tax rate of 30.0%	**4,135**	3,621	3,261
Net income under ITH	**(2,078)**	(1,799)	(1,634)
Share in net earnings of equity method investees	**(950)**	(686)	(529)
Changes in unrecognized deferred tax assets and others	**(117)**	(193)	536
Effect of optional standard deduction	**(176)**	(126)	–
Various income subjected to lower final tax rates - net	**(84)**	(72)	(145)
Final tax on interest income	**55**	65	106
Nondeductible (nontaxable) expenses (income) - net	**405**	(235)	47
MCIT	**18**	18	7
Others	–	–	13
	₱1,208	₱593	₱1,662

On December 18, 2008, the BIR issued Revenue Regulation (RR) No. 16-2008, which implemented the provisions of R.A. 9504 on Optional Standard Deduction (OSD), which allowed both individual and corporate tax payers to use OSD in computing their taxable income. For corporations, they may elect a standard deduction in an amount equivalent to 40% of gross income, as provided by law, in lieu of the itemized allowed deductions. MNTC opted to avail of the OSD for the taxable years 2013 and 2014.

Income Tax Holiday
Maynilad is registered with the Board of Investments (BOI) as an operator of water supply and sewerage system for the West Service Area on a pioneer status. Under the terms of the registration, Maynilad is subject to certain requirements, principally that of maintaining at least 60.0% Filipino ownership or voting equity. As a registered enterprise, Maynilad is entitled to certain tax and non-tax incentives, including Income Tax Holiday (ITH). Maynilad's ITH incentives for the sales generated from the operation of its three plants which substantially cover its total capacity, will end in December 2015. ITH incentive enjoyed by Maynilad amounted to ₱2,078.0 million, ₱1,799.4 million and ₱1,889.9 million in 2014, 2013 and 2012, respectively.

PHI's operations in Legazpi City and Norzagaray, Bulacan were registered with the BOI as New Bulk Supplier of Treated Water and New Operator of Bulk Water Supply Facility. As a registered enterprise, PHI enjoys certain tax and non-tax incentives, including ITH until December 31, 2013 limited to the revenue generated from the sales of bulk water supply to Legazpi City Water District and the bulk water supply facility with Norzagaray Water District.

CIC is registered with the BOI to build and transfer infrastructure project for the CAVITEX on a pioneer status under the Omnibus Investments Code of 1987. As a registered enterprise, CIC is entitled to certain tax and non-tax incentives, including ITH for the sale/revenue of the R-1 Extension, Segment 4 (Zapote to Kawit, Cavite) for a period of 6 years from January 2009 or actual start of commercial operation, whichever is earlier, but in no case earlier than the date of registration (February 8, 2008). As provided under the terms of the registration, CIC shall initially be granted a four-year ITH. The additional two-year ITH shall be granted upon submission of completed or on-going projects in compliance with its corporate social responsibility, which shall be submitted before the lapse of its initial four-year ITH. CIC was not able to comply with the requirements of the BOI, thus, did not avail of the ITH in 2014 and 2013.

30. Earnings Per Share

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

		2014	2013	2012
		(In Millions, Except for Per Share Amounts)		
Net income attributable to owners of the Parent Company	(a)	**₱7,940**	₱7,209	₱5,907
Effect of cumulative dividends on preferred shareholders of the Parent Company (see Note 22)	(b)	**(5)**	(5)	(5)
Net income attributable to common owners of the Parent Company	(c)	**₱7,935**	₱7,204	₱5,902
Outstanding common shares at the beginning of the year		**26,026**	24,614	24,593
Effect of issuance of common shares during the year		**12**	1,314	5
Weighted average number of common shares for basic earnings per share	(d)	**26,038**	25,928	24,598
Effects of potential dilution from: ESOP (see Note 31)		**24**	61	54
Weighted average number of common shares adjusted for the effects of potential dilution	(e)	**26,062**	25,989	24,652
Basic earnings per share	(c/d)	**₱0.305**	₱0.278	₱0.240
Diluted earnings per share	(c/e)	**₱0.304**	₱0.277	₱0.239

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

In 2014, 2013 and 2012, the ESOP was considered in the computation of the diluted earnings and certain grants were considered dilutive.

31. 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 the Philippine 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 the Philippine 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 were 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 an 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 million common shares were granted under Tranche A while 8 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 Philippine SEC on March 4, 2014.

The weighted average remaining term to expiry for the share options outstanding as at December 31, 2014 and 2013 as follows:

	2014	2013
	(In Years)	
First grant	**–**	–
Second grant	**0.5**	1.5
Third grant	**1.1**	2.1
Fourth grant	**3.8**	4.8

For the years ended December 31, 2014 and 2013, the weighted average share price of MPIC's common share is ₱4.87 and ₱5.17 per share, respectively. Total ESOP expense recognized in 2014, 2013 and 2012 follows:

	2014		2013		2012	
	Personnel Cost (Note 25)	**Equity Reserves** (Note 22)	Personnel Cost (Note 25)	Equity Reserves (Note 22)	Personnel Cost (Note 25)	Equity Reserves (Note 22)
			(In Millions)			
First grant	**₱–**	**₱–**	₱–	₱–	₱–	₱–
Second grant	**–**	**–**	–	–	8	8
Third grant	**–**	**–**	–	–	5	5
Fourth grant	**64**	**64**	18	18	–	–
	₱64	**₱64**	₱18	₱18	₱13	₱13

The following table illustrates the number of, exercise prices of, and movements in share options in 2014 and 2013:

	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, 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 (see Note 22)	(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
Exercised during the year (see Note 22)	–	–	–	–	(7,100,000)	2.73	(10,920,000)	2.73
Expired during the year	–	–	–	–	–	–	–	–
Outstanding at December 31, 2014	**–**	**–**	**–**	**–**	**21,000,000**	**₱2.73**	**7,060,000**	**₱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
December 31, 2013	–	–	–	–	28,100,000	₱2.73	17,980,000	₱2.73
December 31, 2014	**–**	**–**	**–**	**–**	**21,000,000**	**₱2.73**	**7,060,000**	**₱2.73**

	Third Grant					
	Tranche A		Tranche B		Tranche C	
	Number of shares	Exercise price	Number of shares	Exercise price	Number of shares	Exercise price
Outstanding at December 31, 2012	10,000,000	₱3.50	1,000,000	₱3.53	2,750,000	₱3.66
Grant during the year	–	–	–	–	–	–
Exercised during the year (see Note22)	(6,500,000)	₱3.50	(650,000)	3.53	(1,045,000)	3.66
Expired during the year	–	–	–	–	–	
Outstanding at December 31, 2013	3,500,000	₱3.50	350,000	₱3.53	1,705,000	₱3.66
Exercised during the year (see Note22)	–	–	(350,000)	3.53	(927,000)	3.66
Expired during the period	–	–	–	–	–	–
Outstanding at December 31, 2014	**3,500,000**	**₱3.50**	–	**₱–**	**778,000**	**₱3.66**
Exercisable at:						
December 31, 2012	6,500,000	₱3.50	300,000	₱3.53	1,250,000	₱3.66
December 31, 2013	3,500,000	₱3.50	–	–	1,705,000	₱3.66
December 31, 2014	**3,500,000**	**₱3.50**	–	–	**778,000**	**₱3.66**

	Fourth Grant			
	Tranche A		Tranche B	
	Number of shares	Exercise Price	Number of shares	Exercise Price
Grant during the year	56,000,000	₱4.60	56,000,000	₱4.60
Exercised during the year (see Note 22)	–	–	–	–
Expired during the year	–	–	–	–
Outstanding at December 31, 2013	56,000,000	₱4.60	56,000,000	₱4.60
Exercised during the year (see Note 22)	(1,000,000)	4.60	–	–
Outstanding at December 31, 2014	**55,000,000**	**₱4.60**	56,000,000	**₱4.60**
Exercisable at:				
December 31, 2013	–	–	–	–
December 31, 2014	**55,000,000**	**₱4.60**	–	–

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 on March 10, 2010	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	₱2.70	₱2.65	₱2.65	₱2.65	₱2.65	₱2.65
Exercise price	₱2.12	₱2.12	₱2.73	₱2.73	₱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	365	183	548	365	731	1,096
Call price	₱0.20	₱0.55	₱0.27	₱0.75	₱0.35	₱0.91	₱0.73	₱1.03	₱1.39

	Third Grant								Fourth Grant	
	Tranche A			Tranche B			Tranche C		Tranche A	Tranche B
	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.*

32. **Contingencies**

Water Segment

The following are the significant contingent liabilities of Maynilad as at December 31, 2014 and 2013:

Disputed Billings with MWSS. Additional Tranche B Concession Fees and interest penalty are being claimed by MWSS in excess of the amount recommended by the Receiver. Such additional charges being claimed by MWSS (in addition to other miscellaneous claims) amounted to ₱5.0 billion and ₱4.9 billion as at December 31, 2014 and 2013, respectively. The Rehabilitation Court has resolved to deny and disallow the said disputed claims of MWSS in its December 19, 2007 Order, upholding the recommendations of the Receiver on the matter.

Following the termination of the Maynilad's rehabilitation proceedings, Maynilad and MWSS sought to resolve this matter in accordance with the dispute resolution requirements of the TCA (see Notes 3 and 20).

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

The supposed joint liability of the Concessionaires for real property tax, including interests, as at December 31, 2014 amounted to ₱1.0 billion.

After the Local Board of Assessment Appeals (LBAA) ruled in favor of the Municipality of Norzagaray, Bulacan, the Concessionaires elevated the ruling of the LBAA to the Central Board of Assessment Appeals (CBAA) by filing separate appeals. As at February 26, 2015, the case is still pending.

Cost of Living Allowance (COLA). On November 24, 2006, the Labor Arbiter issued a decision in favor of the Maynilad Water Supervisors Association (MWSA), ordering the payment of COLA to Maynilad's supervisor-employees, retroactive to the date when they were hired by Maynilad in 1997, with legal interest from the date of promulgation of the decision until full payment of the award or ₱249.5 million as computed and claimed by MWSA. This decision was reversed and set aside by the National Labor Relations Commission (NLRC) in 2007, but reinstated by the Court of Appeals in 2010. After the issuance of the Labor Arbiter's decision in 2007, Maynilad executed a compromise agreement with MWSA, wherein Maynilad agreed to pay MWSA residual benefits equivalent to its claim for COLA for 23 months, from August 1997 to June 1999. Thus Maynilad's dispute with MWSA was limited to the supervisor-employees claim for COLA from July 1999 up to the present time. In 2011, the Court of Appeals granted the motion for reconsideration filed by Maynilad by issuing an amended decision reinstating and affirming the resolutions of the NLRC. The Court of Appeals thereafter issued a resolution denying the motion for reconsideration filed by MWSA. On November 16, 2011, MWSA filed a Petition for Review on Certiorari before the Supreme Court, seeking to annul the said amended decision and the resolution of the Court of Appeals.

On December 11, 2013, Notice of Judgment was issued by the Supreme Court which upheld the assailed Amended Decision and Resolution of the Court of Appeals which held that the employees of Maynilad are not entitled to receive COLA pursuant to the terms of Maynilad's concession agreement.

On February 26, 2014, the Second Division issued a resolution (1) denying with finality MWSA's motion for reconsideration and (2) denying MWSA's motion to refer the case to the Court En Banc. In its Decision, the Supreme Court upheld the assailed Amended Decision and Resolution of the Court of Appeals that reinstated the earlier ruling of the NLRC that held that the employees of Maynilad are not entitled to receive COLA pursuant to the terms of the Concession Agreement.

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

Toll Operations Segment

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

- MNTC received a Formal Letter of Demand from the BIR on March 16, 2009 requesting MNTC to pay deficiency VAT plus penalties amounting to ₱1,010.5 million for taxable year 2006.
- MNTC received a Final Assessment Notice from the BIR dated November 15, 2009, assessing MNTC for deficiency VAT plus penalties amounting to ₱557.6 million for taxable year 2007.
- MNTC received a Notice of Informal Assessment from the BIR dated October 5, 2009, assessing MNTC for deficiency VAT plus penalties amounting to ₱470.9 million for taxable year 2008.
- On May 21, 2010, the BIR issued a Notice of Informal Conference assessing MNTC for deficiency VAT plus penalties amounting to ₱1.0 billion for taxable year 2009.

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

Notwithstanding the foregoing, management believes, in consultation with its legal counsel, that in any event, the Supplemental Toll Operation Agreement among MNTC, Republic of the Philippines, acting by and through the Toll Regulatory Board, and PNCC, provides MNTC with legal recourse in order to protect its lawful interests in case there is a change in existing laws, which makes the performance by MNTC of its obligations materially more expensive.

Local Business Tax (LBT). On July 7, 2011, the Regional Trial Court (RTC) of Bulacan ruled that MNTC is liable for ₱67.4 million in local business taxes and permits and regulatory fees. In 2012, the Court of Tax Appeals (CTA) modified the RTC of Malolos, Bulacan's decision and cancelled and set aside for lack of basis the notice of assessment dated 2008 issued against MNTC for ₱67.4 million LBT for the years 2005 to 2007. The municipality of Guiguinto subsequently filed with the CTA a motion for reconsideration. The CTA, in a resolution dated April 25, 2013, denied the motion for reconsideration filed by the municipality of Guiguinto. The decision and resolution of the CTA have not been appealed and have thus become final, inappealable, and executory.

On September 3, 2013, an agreement was signed between MNTC and the Municipality of Guiguinto to finally reconcile past collections and settle any remaining obligations to keep MNTC's accounts with Guiguinto current. The parties agreed that (a) all of MNTC's previous payments of P10.0 million should be deemed advance payments for any liability for LBT and regulatory fees; and (b) MNTC shall pay P8.0 million to cover remaining LBT and regulatory fees up to the fourth quarter of 2013. The parties agreed that the payments made or to be made under this agreement shall constitute full and sufficient payment by MNTC of any and all liability for LBT, regulatory fees, surcharges, interests, and penalties for the years 2004 to 2013 to Guiguinto, and MNTC is therefore released, free, and clear from any and all such liabilities for the stated period.

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

On September 27, 2013, the Bureau of Local Government Finance of the Department of Finance ("DOF-BLGF") wrote a letter to the Province of Bulacan advising it to hold in abeyance any further course of action pertaining to the alleged real property tax delinquency.
On October 4, 2013, the Provincial Treasurer of Bulacan has respected the directive from the DOF-BLGF to hold the enforcement of any collection remedies in abeyance.

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

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

Power Segment
Meralco and its subsidiaries are subject to various pending or threatened legal actions in the ordinary course of business which, if the conclusion is unfavorable to Meralco and subsidiaries, may result in the payout of substantial claims and or the adjustment of electricity distribution rates. These contingencies substantially represent the amounts of claims related to a commercial contract which remains unresolved and local taxes being contested. Other disclosures required by PAS 37 were not provided as this may prejudice Meralco's position in on-going claims, litigations and assessments.

Supreme Court (SC) Temporary Restraining Order (TRO) on December 2013 Increase in Meralco Rate. On December 9, 2013, the ERC gave clearance to the request of Meralco to implement a staggered collection over three (3) months covering the December billing month for the increase in generation charge and other bill components such as value-added tax, local franchise tax, transmission charge, and system loss charge, which reflected a total increase of ₱4.15/kWh for a 200-kWh residential consumer. The generation costs for the November 2013 supply month, increased significantly because of the use of the more expensive liquid fuel by the natural gas-fired power plants that were affected by the Malampaya Gas Field or Malampaya, shutdown from November 11 to December 10, 2013. This was compounded by the aberrant spike in the Wholesale Electricity Spot Market (WESM), charges on account of the scheduled and extended shutdown, and the forced outages of several base load power plants, as well as the non-compliance with WESM Rules by certain plants resulting in significant power generation capacities not being offered and dispatched.

On December 19, 2013, several party-list representatives in the House of Representatives, filed a Petition against Meralco, ERC and the Department of Energy or DOE before the SC, questioning the ERC clearance granted to Meralco to charge the ₱4.15/kWh price increase, alleging the lack of hearing and due process. It also sought for the declaration of the unconstitutionality of Sections 6 and 29 of Republic Act No. 9136, "The Electric Power Industry Reform Act of 2001" or EPIRA, which essentially declared the generation and supply sectors competitive and open, and not considered public utilities. A similar petition was filed by a consumer group and several private homeowners associations challenging also the legality of the Automatic Generation Rate Adjustment or AGRA that the ERC had promulgated. Both petitions prayed for the issuance of a TRO, and Writ of Preliminary Injunction.

On December 23, 2013, the SC consolidated the two (2) Petitions and granted the application for TRO effectively immediately and for a period of sixty (60) days, which effectively enjoined the ERC and Meralco from implementing the ₱4.15/kwh price increase. The SC also ordered Meralco, ERC and DOE to file their respective comments to the Petitions and set the hearing for Oral Arguments on January 21, 2014. The SC further set two more Oral Arguments on February 4, 2014 and February 11, 2014. After the conclusion of the Oral Arguments, the SC gave all the Parties to the consolidated Petitions to file their respective Memorandum on or before February 26, 2014 after which the Petitions will be deemed submitted for resolution of the SC. Meralco complied with said directive and had filed its Memorandum on said date.

On February 18, 2014, acting on the motion filed by the Petitioners, the SC extended for another period of 60 days or until April 22, 2014, the TRO that it originally issued against Meralco and ERC on December 23, 2013. The TRO was also similarly applied to the generating companies, specifically Masinloc Power Partners Co. Ltd. (MPPCL), San Miguel Energy Corporation (SMEC), South Premier Power Corporation, First Gas Power Corporation, and the National Grid Corporation of the Philippines, and the Philippine Electricity Market Corporation or PEMC (the administrator of WESM and market operator) who were all enjoined from collecting from Meralco the deferred amounts representing the ₱4.15/kWh price increase for the November 2013 supply month.

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

On March 3, 2014, the ERC issued an Order voiding the Luzon WESM prices during the November and December 2013 supply months on the basis of the preliminary findings of its Investigating Unit that these are not reasonable, rational and competitive and imposing the use of regulated rates for the said period. PEMC was given seven (7) days upon receipt of the Order to calculate these regulated prices and implement the same in the revised WESM bills of the concerned. PEMC's recalculated power bills for the supply month of December 2013 resulted in a net reduction of the December 2013 supply month bill of the WESM by ₱9,274 million. Due to the pendency of the TRO, no adjustment was made to the WESM bill of Meralco for the November 2013 supply month. The timing of amounts to be credited to Meralco is dependent on the reimbursement of PEMC from associated generator companies. However, several generating companies, including MPPCL, SN Aboitiz Power Corporation, Team (Philippines) Energy Corporation, Panasia Energy Holdings, Inc., and SMEC, have filed motions for reconsideration questioning the Order dated March 3, 2014. Meralco filed a consolidated comment to these motions for reconsideration.

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

In its Order dated October 15, 2014, the ERC issued an Order denying the motion filed by the generating companies. The generator companies have filed separate petitions before the CA to question the March 3, 2014 and October 15, 2014 Orders of the ERC.

On April 22, 2014, the SC extended indefinitely the TRO issued on December 23, 2013 and February 18, 2014 and directed generating companies not to collect from Meralco. The SC has yet to resolve the various petitions filed against Meralco, ERC and DOE as at February 26, 2015.

Others

Donor's Tax. NOHI received on January 14, 2011 a Final Assessment Notice (FAN) demanding the payment of approximately ₱199.7 million as deficiency donor's tax (including surcharge and interest as at January 31, 2011) on the excess of the book value over the selling price of several shares of stock in BLC which NOHI sold to a third party. The assessment was based on the finding of the Bureau of Internal Revenue-Large Taxpayer Service (BIR-LTS) that the transaction is subject to donor's tax as a "deemed gift" transaction under Section 100 of the 1997 National Internal Revenue Tax Code (the Tax Code).

On February 14, 2011, NOHI filed its formal protest to the FAN raising several factual and legal arguments. However, this was denied by the BIR through the letter it has delivered to NOHI stating its Final Decision on Disputed Assessment ("FDDA"). NOHI then filed a Petition for Review with the Second Division of the Court of Tax Appeals ("CTA") to challenge the FDDA. On June 11, 2014, the CTA rendered its decision on the case which did not sustain the company's

position. The company filed a Motion for Reconsideration on the CTA 2nd Division's decision as NOHI firmly believes that it is not liable for the deficiency donor's taxes and that it has strong legal and factual basis to support its claim. On September 16, 2014, the CTA 2nd Division issued an Order denying NOHI's Motion for Reconsideration. In October 2014, NOHI, through its counsel, filed a Petition for Review before the CTA en banc praying for, among others, the reversal of the decision of the CTA 2nd Division. In January 2015, the CTA en banc gave due course to the Petion for Review and directed the parties to submit their memoranda. As of February 26, 2015, NOHI through its counsel is preparing the memorandum for submission to the CTA.

NOHI firmly believes that it is not liable for the deficiency donor's taxes and that it has strong legal and factual basis to question the FDDA in its appeal with the CTA.

Indemnity. Under the agreement relating to the repayment of a certain loan signed between NOHI, Ayala Land Inc. (ALI) and Greenfield Development Corp. (GDC) on April 17, 2003, certain obligations/warranties by NOHI will remain outstanding for certain periods ranging from one to three years and covered by security arrangements. Under the agreement, NOHI shall indemnify ALI and GDC to the extent of NOHI's derivative share in BLC/ Fort Bonifacio Development Corporation (FBDC) for certain secured indemnity obligations and other obligations resulting from any breach of warranties and representations.

ALI and GDC have formally advised NOHI in their letter dated September 19, 2003 that they are allocating the pledge of 5.0% interest of NOHI in BLC and a condominium unit in Pacific Plaza Tower for possible payment of secured indemnity obligations enumerated in their letter. Total estimated indemnity amounts to ₱434.1 million, determined based on certain possible taxes that were actually claimed by ALI and GDC within the warranty period, which expired on April 17, 2007. However, subject to actual payment of pending taxes included in the warranties, the provision has remained in the books.

In September 2009, NOHI sold 2,603,708 shares out of the 5% interest in BLC pledged to Columbus Holdings, Inc. (Columbus), a company jointly owned by ALI and GDC, at an agreed purchase price of ₱158.0 per share for a total consideration of ₱411.4 million. No gain was recognized on the sale pending Supreme Court judgment on the ongoing documentary stamp tax claim against FBDC in which case and in the event of an unfavorable judgment against FBDC, the total proceeds from the sale will be returned to Columbus. Consequently, NOHI recognized an additional provision amounting to ₱54.8 million in 2009 for liability equivalent to the unrealized gain. Thus, total liability amounted to ₱488.9 million (see Note 17).

On June 26, 2013, NOHI was informed that the Supreme Court rendered judgment in favor of FBDC. As at February 26, 2015, NOHI is awaiting release from the guarantee undertaking from Columbus to reverse the provision.

In the opinion of management and NOHI's legal counsel, the eventual liability from these lawsuits or claims, if any, will not have a material adverse effect on NOHI's financial position and financial performance, as well as in MPIC's consolidated financial statements.

Other disclosures required by PAS 37 were not provided as it may prejudice the Company's position in ongoing claims, litigations and assessments.

33. **Significant Contracts, Agreements and Commitments**

MPIC

Landco's Restructuring. On December 22, 2014, MPIC entered into an agreement with Landco and its controlling shareholder, ABHC to restructure and clean up the balance sheet of Landco in preparation for an eventual sale to third parties. The agreement contemplates the implementation of the following transactions: (i) the conversion of MPIC's preferred shares in Landco to common shares, (ii) additional subscription to non-voting preferred shares by way of cash infusion and conversion of MPIC's receivables from Landco into equity, (iii) offsetting of certain inter-company accounts, and (iv) spin off of non-performing assets of Landco to a separate company. The cash infusion will be to the extent of ₱85.0 million and conversion of receivables into equity to the extent of ₱79.8 million. The conversion of the preferred shares to common shares in Landco and assumption of ABHC's payable to Landco of ₱155.3 million were completed in 2014.

After the transactions disclosed above, MPIC shall be entitled to 66% of the purchase price of Landco's outstanding common stock in the event of sale of Landco's outstanding capital stock to a third party.

As a result of the planned divestment of the interests in Landco, the carrying values of the notes receivable from Landco and ABHC and the investment in Landco's common shares (included under "AFS Financial Assets" account as at December 31, 2013), were reclassified to "Assets held for sale". The carrying amount of all interests in Landco as at December 31, 2014 comprising of ₱755.5 million of common shares or 38.1% interest (which percentage of ownership would qualify as an investment in associate) and ₱614.3 million of loans and interest receivable from Landco and ABHC, is expected to be recovered principally through a sale transaction and the sale is considered highly probable. As the total carrying amount of all interests in Landco is less than the fair value less costs to dispose, no impairment loss was recognized for the period ended December 31, 2014.

Water Segment

Contracts. In relation to Maynilad's concession agreement (the "Concession Agreement"), Maynilad entered into the following contracts with Manila Water (the "East Concessionaire"):

a. Interconnection Agreement wherein the two Concessionaires shall form an unincorporated joint venture that will manage, operate, and maintain interconnection facilities. The terms of the agreement provide, among others, the cost and the volume of water to be transferred between zones; and,

b. Common Purpose Facilities Agreement that provides for the operation, maintenance, renewal, and, as appropriate, decommissioning of the Common Purpose Facilities, and performance of other functions pursuant to and in accordance with the provisions of the Concession Agreement and performance of such other functions relating to the concession (and the concession of the East Concessionaire) as Maynilad and the East Concessionaire may choose to delegate to the Joint Venture, subject to the approval of MWSS.

Commitments. Significant commitments under the Concession Agreement follow:

a. Payment of Concession Fees (see Note 18)

b. Posting of performance bond

Under Section 6.9 of the Concession Agreement, Maynilad is required to post a performance bond to secure the performance of its obligations under certain provisions of the Concession Agreement.

The aggregate amount drawable in one or more installments under such performance bond during the Rate Rebasing Period to which it relates is set out below.

Rate Rebasing Period	Aggregate Amount Drawable Under Performance Bond
	(In Millions)
First (August 1, 1997 – December 31, 2002)	US$120.0
Second (January 1, 2003 – December 31, 2007)	120.0
Third (January 1, 2008 – December 31, 2012)	90.0
Fourth (January 1, 2013 – December 31, 2017)	80.0
Fifth (January 1, 2018 – May 6, 2022)	60.0

Within 30 days from the commencement of each renewal date, Maynilad shall cause the performance bond to be reinstated to the full amount set forth above applicable for the year.

In connection with the extension of the term of Maynilad's Concession Agreement (see Note 13), certain adjustments to the obligation of Maynilad to post the performance bond under Section 6.9 of the Concession Agreement have been approved and summarized as follows:

- The aggregate amount drawable in one or more installments under each performance bond during the Rate Rebasing Period to which it relates has been adjusted to US$30.0 million until the Expiration Date;

- The amount of the Performance Bond for the period covering 2023 to 2037 shall be mutually agreed upon in writing by the MWSS and Maynilad consistent with the provisions of the Concession Agreement.

- Maynilad posted the Surety Bond for the amount of US$90.0 million issued by Prudential Guarantee and Assurance, Inc. (the Surety) in favor of MWSS, as security for Maynilad's proper and timely performance of its obligations under the Concession Agreement. On December 6, 2012, Maynilad renewed the Surety Bond for the amount of US$80.0 million issued by the Surety in favor of MWSS. The liability of the Surety under this bond will expire on December 31, 2017.

c. Payment of half of MWSS and MWSS-RO's budgeted expenditures for the subsequent years, provided the aggregate annual budgeted expenditures do not exceed ₱200.0 million, subject to CPI adjustments. Beginning 2010, the annual budgeted expenditures shall increase by 100.0%, subject to CPI adjustments, as a result of the extension of the life of the Maynilad's concession agreement.

d. To meet certain specific commitments in respect to the provision of water and sewerage services in the West Service Area, unless modified by the MWSS-RO due to unforeseen circumstances.

e. To operate, maintain, renew and, as appropriate, decommission facilities in a manner consistent with the National Building Standards and best industrial practices so that, at all times, the water and sewerage system in the West Service Area is capable of meeting the service obligations (as such obligations may be revised from time to time by the MWSS-RO following consultation with Maynilad).

f. To repair and correct, on a priority basis, any defect in the facilities that could adversely affect public health or welfare, or cause damage to persons or third-party property.

g. To ensure that at all times Maynilad has sufficient financial, material and personnel resources available to meet its obligations under the Concession Agreement.

h. Non-incurrence of debt or liability that would mature beyond the term of the Concession Agreement, without the prior notice of MWSS.

   Failure of Maynilad to perform any of its obligations under the Concession Agreement of a kind or to a degree which, in a reasonable opinion of the MWSS-RO, amounts to an effective abandonment of the Concession Agreement and which failure continues for at least 30 days after written notice from the MWSS-RO, may cause the Concession Agreement terminated.

Operating Lease Commitment. Maynilad leases the office space, branches where service outlets are located, equipment and service vehicles, renewable under certain terms and conditions to be agreed upon by the parties. Total rent expense for the above operating leases amounted to ₱167.7 million, ₱158.9 million and ₱175.2 million in 2014, 2013 and 2012, respectively.

Future minimum operating lease payments as at December 31, 2014 and 2013 are:

Period Covered	**2014**	2013
	(In Millions)	
Not later than one year	**₱112**	₱132
More than one year and not later than five years	**154**	76
More than five years	**170**	–

Operation and Maintenance Agreement with Rio Verde Water Consortium, Inc (RVWCI). On December 22, 2014, MPWIC entered into an agreement to operate and maintain the 100 mld bulk water facility of RVWCI located in Baungon, Bukidnon. The agreement will be implemented through a subsidiary to be incorporated by MPWIC, which as of February 26, 2015 has yet to be incorporated. RVWCI is the exclusive supplier of bulk surface water to Cagayan de Oro Water District which supplies the water needs of more than 80% of Cagayan de Oro's population of 640,000.

Toll Operations Segment

NLEX Concession Agreement. Obligations and commitments of MNTC under the NLEX Concession Agreement are discussed in Notes 13 and 17.

Subic-Clark-Tarlac Expressway (SCTEX) Concession Agreement.–On February 9, 2015, MNTC, received the Notice of Award from the BCDA for the management, operation and maintenance of the SCTEX subject to compliance with specific conditions. The Notice of Award was issued by BCDA following the results of the Price Challenge held last January 30, 2015.

On February 26, 2015, MNTC and BCDA signed the Business Agreement (“BA”), marking the culmination of BCDA’s effort to privatize the management, operation and maintenance of the SCTEX. The BA binds MNTC and BCDA to a contract for the management, operation and maintenance of SCTEX until the end of the SCTEX concession period (October 30, 2043). The

privatization provides the opportunity to realize MNTC's vision of integrating the operation of NLEX with SCTEX, thereby offering seamless expressway travel to motorists. The effectivity of the BA is subject to conditions precedent, among which is the TRB approval and signing of the STOA. On February 26, 2015, the Business Operating Agreement was signed with full take over of the SCTEX operation expected by second quarter of 2015.

On February 5, 2015, MNTC and BCDA signed the NLEX-SCTEX Integration Agreement relating to the toll collection system integration that will feature a common transit ticket system for both NLEX's closed system and that of the SCTEX. The project is expected to be completed within the year.*NLEX-SLEX Connector Road Project*. The Connector Road Project was approved by the NEDA Board on February 20, 2015 as an unsolicited proposal under the BOT Law. This is expected to trigger the commencement of the Swiss Challenge within 2nd quarter of 2015. MPTDC, as Original Proponent of the unsolicited proposal, awaits DPWH's written notice of the NEDA Board approval.

Construction Contract for NLEX Segment 9. On May 3, 2013, MNTC, under a competitive bidding, has awarded the Civil Works contract to EEI Corporation. The Civil Works Construction Agreement was executed by MNTC and EEI Construction in relation to the construction of the 2.4 km Segment 9 (part of Phase II of NLEX), a four-lane expressway that links the SMART Connect Interchange to McArthur Highway. Total civil works construction contract was set at ₱1,145.4 million, as may be adjusted from time to time pursuant to the terms of the agreement.

The Construction Notice to Proceed was issued by MNTC to EEI Corporation in May 2013 and mobilization works commenced in May 2013. The construction works are expected to be completed by first quarter of 2015.

Unapplied mobilization advances to EEI Corporation, included as part of "Advances to contractors and consultants" in the consolidated statement of financial position, amounted to ₱71.0 million and ₱140.0 million as at December 31, 2014 and 2013, respectively.

Construction Contract for NLEX Segment 10. On April 28, 2014, MNTC signed a target cost construction contract with Leighton Contractors (Asia) Ltd. (LCAL) for the construction of NLEX Segment 10, a 5.6-km, four-lane elevated expressway that will start from the terminal of Segment 9 in Valenzuela City and go south to C-3 Road in Caloocan City above the alignment of the PNR railway tracks. The target cost is approximately ₱10 billion (inclusive of VAT) with a completion period of twenty-four (24) months from start date. The contract structure is collaborative in nature and provides a risk and reward sharing mechanism if the actual construction cost exceeds or falls below the agreed target. LCAL's performance obligations under the contract are backed up by: (i) a bank-issued irrevocable stand-by letter of credit, (ii) cash retention, and (iii) a parent company guarantee issued by Leighton Asia Limited. Construction is in progress as of February 26, 2015 with target completion date of fourth quarter of 2016.

On May 8, 2014, MNTC issued the notice to proceed to LCAL, signalling the start of pre-construction activities. Pursuant to the contract, MNTC placed a reserve amount of ₱889 million in an escrow account on July 28, 2014 to cover payment default leading to suspension of works. This reserve amount is included in the *restricted cash* account under *noncurrent assets*.

PNCC. PNCC is a non-controlling stockholder in MNTC. In consideration of the assignment by PNCC of its usufructuary rights, interests and privileges under its franchise, PNCC is entitled to receive a payment equivalent to 6.0% and 2.0% of the toll revenue from the NLEX and Segment 7, respectively. Any unpaid balance carried forward will accrue interest at the rate of the latest Philippine 91-day Treasury bill rate plus 1.0% per annum. The PNCC franchise expired in May 2007 but since the payment is a continuing obligation under the Shareholders' Agreement, PNCC continues to receive the same payment. However, on December 2, 2010, MNTC received a

letter from the TRB dated November 30, 2010, citing a decision of the Supreme Court dated October 19, 2010 directing MNTC to remit to the National Treasury, through TRB, all payments representing PNCC's percentage share of the toll revenues and dividends, if any, arising out of PNCC's participation in the NLEX Project.

On the basis of the conflicting claims of PNCC and TRB to the revenue share and dividends, on December 8, 2010, MNTC filed a motion for clarification asking the SC to clarify the entity to which MNTC should remit its payments which was then due on December 20, 2010. Pending resolution by the SC of the motion for clarification, MNTC filed a petition for consignation with the RTC of Caloocan for the latter to hold the payments in trust and deliver to the party ultimately adjudged by the SC to be entitled to it. On December 29, 2010, MNTC through a letter sent by its legal counsel, informed PNCC and TRB of the consignation made to the RTC of Caloocan.

In a resolution dated January 18, 2011, the SC directed MNTC to remit to the National Treasury PNCC's percentage share of toll revenues and dividends arising out of PNCC's participation in the NLEX Project. On April 12, 2011, the SC issued a Resolution directing MNTC to remit PNCC's share in the net income from toll revenues to the National Treasury and the TRB, with the assistance of the Commission on Audit (COA) was directed to prepare and finalize the implementing rules and guideline relative to the determination of the net income remittable by PNCC to the National Treasury. In the meantime, while the guidelines have yet to be formulated, PNCC and TRB have agreed to remit the entire consigned amount to the National Treasury. Following the directive of the TRB dated March 22, 2012, MNTC has remitted to the National Government through the TRB the payments for the PNCC fees accruing since the month of December 2010 and the dividends payable to PNCC since July 2010. In accordance with the TRB directive, 90% of the PNCC fees and dividends payable was remitted to the TRB while the balance of 10% to PNCC.

On September 19, 2011, Forum Holdings Corporation (FHC, an Intervenor) filed a Petition-in-Intervention with the RTC of Caloocan praying that MNTC be ordered to comply with its contractual commitment to PNCC under contract by releasing and delivering directly to PNCC the consigned amount. The Intervenor, however, does not pray for any damages against MNTC. PNCC has filed its opposition to the Motion for Intervention. On January 11, 2012, RTC of Caloocan, despite the fact that the consigned amount at that time has already been remitted to the National Treasury, granted FHC's petition filed on September 19, 2011. On September 6, 2013, the RTC heard the case to decide on the prayer for dismissal requested by MNTC, TRB and PNCC in their urgent joint manifestation and motion. During said hearing, the RTC found that the petition for consignation was already rendered moot and academic since the consigned amount was already remitted to the National Government and FHC already withdrew its intervention. Since there was no more pending incident for resolution, the RTC ordered the case dismissed.

Power Segment

Renewable Energy / Waste Management Project. MPIC and Global Green International Energy ("GGIE"), a Singapore-based company, have partnered to develop a renewable energy / waste management project. MPIC and GGIE plan to invest approximately ₱240.0 million (US$5.3 million) in equity, out of the total project cost of ₱480 million (US$10.6 million). The facility, to be located in Tagum City, Davao del Norte, will convert 20 to 25 metric tons of municipal solid waste into about 13,000 liters of biodiesel daily. The facility can be expanded to allow the conversion of excess heat into electricity. On November 7, 2014, MPIC and GGIE incorporated Metro Global Green Waste, Inc., as an investment holding company for the waste-to-energy projects.

Healthcare Segment

Lease agreements. As discussed in Note 3, EMHMC and CVHMC entered into lease agreements with SSpS and RCAM for the management and operation of OLLH and CSMC, respectively. Each of these lease agreements is for a period of 20 years, renewable for successive periods of 10 years upon the mutual consent of both parties. EMHMC and CVHMC accounted for their respective lease agreements as acquisition of a business in accordance with PFRS 3.

As consideration for the lease agreement, EMHMC and CVHMC pay fixed and variable monthly rates, where the variable rate is based on the prior year's net revenues. Below is the schedule of fixed and variable monthly rent:

Period	Fixed Monthly Rent	Annual Variable Rent (% of Prior Year's Net Revenues)
	(In Thousands)	
EMHMC		
November 2010 to October 2015	₱1,000	2.00%
November 2015 to October 2020	1,250	2.25%
November 2020 to October 2030	1,500	2.50%
CVHMC		
March 2009 to February 2014	3,000	3.00%
March 2014 to February 2019	3,300	3.00%
March 2019 to February 2024	3,630	3.00%
March 2024 to February 2029	3,993	3.00%

Lease payments under these arrangements are as follows:

	2014			2013		
	Fixed	**Variable**	**Total**	Fixed	Variable	Total
			(In Millions)			
Not later than one year	**₱52**	**₱45**	**₱97**	₱51	₱62	₱113
More than one year and not later than five years	**238**	**321**	**559**	259	355	614
More than five years	**598**	**1,136**	**1,734**	628	1,167	1,795
Total lease payments	**888**	**1,502**	**2,390**	938	1,584	2,522
Less amount representing interest			**1,328**			1,447
Present value of lease obligation			**₱1,062**			₱1,075

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's Capital Expenditure (CAPEX) program and 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. As of December 31, 2014, the approved CAPEX infusion is at ₱181.8 million covering period of up to December 31, 2013. In 2014, EMHMC infused ₱76.8 million to the CAPEX program which is still for review and approval.

CVHMC has a commitment to make a Capital Expenditure in CSMC amounting to at least ₱750.0 million (CAPEX Commitment) no later than the 10th anniversary of the Agreement, with at least ₱250.0 million of which shall be spent over a period of three years, and with majority spent as CAPEX for Expansion and Development no later than the 10th anniversary of the closing date of the agreement. CVHMC's accumulated infusion to the CAPEX program are ₱1,139.0 million and ₱1,018.4 million as of December 31, 2014 and 2013, respectively.

On September 16, 2011, CVHMC renewed a purchase commitment with a third party supplier with a minimum purchase requirement amounting to ₱28.0 million worth of certain medical products for two years expiring September 2013. The agreement provides for rebates and discounts but if CVHMC fails to meet the set minimum purchase requirements, CVHMC shall pay the supplier the amount equal to all the rebates provided plus default interest. CVHMC completed its minimum purchase commitment in September 2013.

Rail Segment

₱65-billion Light Rail Transit Line 1 Cavite Extension and Operations & Maintenance Project (the "LRT Project"). On October 2, 2014, LRMC signed together with the Department of Transportation and Communications (DOTC) and the Light Rail Transit Authority (LRTA, and together with DOTC as "Grantors") the Concession Agreement for the LRT Project. LRMC was formally awarded the LRT Project by the DOTC and LRTA after the consortium of MPLRC, AC Infrastructure Holdings Corporation ("AC Infra") and Macquarie Infrastructure Holdings (Philippines) PTE Ltd. (MIHPL) submitted the lone bid with a premium of ₱9.35 billion.

The concession agreement is for a period of thirty-two (32) years commencing from the Effective Date. The "Required Effective Date" means the date falling twelve (12) months after the signing date of or as extended in accordance with the concession agreement. The handover of the operation and maintenance of the existing system of the LRT by the Grantors to LRMC shall take place on the Effective Date or such other time as may be agreed in writing between the Grantors and the Concessionaire. The Effective Date is subject to certain conditions precedent under the concession agreement.

Under the Concession Agreement, LRMC will operate and maintain the existing LRT Line 1 and construct an 11.7-km extension from the present end-point at Baclaran to the Niog area in Bacoor, Cavite. A total of eight new stations will be built along this route, which traverses the cities of Parañaque and Las Piñas up to Bacoor, Cavite. LRMC will invest ₱40.0 billion on the Project. The extended rail line is envisioned to help ease the worsening traffic conditions in the Parañaque-Las Piñas-Cavite corridor. It is also expected to enhance commercial development around the rail stations.

LRMC is required to pay the bid premium of ₱9.35 billion as concession fees, based on the following schedule:

- 10% of the bid amount within twenty (20) days from receipt of the Notice of Award (NOA), which amount has already been paid;
- 10% of the bid amount upon Effective Date which is nine (9) months to a maximum of twelve (12) months from Signing Date of the Concession Agreement;
- 80% of the bid amount in equal quarterly instalments over the Concession Period with the first payment on the fifth anniversary of the Effective Date as defined under the Concession Agreement.

Equity infusion as at December 31, 2014 of the other shareholders in LRMH and LRMC with an aggregate amount of ₱722.5 million are included in "Other changes in NCI" in the consolidated statement of changes in equity.

Escrow Agreement. On October 20, 2014, pursuant to the requirements of the Concession Agreement, DOTC, LRTA, LRMC, the initial shareholders of LRMC (namely AC Infra, MPLRC and MIHPL) and Security Bank as Escrow Agent entered into a Share Escrow Agreement.

Under the Share Escrow Agreement, each of the initial shareholders delivers to the Share Escrow Agent original stock certificates representing all of their respective equity interests in the Concessionaire. Such shares would be held in escrow until the third anniversary of the Extension Completion Date as defined under the Concession Agreement.

34. **Assets Held in Trust**

Materials and Supplies
Maynilad has the right to use any item of inventory owned by MWSS in carrying out its responsibility under the Concession Agreement, subject to the obligation to return the same at the end of the concession period, in kind or in value at its current rate, subject to CPI adjustments.

Facilities
Maynilad had been granted the right to operate, maintain in good working order, repair, decommission and refurbish the movable properties required to provide the water and sewerage services under the Concession Agreement. MWSS shall retain legal title to all movable properties in existence at the commencement date on August 1, 1997. However, upon expiration of the useful life of any such movable property as may be determined by Maynilad, such movable properties shall be returned to MWSS in its then-current condition at no charge to MWSS or Maynilad (see Note 13).

The Concession Agreement also provides Maynilad and the East Concessionaire to have equal access to MWSS facilities involved in the provision of water supply and sewerage services in both West and East Service Areas including, but not limited to, the MWSS management information system, billing system, telemetry system, central control room and central records.

The net book value of the facilities transferred to Maynilad on commencement date based on MWSS' closing audit report amounted to ₱7.3 billion with a sound value of ₱13.8 billion.

MWSS' corporate headquarters are made available to Maynilad and the East Concessionaire for a one-year period beginning on the commencement date, subject to yearly renewal with the consent of the parties concerned. Rent expense related to these properties amounted to ₱38.0 million, ₱33.8 million and ₱33.1 million in 2014, 2013 and 2012, respectively.

35. **Financial Risk Management Objectives and Policies**

The Company's principal financial instruments consist mainly of borrowings from a related party and third party 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, short-term deposits, receivables, accounts payable and other current liabilities, concession fees payable and other related party transactions which arise directly from the Company's operations. The Company also holds AFS financial assets.

The Company also enters into derivative transactions, particularly interest rate swaps and cross-currency swaps, to manage the interest rate and foreign currency risks arising from its long-term debts (see Note 36).

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

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

MPIC. MPIC's exposure to credit risk is equal to the carrying amount of its financial assets. MPIC has no concentration of credit risk.

Toll segment. Receivables arose mainly from Easytrip Services Corporation (ESC) when Easytrip tag-motorists ply in NLEX and those non-toll revenues in the form of advertising services particularly from SMART. ESC, a joint venture of the Company beginning 2014 (see Note 11), assists MNTC in increasing the usage of the electronic toll collection (ETC) facility. The segment's due from related parties are mainly from TMC. ESC, SMART and TMC are considered as low-risk counterparties as these are well-established companies. Moreover, MNTC has payment obligations to TMC which far exceed the aggregate amount of receivables and dues from TMC. Receivables also arose from motorists who cause accidental damage to NLEX property from day-to-day operations. Property damage claims are initially processed by TMC and are eventually turned over to MNTC. MNTC also has advances made to DPWH, a Philippine government entity, which is covered by a Reimbursement Agreement.

MNTC also generates non-toll revenues in the form of service fees collected from business locators, generally called TSF (toll service facilities), along the stretch of the NLEX. The collection of such fees is provided in the STOA and is based on the principle that these TSF derive benefit from offering goods and services to NLEX motorists. The fees range from one-time access fees to recurring fees calculated as a percentage of sales. The arrangements are backed by a service facility contract between MNTC and the various locators. The credit risk on these arrangements is minimal because the fees are collected on a monthly basis mostly from well-established companies. The exposure is also limited given that the recurring amounts are not significant and there are adequate safeguards in the contract against payment delinquency. Nevertheless, MNTC closely monitors receivables from the TSF.

This segment's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to carrying amount of these financial assets. The Company does not require any collateral for its financial assets.

Water segment. Because of the basic need service that Maynilad provides, historical collections of Maynilad are relatively high, thus, credit risk exposure is widely dispersed. Maynilad billings are payable on the due date, which is normally 14 days from the billing date. However, customers are given 60 days to settle any unpaid bills before disconnection. Receivable balances are monitored on an ongoing basis with the result that the Company's exposure to bad debts is not significant.

Healthcare segment. The hospitals of the Company manages risk by setting credit limits for all customers and by monitoring credit exposures and the creditworthiness of counterparties. Credit limits are set and a regular review of these limits is being done by management. Credit is extended only to reputable entities such as HMO and insurance companies.

MPIC Group. The table below shows the maximum exposure to credit risk of the Company without considering the effects of collaterals, credit enhancements and other credit risk mitigation techniques and the net maximum exposure to credit risk of the Company considering the effects of collaterals, credit enhancements and other credit risk mitigation techniques.

The credit enhancement relating to cash and cash equivalents pertains to insured deposits in banks as prescribed by Philippine Deposit Insurance Corporation. The 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 will not pay until collection of the receivables.

	2014			2013		
	Gross Maximum Exposure (a)	**Fair Value and Financial Effect of Collateral or Credit Enhancement (b)**	**Net Exposure (c) = (a) – (b)**	Gross Maximum Exposure (a)	Fair Value and Financial Effect of Collateral or Credit Enhancement (b)	Net exposure (c) = (a) – (b)
			(In Millions)			
Financial assets at FVPL -						
Derivative assets	**₱-**	**₱–**	**₱–**	₱32	₱–	₱32
Loans and receivables:						
Cash and cash equivalents[(a)]	**17,638**	**69**	**17,569**	11,493	54	11,439
Short-term deposits	**8,033**	**–**	**8,033**	3,627	–	3,627
Restricted cash	**2,367**	**–**	**2,367**	1,827	–	1,827
Receivables	**3,939**	**–**	**3,939**	4,342	465	3,877
Due from related parties (current and noncurrent)	**140**	**–**	**140**	294	–	294
Deposits for LTIP[(b)]	**345**	**–**	**345**	131	–	131
Long-term cash and miscellaneous deposits[(b)]	**308**	**–**	**308**	313	–	313
AFS financial assets [(c)]	**1,938**	**–**	**1,938**	3,515	–	3,515
	₱34,708	**₱69**	**₱34,639**	₱25,574	₱519	₱25,055

[(a)] *Excludes cash on hand amounting to ₱86.9 million and ₱142.7 million as at December 31, 2014 and 2013, respectively.*
[(b)] *Included under "Other noncurrent assets" account in the consolidated statement of financial position.*
[(c)] *Excludes shares of stocks.*

As at December 31, 2014 the aging analysis of past due but not impaired financial assets is as follows:

	Neither Past Due nor Impaired	Past Due but not Impaired						Total	Collectively and Individually Impaired	Total
		<30 Days	30–60 Days	61–90 Days	91-120 Days	>120 Days	Total			
	(In Millions)									
Cash and cash equivalents[(a)]	₱17,638	₱–	₱–	₱–	₱–	₱–	₱–	₱17,638	₱–	₱17,638
Short-term deposits	8,033	–	–	–	–	–	–	8,033	–	8,033
Restricted cash	2,367	–	–	–	–	–	–	2,367	–	2,367
Receivables:										
Notes receivable	–	–	–	–	–	–	–	–	150	150
Trade receivables	1,982	322	142	152	140	12	768	2,750	716	3,466
Advances to customers	373	–	–	–	–	–	–	373	–	373
Accrued interests receivables	51	–	–	–	–	–	–	51	–	51
Advances to other affiliates	–	–	–	–	–	90	90	90	12	102
Advances to officers and employees	73	–	–	–	–	–	–	73	–	73
Dividends receivable	41	–	–	–	–	–	–	41	–	41
Others	547	3	–	–	11	–	14	561	1	562
Due from related parties	140	–	–	–	–	–	–	140	–	140
AFS[(b)]	1,938	–	–	–	–	–	–	1,938	–	1,938
Deposits for LTIP	345	–	–	–	–	–	–	345	–	345
Long-term cash and miscellaneous deposits[(c)]	308	–	–	–	–	–	–	308	–	308
	₱33,836	₱325	₱142	₱152	₱151	₱102	₱872	₱34,708	₱879	₱35,587

(a) Excluding cash on hand.
(b) Excluding shares of stocks.
(c) Included under "Other noncurrent assets" account in the consolidated statement of financial position.

As at December 31, 2013 the aging analysis of past due but not impaired financial assets is as follows:

	Neither Past Due nor Impaired	Past Due but not Impaired						Total	Individually Impaired	Total
		<30 Days	30–60 Days	61–90 Days	91-120 Days	>120 Days	Total			
					(In Millions)					
Cash and cash equivalents[a]	₱11,493	₱–	₱–	₱–	₱–	₱–	₱–	₱11,493	₱–	₱11,493
Short-term deposits	3,627	–	–	–	–	–	–	3,627	–	3,627
Restricted cash	1,827	–	–	–	–	–	–	1,827	–	1,827
Receivables:										
Notes receivable	853	–	–	–	–	–	–	853	180	1,033
Trade receivables	1,406	261	163	98	97	88	707	2,113	667	2,780
Advances to customers	441	–	–	–	–	–	–	441	–	441
Accrued interests receivables	279	–	–	–	–	–	–	279	6	285
Advances to other affiliates	–	–	–	–	–	90	90	90	12	102
Advances to officers and employees	80	–	–	–	–	–	–	80	–	80
Dividends receivable	28	–	–	–	–	–	–	28	–	28
Others	444	1	5	4	3	1	14	458	2	460
Due from related parties	294	–	–	–	–	–	–	294	–	294
AFS[b]	3,515	–	–	–	–	–	–	3,515	–	3,515
Deposits for LTIP	131	–	–	–	–	–	–	131	–	131
Long-term cash and miscellaneous deposits[c]	313	–	–	–	–	–	–	313	–	313
Derivative assets[c]	32	–	–	–	–	–	–	32	–	32
	₱24,763	₱262	₱168	₱102	₱100	₱167	₱811	₱25,574	₱867	₱26,441

[a] *Excluding cash on hand.*
[b] *Excluding shares of stocks.*
[c] *Included under "Other noncurrent assets" account in the consolidated statement of financial position.*

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

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

	2014			
	High Grade	**Standard Grade**	**Sub-standard Grade**	**Total**
		(In Millions)		
Loans and receivables:				
Cash and cash equivalents[(a)]	**₱17,638**	**₱–**	**₱–**	**₱17,638**
Short-term deposits	**8,033**	**–**	**–**	**8,033**
Restricted cash	**2,367**	**–**	**–**	**2,367**
Receivables:				
Trade receivables	**1,538**	**388**	**56**	**1,982**
Advances to customers	**373**	**–**	**–**	**373**
Accrued interests receivables	**51**	**–**	**–**	**51**
Advances to officers and employees	**73**	**–**	**–**	**73**
Dividends receivable	**41**	**–**	**–**	**41**
Others	**547**	**–**	**–**	**547**
Deposit for LTIP[(c)]	**345**	**–**	**–**	**345**
Due from related parties	**140**	**–**	**–**	**140**
Miscellaneous deposits[(c)]	**–**	**308**	**–**	**308**
AFS financial assets [(d)]	**1,938**	**–**	**–**	**1,938**
	₱33,084	**₱696**	**₱56**	**₱33,836**

[(a)] *Excluding cash on hand.*
[(b)] *Included under "Other current assets" account in the consolidated statement of financial position.*
[(c)] *Included under "Other noncurrent assets" account in the consolidated statement of financial position.*
[(d)] *Excluding shares of stocks.*

	2013			
	High Grade	Standard Grade	Sub-standard Grade	Total
		(In Millions)		
Financial assets at FVPL -				
Derivative assets	₱32	₱–	₱–	₱32
Loans and receivables:				
Cash and cash equivalents[(a)]	11,493	–	–	11,493
Short-term deposits	3,627	–	–	3,627
Restricted cash	1,827	–	–	1,827
Receivables:				
Notes receivable	589	264	–	853
Trade receivables	662	668	76	1,406
Advances to customers	441	–	–	441
Accrued interests receivables	279	–	–	279
Advances to officers and employees	80	–	–	80
Dividends receivable	28	–	–	28
Others	444	–	–	444
Deposit for LTIP[(c)]	131	–	–	131
Due from related parties	229	–	–	229
Miscellaneous deposits[(c)]	–	313	–	313
AFS financial assets [(d)]	3,515	–	–	3,515
	₱23,377	₱1,245	₱76	₱24,698

[(a)] *Excluding cash on hand.*
[(b)] *Included under "Other current assets" account in the consolidated statement of financial position.*
[(c)] *Included under "Other noncurrent assets" account in the consolidated statement of financial position.*
[(d)] *Excluding shares of stocks.*

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

Liquidity Risk
MPIC Group. 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.

The Company monitors its cash position using a cash forecasting system. All expected collections, check disbursements and other cash payments are determined daily to arrive at the projected cash position to cover its obligations and to ensure 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 online facilities with its depository banks wherein bank balances are monitored daily to determine the Company's actual cash balances at any time.

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

- Managing the concentration and profile of debt maturities;
- Maintaining debt financing plans; and
- Monitoring liquidity ratios against internal 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. The Company has a total cash and cash equivalents and short-term deposits, amounting to ₱25,758.3 million and ₱15,263.3 million as at December 31, 2014 and 2013, respectively, that are allocated to meet the Company's short-term liquidity needs.

The table below summarizes the maturity profile of the Company's financial assets and liabilities as at December 31, 2014 and 2013 based on undiscounted contractual payments.

	2014						
	On Demand	Within 1 Year	1–2 Years	2–3 Years	3–4 Years	More than 4 Years	Total
				(In Millions)			
Financial Assets							
Cash and cash equivalents[a]	₱3,174	₱14,464	₱–	₱–	₱–	₱–	₱17,638
Short-term deposits	–	8,033	–	–	–	–	8,033
Receivables	1,675	2,880	263	–	–	–	4,818
Due from related parties	–	140	–	–	–	–	140
Beacon Electric preferred shares [b]	–	–	–	–	–	11,573	11,573
AFS financial assets [c]	–	323	310	–	542	1,490	2,665
Cash and miscellaneous deposits[d]	–	–	653	–	–	–	653
	4,849	25,840	1,226	–	542	13,063	45,520
Financial Liabilities							
Accrued expenses[e]	–	2,607	–	–	–	–	2,607
Accrued construction costs	–	2,680	–	–	–	–	2,680
Trade payables[e]	546	2,741	–	–	–	–	3,287
Accounts payable	–	1,026	–	–	–	–	1,026

(Forward)

	2014						
	On Demand	**Within 1 Year**	**1–2 Years**	**2–3 Years**	**3–4 Years**	**More than 4 Years**	**Total**
				(In Millions)			
Interest and other financing charges	**₱–**	**₱721**	**₱–**	**₱–**	**₱–**	**₱–**	**₱721**
Dividends payable	**–**	**299**	**–**	**–**	**–**	**–**	**299**
Retention payable	**–**	**260**	**–**	**–**	**–**	**–**	**260**
Other current liabilities[e]	**–**	**277**	**–**	**–**	**–**	**–**	**277**
Due to related parties	**–**	**7,338**	**–**	**–**	**–**	**–**	**7,338**
Payable to CHI	**–**	**163**	**–**	**–**	**–**	**–**	**163**
Customers' guaranty deposits[f]	**–**	**–**	**–**	**–**	**–**	**804**	**804**
Concession fees payable	**–**	**1,501**	**1,266**	**1,155**	**1,172**	**13,485**	**18,579**
Long-term debts[g]	**–**	**7,214**	**7,096**	**6,155**	**10,147**	**52,990**	**83,602**
	546	**26,827**	**8,362**	**7,310**	**11,319**	**67,279**	**121,643**
Liquidity gap	**₱4,303**	**(₱987)**	**(₱7,136)**	**(₱7,310)**	**(₱10,777)**	**(₱54,216)**	**(₱75,523)**

	2013						
	On Demand	Within 1 Year	1–2 Years	2–3 Years	3–4 Years	More than 4 Years	Total
				(In Millions)			
Financial Assets							
Cash and cash equivalents[a]	₱2,413	₱9,080	₱–	₱–	₱–	₱–	₱11,493
Short-term deposits	–	3,627	–	–	–	–	3,627
Receivables	792	2,991	215	–	190	501	4,689
Due from related parties	–	240	11	11	11	221	494
Beacon Electric preferred shares [b]	–	–	–	–	–	11,573	11,573
AFS financial assets [c]	–	2,103	–	481	464	1,897	4,945
Cash and miscellaneous deposits[d]	–	–	–	444	–	–	444
	3,205	18,041	226	936	665	14,192	37,265
Financial Liabilities							
Accrued expenses[e]	–	2,189	–	–	–	–	2,189
Accrued construction costs	–	4,655	–	–	–	–	4,655
Trade payables[e]	583	2,966	–	–	–	–	3,549
Accounts payable	45	902	–	–	–	–	947
Interest and other financing charges	–	620	–	–	–	–	620
Dividends payable	–	425	–	–	–	–	425
Retention payable	–	218	–	–	–	–	218
Other current liabilities[e]	25	177	–	–	–	–	202
Due to related parties	93	–	–	–	–	–	93
Payable to CHI	–	163	–	–	–	–	163
Customers' guaranty deposits[f]	–	–	–	–	–	784	784
Financial guarantee obligation[f]	–	11	11	11	11	221	265
Concession fees payable	7	1,214	1,119	1,155	1,050	11,889	16,434
Long-term debts[g]	6	5,130	4,848	4,084	9,861	38,277	62,206
	759	18,670	5,978	5,250	10,922	51,171	92,750
Liquidity gap	₱2,446	(₱629)	(₱5,752)	(₱4,314)	(₱10,257)	(₱36,979)	(₱55,485)

[a] *Excluding cash on hand.*
[b] *Included in the "Investments and advances" account in the consolidated statement of financial position.*
[c] *Excluding shares of stocks but including interest to be received on investments in bonds.*
[d] *Included under "Other Current assets" and "Other Noncurrent assets" accounts in the consolidated statement of financial position.*
[e] *Excluding statutory payables.*
[f] *Included under "Deferred credits and other long-term liabilities" account in the consolidated statement of financial position.*
[g] *Including contractual interest payments.*

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. As at December 31, 2014 and 2013, the Company is subject to fair value and cash flow interest rate risks. Fixed rate financial instruments measured at fair value are subject to fair value interest rate risk while floating rate financial instruments are subject to cash flow interest rate risk.

The Company's exposure to interest rate risk relates primarily to long-term debt obligations that bear floating interest rate. The Company generally mitigates risk of changes in market interest rates by constantly monitoring fluctuations of interest rates and maintaining a mix of fixed and floating interest-bearing loans. Specific interest rate risk policies are as follows:

MPIC. In 2013, MPIC entered into a loan agreement to refinance its outstanding loan. The new loan bears a fixed rate for the first five years and is subject to an interest rate repricing on the fifth year. Should the interest rate on the repricing date be significantly higher than the current fixed rate, the Company has an option to prepay or refinance the loan starting on the fifth year at every interest payment date.

Tollway segment. The debt of the entities in this group are significantly fixed-rate loans, effectively locking in the interest rate in order to reduce exposure to interest rate fluctuations. With 100.0% of the financial instruments in local currency loans, around 21.0% of which is in floating interest rate, exposure is now limited to changes in six-month PDST-F.

Water segment. Maynilad's exposure to interest rate risk relates primarily to its interest-bearing loans. Maynilad maintains a mix of floating and fixed rate loans, currently at a ratio of 3% floating and 97% fixed. The floating rate interest-bearing loans will increase to a higher portion over time because of future drawdowns in connection to the MWMP loan agreement.

MPIC Group. The following tables set out the carrying amount, classified by maturity, of the Company's interest-bearing financial assets and financial liabilities that are subject to interest rate risk. Interest on financial instruments classified as floating rate is repriced either semi-annually or quarterly on each interest payment date. Interest on financial instruments classified as fixed rate is fixed until the maturity of the instrument with an exception for the certain borrowings which are subject to repricing as discussed above. The other financial instruments of the Company that are not included in the table below are non-interest bearing and are therefore not subject to interest rate risk.

US Dollar-Denominated Financial Assets and Financial Liabilities

			December 31, 2014				
	Interest Rate	**On Demand**	**Within 1 Year**	**2–3 Years**	**4–5 Years**	**More than 5 Years**	**Total**
			(In Millions)				
Cash and cash equivalents		**$1**	**$4**	**$–**	**$–**	**$–**	**$5**
Restricted Cash		**5**		**–**	**–**	**–**	**5**
		$6	**$4**	**$–**	**$–**	**$–**	**$10**
Floating rate loans:							
MWMP Worldbank Loan	**Floating rate benchmark +1.25% spread**	**$–**	**$–**	**$–**	**$–**	**$15**	**$15**
International Finance Corporation-Subordinated	**LIBOR+IPA (1%-2% of EBITDA)**	**–**	**–**	**–**	**1**	**–**	**1**
		$–	**$–**	**$–**	**$1**	**$15**	**$16**

			December 31, 2013				
	Interest Rate	On Demand	Within 1 Year	2–3 Years	4–5 Years	More than 5 Years	Total
			(In Millions)				
Cash and cash equivalents		$2	$–	$–	$–	$–	$2
Floating rate loans:							
MWMP Worldbank Loan	Floating rate benchmark +1.25% spread	$–	$–	$–	$–	$2	$2
International Finance Corporation-Subordinated	LIBOR+IPA (1%-2% of EBITDA)	–	–	–	1	–	1
		$–	$–	$–	$1	$2	$3

Thai Baht-Denominated Financial Assets and Financial Liabilities

			December 31, 2014				
	Interest Rate	**On Demand**	**Within 1 Year**	**2–3 Years**	**4–5 Years**	**More than 5 Years**	**Total**
			(In Millions)				
Cash and cash equivalents		**THB 23**	**THB–**	**THB–**	**THB–**	**THB–**	**THB 23**
Floating rate loans -							
Thanachart Term Loan	**Minimum Lending Rate less 1.5%**	**–**	**THB 106**	**THB 382**	**THB 667**	**THB 800**	**THB 1,955**

Peso-Denominated Financial Assets and Financial Liabilities

			December 31, 2014				
	Interest Rate	**On Demand**	**Within 1 Year**	**2–3 Years**	**4–5 Years**	**More than 5 Years**	**Total**
			(In Millions)				
Cash and cash equivalents	**0.25%-6.0%**	**₱3,104**	**₱14,302**	**₱–**	**₱–**	**₱–**	**₱17,406**
Investment in bonds and corporate notes	**2.13%-6%**	**–**	**256**	**206**	**441**	**1,035**	**1,938**
		₱3,104	**₱14,558**	**₱206**	**₱441**	**₱1,035**	**₱19,344**
Floating rate loans:							
PNB Loan	**PDST-F + 0.5% Margin**	**₱–**	**₱893**	**₱–**	**₱–**	**₱–**	**₱893**
BDO Bank Loan	**2% p.a +PDST-F rate ;prevailing market interest rates**	**–**	**25**	**46**	**56**	**21**	**148**
		₱–	**₱918**	**₱46**	**₱56**	**₱21**	**₱1,041**

			December 31, 2013				
	Interest Rate	On Demand	Within 1 Year	2–3 Years	4–5 Years	More than 5 Years	Total
			(In Millions)				
Cash and cash equivalents	0.05%-4.60%	₱2,326	₱9,068	₱–	₱–	₱–	₱11,394
Notes receivable	10%-12%	–	265	133	100	355	853
Investment in bonds and corporate notes	2.13%-6%	–	–	350	394	778	1,522
		₱2,326	₱9,333	₱483	₱494	₱1,133	₱13,769
Floating rate loans:							
PNB Loan	PDST-F + 0.5% Margin	₱–	₱892	₱893	₱–	₱–	₱1,785
Peso-denominated Bank Loan	Floating rate benchmark+4.00 % (9.00%, June 3, 2009 to June 3, 2016)	–	17	12	–	–	29
BDO Bank Loan	2% p.a +PDST-F rate ;prevailing market interest rates	–	79	16	33	34	162
		₱–	₱988	₱921	₱33	₱34	₱1,976

The following table demonstrates the sensitivity of income before income tax arising from changes in interest cash flows of floating rate loans and fair values of AFS financial assets, respectively, due to changes in Philippine Peso and US Dollar interest rates with all other variables held constant. The estimates in the movement of interest rates were based on the management's annual financial forecast. There is no other impact on equity other than those already affecting the consolidated statement of comprehensive income.

	Increase/Decrease in Basis Points	Effect on Income Before Income Tax
		(In Millions)
2014	+50	**(22)**
	–50	**22**
2013	+50	(10)
	–50	10

There were no outstanding derivative transactions as at December 31, 2014 and 2013.

Foreign Currency Risk
Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. As at December 31, 2014 and 2013, the Company's foreign currency risk results primarily from movements of the Philippine Peso against US Dollar, Euro and Japanese Yen.

In general, the Company's exposure to foreign currency risk is minimal as significantly all of the transactions are denominated in Philippine Peso. Exposure to foreign currency risk primarily results from the following foreign currency borrowings:

Tollways segment. The segment's exposure to foreign exchange currency risk relates mainly to CIC's dollar denominated Series 2010-1 Notes amounting to $20 million (₱792 million) as at December 31, 2014. The segment's practice is to refinance outstanding U.S. dollar loans with peso loans to reduce the exposure to foreign currency risk.

Payment for AIF's loan which is denominated in Thai Baht is to be sourced from the dividends, also denominated in Thai Baht, to be declared by DMT (see Notes 11 and 19).

Water Segment. The servicing of foreign currency-denominated loans of MWSS is among the requirements of Maynilad's Concession Agreement. Majority of the revenues are generated in Philippine Peso. However, there is a mechanism in place as part of the Concession Agreement wherein Maynilad (or the end consumers) can recover foreign currency fluctuations through the FCDA that is approved by the Regulatory Office.

Hospital Segment. Of the entities in the healthcare segment, AHI has foreign currency risk arising from its cash and cash equivalents, international insurance included under receivables and US dollar denominated loan exposure. AHI also has transactional currency exposures arising from purchases of medical equipment or supplies in currencies other than the Philippine Peso. AHI is unable to take on any derivative transaction to hedge these exposures since its loan covenants do not allow it. AHI relies on its ability to generate dollar-based revenue from its foreign patients to mitigate this risk.

MPIC Group. The Company's foreign currency-denominated financial assets and liabilities as at December 31 are:

	2014			2013		
	US Dollar	**Thai Baht**	**JPY**	US Dollar	Euro	JPY
			(In Millions)			
Assets:						
Cash and cash equivalents	**$5**	**THB 23**	**¥–**	$2	€–	¥–
Restricted cash	**5**	**–**	**–**	–	–	–
Receivables	**–**	**–**	**–**	1	–	–
	10	**23**	**–**	3	–	–
Liabilities:						
Service concession fees payable	**(95)**	**–**	**(854)**	(92)	(1)	(1,472)
Long-term debts	**(33)**	**(1,955)**	**–**	(22)	–	–
	(128)	**(1,955)**	**(854)**	(114)	(1)	(1,472)
Net foreign currency-denominated liabilities	**($118)**	**(THB 1,932)**	**(¥854)**	($111)	(€1)	(¥1,472)

The following table demonstrates sensitivity of cash flows due to changes in foreign exchange rates with all variables held constant. The estimates in the movement of the foreign exchange rates were based on the management's annual financial forecast.

	Increase/Decrease in Foreign Exchange Rates	Foreign Exchange Rate	Effect on Income Before Income Tax
			(In Millions)
2014			
US Dollar	**+5%**	**44.72**	**(₱273)**
THB	**+5%**	**1.36**	**(127)**
JPY	**+5%**	**0.37**	**(16)**
US Dollar	**-5%**	**44.72**	**273**
THB	**-5%**	**1.36**	**127**
JPY	**-5%**	**0.37**	**16**

	Increase/Decrease in Foreign Exchange Rates	Foreign Exchange Rate	Effect on Income Before Income Tax
			(In Millions)
2013			
US Dollar	+5%	44.40	(₱246)
Euro	+5%	60.82	(3)
JPY	+5%	0.42	(31)
US Dollar	-5%	44.40	246
Euro	-5%	60.82	3
JPY	-5%	0.42	31

Capital Management

Capital includes preferred shares and equity attributable to the equity holders of the Parent Company. 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 in order to support its business and maximize shareholder value. The Company ensures that it is compliant with all debt covenants not only at the consolidated level but also at the level of Parent Company and each of its subsidiaries.

In general, the Company closely monitors its debt covenants and maintains a capital expenditure program and dividend declaration policy that keeps the compliance of these covenants into consideration.

The following debt covenants are being complied with by the Company as part of maintaining a strong credit rating with its creditors:

MPIC. MPIC's loan agreement provides that MPIC shall ensure during the term of the loan 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, MPIC shall achieve a DSCR of 1.5x. As at December 31, 2014 and 2013, MPIC is in compliance with the required financial ratios and other loan covenants.

Tollways Segment. Under the loan agreements, MNTC is required a Maintenance Debt Service Coverage Ratio (DSCR) of not less than 1.15 times and maintain a debt-to-equity ratio not exceeding 3.0 times for the first three years after the date of the loan agreement and not exceeding 2.5 times after such period. The loan agreements provide that MNTC may incur new loans or declare dividends as long as the Pro-forma DSCR for the relevant year is not less than 1.30 times.

MNTC also ensures that its debt to equity ratio is in line with the requirements of the BOI. BOI requires the Company to comply with a 75:25 debt to equity ratio as proof of capital build-up. MNTC is in compliance with the required financial ratios and other loan covenants.

In relation to CIC's loan agreement relating to the Series 2010-1 Dollar-denominated Notes, CIC shall not pay any dividends or make any other distribution in respect of its share capital following these events: (1) early amortization, cash trapping and repurchase events as indicated in the terms of the Notes; (2) failure to fully fund the transaction account; (3) while the construction of CAVITEX is not yet complete; (4) while the Notes have not commenced to amortize. CIC has not paid any dividends in 2014. Other than restrictions as to dividend distribution, CIC is not subject to other externally imposed capital requirements.

Under the RCBC/BDO loan, CIC is required to maintain a DSCR of at least 1.05 times at all times until full payment of the long-term debt and at least 1.20 times for declaration of dividends and other distributions. CIC shall also maintain a maximum debt to equity ratio of 3.0 times at all times until full payment of the long-term debt. CIC is in compliance with the required financial ratios and other loan covenants.

Water Segment. Maynilad closely manages its capital structure vis-a-vis a certain target gearing ratio, which is net debt divided by total capital plus net debt. Maynilad's target gearing ratio is 75%. This target is to be maintained over the next five years by managing the level of borrowings and dividend payments to shareholders.

For purposes of computing its net debt, Maynilad includes the outstanding balance of its long-term interest-bearing loans, service concession obligation payable to MWSS and trade and other payables, less the outstanding cash and cash equivalents, short-term investments, deposits and sinking fund. To compute its capital, Maynilad uses net equity. Maynilad closely monitors its debt covenants and maintains a capital expenditure program and dividend declaration policy that keeps the compliance of these covenants into consideration. In 2014, Maynilad is in compliance with the required financial ratios and other loan covenants.

MPIC Group. The Company manages its capital structure and adjust to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may obtain additional advances from shareholders, return capital to shareholders, issue new shares or issue new debt or redemption of existing debt. No changes were made in the objectives, policies or processes during the years ended December 31, 2014 and 2013. The Company monitors capital on the basis of debt-to-equity ratio. Debt-to-equity ratio is calculated as long-term debts over equity. The Company's goal is to maintain a sustainable debt-to-equity ratio. The debt-to-equity ratio as at December 31, 2014 and 2013 are:

	2014	2013
	(In Millions)	
Long-term debts	**₱61,067**	₱51,048
Equity	**129,572**	113,280
Debt-to-equity ratio	**47%**	45%

36. **Financial Instruments – Categories and Derivatives**

Categories of Financial Instruments

The categories of the Company's financial assets and financial liabilities as at December 31, 2014 and 2013 are:

	2014				
	Financial Assets			Financial Liabilities	
	FVPL	Loans and Receivables	AFS Financial Assets	Other Financial Liabilities	Total
			(In Millions)		
ASSETS					
Cash and cash equivalents	**₱–**	**₱17,638**	**₱–**	**₱–**	**₱17,638**
Short-term deposits	**–**	**2,994**	**–**	**–**	**2,994**
Restricted cash	**–**	**2,367**	**–**	**–**	**2,367**
Receivables - net	**–**	**3,939**	**–**	**–**	**3,939**
Due from related parties	**–**	**140**	**–**	**–**	**140**
Derivative assets	**–**	**–**	**–**	**–**	**–**
AFS financial assets:					
Investment in bonds	**–**	**–**	**1,938**	**–**	**1,938**
Investment in UITF	**–**	**–**	**5,039**	**–**	**5,039**
Investment in equity	**–**	**–**	**526**	**–**	**526**
Equity method investees [(a)]	**–**	**756**	**11,573**	**–**	**12,329**
Other noncurrent assets	**–**	**653**	**–**	**–**	**653**
	₱–	**₱28,487**	**₱19,076**	**₱–**	**₱47,563**
LIABILITIES					
Accounts payable and other current liabilities [(b)]	**₱–**	**₱–**	**₱–**	**₱11,320**	**₱11,320**
Due to related parties	**–**	**–**	**–**	**7,279**	**7,279**
Service concession fees payable	**–**	**–**	**–**	**7,771**	**7,771**
Long-term debt	**–**	**–**	**–**	**61,067**	**61,067**
Deferred credits and other long-term liabilities	**–**	**–**	**–**	**1,406**	**1,406**
	₱–	**₱–**	**₱–**	**₱88,844**	**₱88,844**

[(a)] Includes advances to Beacon Electric and investment in preferred shares of Beacon Electric classified as AFS financial assets.
[(b)] Excludes statutory payables

	2013				
	Financial Assets			Financial Liabilities	
	FVPL	Loans and Receivables	AFS Financial Assets	Other Financial Liabilities	Total
			(In Thousands)		
ASSETS					
Cash and cash equivalents	₱–	₱11,493	₱–	₱–	₱11,493
Short-term deposits	–	3,627	–	–	3,627
Restricted cash	–	1,827	–	–	1,827
Receivables - net	–	4,342	–	–	4,342
Due from related parties	–	294	–	–	294
Derivative assets	32	–	–	–	32
AFS financial assets:					
Investment in bonds	–	–	1,520	–	1,520
Investment in UITF	–	–	1,995	–	1,995
Investment in equity	–	–	1,297	–	1,297
Equity method investees [(a)]	–	756	11,573	–	12,329
Other noncurrent assets	–	163	–	–	163
	₱32	₱22,502	₱16,385	₱–	₱38,919

	2013				
	Financial Assets			Financial Liabilities	
	FVPL	Loans and Receivables	AFS Financial Assets	Other Financial Liabilities	Total
			(In Thousands)		
LIABILITIES					
Accounts payable and other current liabilities [(b)]	₱–	₱–	₱–	₱13,066	₱13,066
Due to related parties	–	–	–	93	93
Service concession fees payable	–	–	–	8,512	8,512
Long-term debt	–	–	–	51,048	51,048
Deferred credits and other long-term liabilities	–	–	–	1,321	1,321
	₱–	₱–	₱–	₱74,040	₱74,040

[(a)] *Includes advances to Beacon Electric and investment in preferred shares of Beacon Electric classified as AFS financial assets.*
[(b)] *Excludes statutory payables*

Derivative Financial Instruments

The Company has no freestanding derivatives and no derivatives accounted for as cash flow hedges as at December 31, 2014 and 2013. However, the Company has outstanding and freestanding derivative financial instruments as at December 31, 2013 comprising of embedded conversion option presented under noncurrent assets amounting to ₱32.0 million.

Embedded conversion option. As discussed in Note 8, the Company bifurcated the embedded conversion option in its investment in Landco's preferred shares. The conversion option gives the Company the right to convert the preferred shares into common shares of Landco at a conversion price of ₱156.27, subject to the occurrence of certain contingent events. At initial recognition, the Company assigned a value amounting to ₱31.7 million to the conversion option. This amount is the residual after deducting from the value of the hybrid instrument the fair value of the host instrument (preferred shares without any embedded derivative) calculated as the present value of all future cash flows from the preferred shares discounted using credit adjusted interest rates ranging from 8.5% to 11.8%.

The embedded conversion option has been carried at cost in the consolidated statement of financial position since the underlying common shares of Landco are unquoted and there is no reliable basis to determine subsequent fair value. As discussed in Note 33, the preferred shares have been converted to common shares in 2014.

Fair Value Changes on Derivatives. The net changes in the fair values of all derivative instruments for the years ended December 31, 2014 and 2013 are:

	2014	2013
	(In Millions)	
Balance at beginning of year	**₱32**	₱257
Consolidation adjustment (see Note 4)	–	(225)
Conversion of preferred shares (see Notes 8 and 33)	**(32)**	–
Balance at end of year	**₱–**	₱32

In 2012, ₱44.8 million and ₱3.2 million are included under "Others" account under Other expenses of the consolidated statement of comprehensive income.

37. Fair Value Measurement

The fair value of the assets and liabilities is determined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between participants at the measurement date. The following tables summarize the carrying amounts and fair values of the assets and liabilities, analyzed among those whose fair value is based on:

- Level 1 - Quoted market prices in active markets for identical assets or liabilities
- Level 2 - Those involving inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); and
- Level 3 - Those with inputs for the asset or liability that are not based on observable market data (unobservable input).

As discussed in Notes 10 and 36, the unlisted shares of stock (except for NEPSCC shares) and the embedded conversion option are carried at cost in the consolidated statement of financial position since there are no reliable bases to determine subsequent fair value. As at December 31, 2014 and 2013, there were no financial instruments carried at fair value that were classified under Level 3.

			2014		
	Carrying Value	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
			(In Millions)		
Assets measured at fair value					
AFS Financial Assets (see Note 10):					
Shares of stock	**₱526**	**₱15**	**₱511**	**₱–**	**₱526**
Unit Investment Trust Fund	**5,039**	**–**	**5,039**	**–**	**5,039**
Investment in bonds and treasury notes	**1,938**	**1,938**	**–**	**–**	**1,938**
	₱7,503	**₱1,953**	**₱5,550**	**₱–**	**₱7,503**
Assets for which fair values are disclosed					
Loans and Receivables:					
Notes receivables (see Note 8)	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**
Miscellaneous deposits (see Note 15)	**206**	**–**	**–**	**160**	**160**
	₱206	**₱–**	**₱–**	**₱160**	**₱160**
Liabilities for which fair values are disclosed					
Other financial liabilities:					
Refundable deposits	**₱8**	**₱–**	**₱–**	**₱2**	**₱2**
Service concession fees payable (current and noncurrent)	**7,771**	**–**	**–**	**9,968**	**9,968**
Long-term debts (current and noncurrent)	**61,067**	**–**	**–**	**66,183**	**66,183**
Customer guaranty deposit	**804**	**–**	**–**	**1,234**	**1,234**
	₱69,650	**₱–**	**₱–**	**₱77,387**	**₱77,387**

			2013		
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
			(In Millions)		
Assets measured at fair value					
AFS Financial Assets (see Note 10):					
Shares of stock	₱474	₱15	₱459	₱–	₱474
Unit Investment Trust Fund	1,995	–	1,995	–	1,995
Investment in bonds and treasury notes	1,552	1,552	–	–	1,552
Investment in PMHI (see Note 11)	70	427	–	–	427
	₱4,091	₱1,994	₱2,454	₱–	₱4,448
Assets for which fair values are disclosed					
Loans and Receivables:					
Notes receivables (see Note 8)	₱853	₱–	₱–	₱1,167	₱1,167
Miscellaneous deposits (see Note 15)	155	–	–	109	109
	₱1,008	₱–	₱–	₱1,276	₱1,276

	2013				
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
	(In Millions)				
Liabilities for which fair values are disclosed					
Other financial liabilities:					
Refundable deposits	₱8	₱–	₱–	₱1	₱1
Service concession fees payable (current and noncurrent)	8,512	–	–	16,296	16,296
Long-term debts (current and noncurrent)	51,048	–	–	56,987	56,987
Customer guaranty deposit	783	–	–	1,149	1,149
Financial guarantee obligation	65	–	–	150	150
	₱60,416	₱–	₱–	₱74,583	₱74,583

During the year ended December 31, 2014 and 2013, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurement.

The following methods and assumptions were used to measure the fair value of each class of assets and liabilites for which it is practicable to estimate such value:

Levels 1 and 2 Fair Value Hierarchy

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

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

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

Due from Related Parties. In 2014 and 2013, fair value of due from related parties approximates their carrying amounts as these are expected to be settled within a year from the consolidated statement of financial position date.

Refundable Occupancy Deposits. The fair value of the refundable occupancy deposits is determined by discounting the deposit using the prevailing market rate of interest. The effective annual rate used in 2014 and 2013 is 7.01% and 7.01%, respectively.

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

Financial Guarantee Obligation. Estimated fair value is based on the discounted value of future cash flows using the prevailing peso interest rates that are specific to the tenor of the instruments cash flows ranging from 1.0% to 6.0% in 2013.

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

Long-term Debt. For both fixed rate and floating rate (repriceable every six months) US dollar-denominated debts and Philippine Peso-denominated fixed rate corporate notes, estimated fair value is based on the discounted value of future cash flows using the prevailing credit adjusted US risk-free rates and Philippine risk free rates that are adjusted for credit spread ranging from 2.1% to 6.0% and 1.2% to 6.1% in 2014 and 2013, respectively.

38. Supplemental Cash Flow Information

The following table shows the Company's significant non-cash investing and financing activities and corresponding transaction amounts for the years ended December 31, 2014, 2013 and 2012:

	2014	2013	2012
		(In Millions)	
Non-cash investing and financing activities:			
Payment of amount due to Beacon Electric by way of offsetting against dividend receivable	**₱4,450**	₱–	₱–
Unpaid AFCSI subscription	**203**	–	–
Acquisition of CIC through subscription of convertible notes (see Note 4)	**–**	6,772	–
Additions to service concession assets and concession fees payable pertains to drawn portion of MWSS loans (see Notes 13 and 18)	**–**	1,143	1,075
Unpaid consideration related to the acquisition of PHI (see Note 4)	**–**	–	317

For the year-ended December 31, 2014, the Company had a non-cash investing activity which was not reflected in the consolidated statement of cash flows. As discussed in Note 11, MPIC acquired 56.35 million shares of Meralco at an aggregate consideration of ₱13.24 billion. Of the amount due to Beacon Electric, a total of ₱4.45 billion was paid through offsetting with MPIC's share of dividends on common shares declared by Beacon Electric on June 24, 2014 and November 17, 2014.

39. Events after the Reporting Period

Aside from those disclosed in Note 5 (Maynilad's arbitration), Note 22 (MPIC's dividend declaration on February 26, 2015) and Note 33 (Notice of Award for the operations and maintenance of the SCTEX), events occurring after the reporting period include:

Investment in CII Bridges and Roads Investment Joint Stock Company (CII B&R).
On January 14, 2015, MPTC entered into a Share Purchase Agreement with Ho Chi Minh City Infrastructure Investment Joint Stock Company (CII) covering the purchase by MPTC from CII of 30 million shares of CII B&R at VND22,100 per share; and Bond Subscription Agreement with CII covering the issuance by CII of and the subscription by MPTC to 1,020,000 bonds each with a face value of VND1.0 million which are convertible to 56,666,667 shares of CII B&R that will result in MPTC holding a minority equity interest equal to about 45% of the outstanding capital of CII B&R (on a fully diluted basis) through a combination of purchase of CII B&R secondary shares from CII, and subscription to VND-denominated bonds to be issued by CII, which are exchangeable into secondary shares in CII B&R. Total acquisition cost for the shares and bonds is VND1,955.0 billion (₱4.0 billion). Closing of the transaction is expected in March 2015.

CII B&R (formerly Lu Gia Mechanical Electric Joint Stock Company) is a joint stock company established and existing under the laws of Vietnam and listed in Ho Chi Minh City Stock Exchange. The Company manufactures and trades lighting equipment, metal pillars and mechanical parts for public lighting, traffic and decoration purposes.

Cebu-Cordova Bridge Project. In January 2015, MPTDC procured the original proponent status for the proposed Cebu-Cordova Bridge Project from Cebu City and the Municipality of Cordova. Negotiations with both Cebu City and the Municipality of Cordova are on-going and once done, a Swiss Challenge will have to be conducted before awarding of the contract.

This project spanning 8.3 kilometers will link the island of Mactan to mainland Cebu through the Municipality of Cordova. The total construction cost of the Cebu-Cordova Bridge Project is estimated at ₱17.0 billion and completion date by 2020 assuming that awards and approvals are secured by the first half of 2015.

MPTDC is proposing to form a joint venture vehicle with the City of Cebu and the Municipality of Cordova for the design, construction, implementation, operation, and maintenance of the toll bridge. The proposed joint venture will operate under a 35-year concession period, inclusive of the preparatory work, design, and construction of the project.

MPIC Share Placement. MPIC, together with its principal shareholder, MPHI entered into a placement agreement with UBS AG, Hong Kong Branch on February 9, 2015, in respect of the offer and sale (the "Offer") by MPHI of 1,812,000,000 common shares of MPIC at the Offer Price of ₱4.90 per share. Closing of the Offer is conditioned, among others, on MPHI subscribing (or agreeing to subscribe) to the same number of shares at the offer price or a total of approximately ₱8.9 billion. The proceeds from the placement and subscription transaction shall be used by MPIC primarily for the reduction of relatively expensive debt at MPIC's affiliate, Beacon Electric, investment in previously announced projects and general corporate purposes.

Consequently, MPHI's economic interest in MPIC is reduced from 55.8% to 52.1%.

Meralco and Beacon Electric's Dividend Declaration. On February 23, 2015, the BOD of Meralco approved the declaration of the final cash dividend of ₱8.49 per common share in favor of the common stockholders of record as at March 23, 2015 with payment date of April 15, 2015. The final cash dividends comprises of regular and special dividend of ₱3.66 and ₱4.83 per common share, respectively.

On February 26, 2015, the BOD of Beacon Electric declared total dividends of ₱4.3 billion in favor of the common shareholders of record as at February 26, 2015 with payment date of February 27, 2015. MPIC's share of the dividends declared by Beacon Electric amounting to ₱2.2 billion is earmarked for offsetting against MPIC's payable to Beacon Electric for the acquisition of the Meralco shares as disclosed in Note 11.

40. **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, 2014. Except for additional disclosure requirements, adoption of the following standards are not expected to have any material impact on the Company's financial position or performance:

- PFRS 9, *Financial Instruments – Classification and Measurement (2010 version)* — PFRS 9 (2010 version) reflects the first phase on the replacement of PAS 39 and applies to the classification and measurement of financial assets and liabilities as defined in PAS 39, Financial Instruments: Recognition and Measurement. 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 other comprehensive income (OCI) or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For FVO liabilities, 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 in respect of the liability's 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 into PFRS 9, including the embedded derivative separation 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 Group's financial assets, but will potentially have no impact on the classification and measurement of financial liabilities.

  PFRS 9 (2010 version) is effective for annual periods beginning on or after January 1, 2015. This mandatory adoption date was moved to January 1, 2018 when the final version of PFRS 9 was adopted by the Philippine Financial Reporting Standards Council (FRSC). Such adoption, however, is still for approval by the Board of Accountancy (BOA).

- 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 FRSC have deferred the effectivity of this interpretation until the final Revenue standard is issued by the IASB and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed. Adoption of the interpretation when it becomes effective will not have any impact on the financial statements of the Company.

The following new standards and amendments issued by the IASB were already adopted by the FRSC but are still for approval by BOA:

<u>Effective January 1, 2015</u>

- PAS 19, Employee Benefits – *Defined Benefit Plans: Employee Contributions (Amendments)* — PAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify

that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognize such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after January 1, 2015. It is not expected that this amendment would be relevant to the Company, since none of the entities within the Company has defined benefit plans with contributions from employees or third parties.

- *Annual Improvements to PFRSs (2010-2012 cycle).* The Annual Improvements to PFRSs (2010-2012 cycle) are effective for annual periods beginning on or after January 1, 2015 and are not expected to have a material impact on the Company. They include:

  - PFRS 2, *Share-based Payment – Definition of Vesting Condition* — This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including: a performance condition must contain a service condition; a performance target must be met while the counterparty is rendering service; a performance target may relate to the operations or activities of an entity, or to those of another entity in the same group; a performance condition may be a market or non-market condition; if the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied.

  - PFRS 3, *Business Combinations – Accounting for Contingent Consideration in a Business Combination* — The amendment is applied prospectively for business combinations for which the acquisition date is on or after July 1, 2014. It clarifies that a 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, *Financial Instruments: Recognition and Measurement* (or PFRS 9, *Financial Instruments*, if early adopted). 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 are applied retrospectively and clarify that: an entity must disclose the judgments made by management in applying the aggregation criteria in the standard, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'; and the reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

  - PAS 16, *Property, Plant and Equipment* and PAS 38*, Intangible Assets – Revaluation Method – Proportionate Restatement of Accumulated Depreciation and Amortization* — The amendment is applied retrospectively and clarifies in PAS 16 and PAS 38 that the asset may be revalued by reference to the observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortization is the difference between the gross and carrying amounts of the asset.

  - PAS 24, *Related Party Disclosures – Key Management Personnel* — The amendment is applied retrospectively and clarifies that a management entity, which is an entity that provides key management personnel services, is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.

- *Annual Improvements to PFRSs (2011-2013 cycle).* The Annual Improvements to PFRSs (2011-2013 cycle) are effective for annual periods beginning on or after January 1, 2015 and are not expected to have a material impact on the Company. They include:

  - PFRS 3, *Business Combinations - Scope Exceptions for Joint Arrangements* — The amendment is applied prospectively and clarifies the following regarding the scope exceptions within PFRS 3: joint arrangements, not just joint ventures, are outside the scope of PFRS 3; and this scope exception applies only to the accounting in the financial statements of the joint arrangement itself.

  - PFRS 13, *Fair Value Measurement - Portfolio Exception* — The amendment is applied prospectively and clarifies that the portfolio exception in PFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of PAS 39 (or PFRS 9, as applicable).

  - *PAS 40, Investment Property* — The amendment is applied prospectively and clarifies that PFRS 3, and not the description of ancillary services in PAS 40, is used to determine if the transaction is the purchase of an asset or business combination. The description of ancillary services in PAS 40 only differentiates between investment property and owner-occupied property (i.e., property, plant and equipment).

Effective January 1, 2016

- PAS 16, *Property, Plant and Equipment*, and PAS 38, *Intangible Assets - Clarification of Acceptable Methods of Depreciation and Amortization (Amendments)* — The amendments clarify the principle in PAS 16 and PAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets. The amendments are effective prospectively for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact to the Company given that the Company has not used a revenue-based method to depreciate its non-current assets.

- PAS 16, *Property, Plant and Equipment* and PAS 41, *Agriculture – Bearer Plants (Amendments)* — The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of PAS 41. Instead, PAS 16 will apply. After initial recognition, bearer plants will be measured under PAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of PAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, PAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, will apply. The amendments are retrospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact to the Company as the Company does not have any bearer plants.

- PAS 27, *Separate Financial Statements – Equity Method in Separate Financial Statements (Amendments)* — The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying PFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of PFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to PFRS. The amendments are effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments will not have any impact on the Company's consolidated financial statements.

- PFRS 10, *Consolidated Financial Statements* and PAS 28, *Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* — These amendments address an acknowledged inconsistency between the requirements in PFRS 10 and those in PAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. These amendments are effective from annual periods beginning on or after January 1, 2016.

- PFRS 11, *Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operations (Amendments)* — The amendments to PFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant PFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to PFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact to the Company.

- PFRS 14, *Regulatory Deferral Accounts* — PFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of PFRS. Entities that adopt PFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. PFRS 14 is effective for annual periods beginning on or after January 1, 2016. Since the Group is an existing PFRS preparer, this standard would not apply.

- *Annual Improvements to PFRSs (2012-2014 cycle).* The Annual Improvements to PFRSs (2012-2014 cycle) are effective for annual periods beginning on or after January 1, 2016 and are not expected to have a material impact on the Company. They include:

  - PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations – Changes in Methods of Disposal* — The amendment is applied prospectively and clarifies that changing from a disposal through sale to a disposal through distribution to owners and vice-versa should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in PFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification.

  - PFRS 7, *Financial Instruments: Disclosures – Servicing Contracts* — PFRS 7 requires an entity to provide disclosures for any continuing involvement in a transferred asset that is derecognized in its entirety. The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance in PFRS 7 in order to assess whether the disclosures are required. The amendment is to be applied such that the assessment of which servicing contracts constitute continuing involvement will need to be done retrospectively. However, comparative disclosures are not required to be provided for any period beginning before the annual period in which the entity first applies the amendments.

  - PFRS 7 - *Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements* — This amendment is applied retrospectively and clarifies that the disclosures on offsetting of financial assets and financial liabilities are not required in the condensed interim financial report unless they provide a significant update to the information reported in the most recent annual report.

  - PAS 19, *Employee Benefits – regional market issue regarding discount rate* — This amendment is applied prospectively and clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.

  - PAS 34, *Interim Financial Reporting – disclosure of information 'elsewhere in the interim financial report'* — The amendment is applied retrospectively and clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report).

Effective January 1, 2018

- PFRS 9, *Financial Instruments – Hedge Accounting and amendments to PFRS 9, PFRS 7 and PAS 39 (2013 version)* — PFRS 9 (2013 version) already includes the third phase of the project to replace PAS 39 which pertains to hedge accounting. This version of 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 derivative instrument as the hedging instrument and accounted for as costs of hedging. PFRS 9 also requires more extensive disclosures for hedge accounting.

PFRS 9 (2013 version) has no mandatory effective date. The mandatory effective date of January 1, 2018 was eventually set when the final version of PFRS 9 was adopted by the FRSC. The adoption of the final version of PFRS 9, however, is still for approval by BOA.

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

Issued by the IASB but not yet been adopted by the FRSC

- IFRS 15 Revenue from Contracts with Customers — IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2017 with early adoption permitted. The Company is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date once adopted locally.