Metro Pacific Investments Corporation

Parent Company Financial Statements
December 31, 2014 and 2013

and

Independent Auditors' Report

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

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Metro Pacific Investments Corporation

Report on the Parent Company Financial Statements

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

Management's Responsibility for the Parent Company Financial Statements

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

Auditors' Responsibility

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

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

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

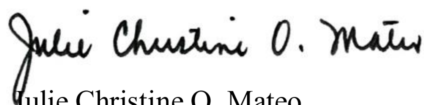
Opinion

In our opinion, the parent company financial statements present fairly, in all material respects, the financial position of Metro Pacific Investments Corporation as at December 31, 2014 and 2013, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

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

The supplementary information required under Revenue Regulations 15-2010 for purposes of filing with the Bureau of Internal Revenue is presented by the management of Metro Pacific Investments Corporation in a separate schedule. Revenue Regulations 15-2010 require the information to be presented in the notes to parent company financial statements. Such information is not a required part of the basic financial statements. The information is also not required by Securities Regulation Code Rule 68, As Amended (2011). Our opinion on the basic financial statements is not affected by the presentation of the information in a separate schedule.

SYCIP GORRES VELAYO & CO.



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February 26, 2015

METRO PACIFIC INVESTMENTS CORPORATION

PARENT COMPANY STATEMENTS OF FINANCIAL POSITION

(Amounts in Thousands)

	December 31	
	2014	2013
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 5, 22 and 23)	**₱4,088,103**	₱4,529,313
Receivables (Notes 6, 22 and 23)	**97,805**	573,341
Due from related parties (Notes 12, 22 and 23)	**45,336**	260,249
Other current assets (Note 7)	**296,437**	290,081
	4,527,681	5,652,984
Assets held for sale (Note 21)	**1,369,712**	–
Total Current Assets	**5,897,393**	5,652,984
Noncurrent Assets		
Receivables (Notes 6, 22 and 23)	**–**	588,462
Investments and advances (Note 8)	**94,904,953**	77,862,958
Due from related parties (Notes 12, 22 and 23)	**–**	51,474
Other noncurrent assets (Note 9)	**967,341**	1,456,327
Total Noncurrent Assets	**95,872,294**	79,959,221
	₱101,769,687	₱85,612,205
LIABILITIES AND EQUITY		
Current Liabilities		
Accrued expenses and other current liabilities (Notes 10, 16, 22 and 23)	**₱816,986**	₱564,428
Income tax payable (Note 18)	**2,272**	2,088
Due to related parties (Notes 12, 22 and 23)	**7,546,588**	361,654
Current portion of long-term debt (Notes 11, 22 and 23)	**64,800**	64,800
Total Current Liabilities	**8,430,646**	992,970
Noncurrent Liabilities		
Long-term debt - net of current portion (Notes 11, 22 and 23)	**6,318,000**	6,382,800
Deferred tax liability (Note 18)	**483,334**	24,799
Other noncurrent liabilities (Note 13)	**702,237**	148,140
Total Noncurrent Liabilities	**7,503,571**	6,555,739
Total Liabilities	**15,934,217**	7,548,709
Equity (Note 14)		
Capital stock	**26,096,271**	26,075,974
Additional paid-in capital	**42,992,763**	42,933,309
Equity reserves	**115,662**	80,516
Other comprehensive income (loss) reserve	**(9,554)**	200,232
Retained earnings	**16,640,328**	8,773,465
Total Equity	**85,835,470**	78,063,496
	₱101,769,687	₱85,612,205

See accompanying Notes to Parent Company Financial Statements.

METRO PACIFIC INVESTMENTS CORPORATION

PARENT COMPANY STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in Thousands Except Earnings Per Share Figures)

	Years Ended December 31	
	2014	2013
REVENUES		
Dividend income (Note 8)	**₱6,749,546**	₱9,554,004
Interest income (Note 17)	**159,821**	211,375
	6,909,367	9,765,379
OPERATING EXPENSES (Note 15)	**(1,514,558)**	(1,237,037)
INTEREST EXPENSE (Notes 11 and 17)	**(673,329)**	(606,838)
OTHER INCOME (EXPENSES) - Net (Note 17)	**5,461,120**	91,397
INCOME BEFORE INCOME TAX	**10,182,600**	8,012,901
PROVISION FOR CURRENT INCOME TAX (Note 18)	**17,945**	26,896
NET INCOME	**10,164,655**	7,986,005
OTHER COMPREHENSIVE INCOME		
Items that will not be reclassified subsequently to profit or loss:		
Actuarial losses on defined benefit plans (Note 16)	**(13,262)**	(3,603)
Income tax effect (Note 18)	–	696
	(13,262)	(2,907)
Items that may be reclassified subsequently to profit or loss:		
Change in fair value of available-for-sale financial assets (Note 9)	**1,000**	221,322
Reclassified to profit or loss (Notes 9 and 17)	**(222,322)**	–
Income tax effect (Notes 9, 17 and 18)	**24,798**	(24,798)
	(196,524)	196,524
	(209,786)	193,617
TOTAL COMPREHENSIVE INCOME	**₱9,954,869**	₱8,179,622
EARNINGS PER SHARE (Note 20)		
Basic Earnings Per Common Share	**₱0.390**	₱0.308
Diluted Earnings Per Common Share	**₱0.390**	₱0.307

See accompanying Notes to Parent Company Financial Statements.

METRO PACIFIC INVESTMENTS CORPORATION

PARENT COMPANY STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

(Amounts in Thousands)

				Other Comprehensive Income Reserve				
	Capital Stock (Note 14)	Additional Paid-in Capital (Note 14)	Equity Reserves from ESOP (Note 14)	Change in Fair Value of Available-for-sale Financial Assets (Note 9)	Actuarial Gain /(Loss) (Notes 16)	Total	Retained Earnings (Notes 14)	Total
At January 1, 2014	**₱26,075,974**	**₱42,933,309**	**₱80,516**	**₱201,524**	**(₱1,292)**	**₱200,232**	**₱8,773,465**	**₱78,063,496**
Total comprehensive income for the year:								
Net income	–	–	–	–	–	–	**10,164,655**	**10,164,655**
Other comprehensive income	–	–	–	**(196,524)**	**(13,262)**	**(209,786)**	–	**(209,786)**
Executive Stock Option Plan (ESOP) (Note 18):								
Exercise of stock option	**20,297**	**59,556**	**(21,430)**	–	–	–	–	**58,423**
Cost of ESOP	–	–	**56,576**	–	–	–	–	**56,576**
Transaction costs	–	**(102)**	–	–	–	–	–	**(102)**
Cash dividends declared (Note 14)	–	–	–	–	–	–	**(2,297,792)**	**(2,297,792)**
At December 31, 2014	**₱26,096,271**	**₱42,992,763**	**₱115,662**	**₱5,000**	**(₱14,554)**	**(₱9,554)**	**₱16,640,328**	**₱85,835,470**
At January 1, 2013	₱24,663,824	₱38,097,337	₱108,063	₱5,000	₱1,615	₱6,615	₱1,702,696	₱64,578,535
Total comprehensive income for the year:								
Net income	–	–	–	–	–	–	7,986,005	7,986,005
Other comprehensive income	–	–	–	196,524	(2,907)	193,617	–	193,617
Equity raising	1,330,000	4,788,000	–	–	–	–	–	6,118,000
Executive Stock Option Plan (ESOP) (Note 18):								
Exercise of stock option	82,150	188,269	(45,753)	–	–	–	–	224,666
Cost of ESOP	–	–	18,206	–	–	–	–	18,206
Transaction costs	–	(140,297)	–	–	–	–	–	(140,297)
Cash dividends declared (Note 14)	–	–	–	–	–	–	(915,236)	(915,236)
At December 31, 2013	₱26,075,974	₱42,933,309	₱80,516	₱201,524	(₱1,292)	₱200,232	₱8,773,465	₱78,063,496

See accompanying Notes to Parent Company Financial Statements.

METRO PACIFIC INVESTMENTS CORPORATION

PARENT COMPANY STATEMENTS OF CASH FLOWS

(Amounts in Thousands)

	Years Ended December 31	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱10,182,600**	₱8,012,901
Adjustments for:		
Dividend income (Notes 8 and 24)	**(6,749,546)**	(9,554,004)
Gain on dilution of interest in subsidiary (Notes 8 and 21)	**(4,200,892)**	–
Gain on sale of investments (Notes 8 and 21)	**(944,993)**	–
Interest expense (Note 17)	**673,329**	606,838
Gain on sale of available-for-sale (AFS) financial assets (Note 17)	**(222,322)**	(1,254)
Long Term Incentive Plan (LTIP) expense (Note 15)	**194,832**	178,498
Interest income (Note 17)	**(159,821)**	(211,375)
Provision for ESOP (Notes 15 and 19)	**49,944**	12,834
Depreciation and amortization (Notes 9 and 15)	**42,780**	43,887
Reversal of excess accrual (Notes 10 and 17)	**(26,966)**	(15,522)
Foreign exchange gain - net (Note 17)	**11,065**	(10,606)
Gain on sale of real estate	**(4,774)**	–
Other income	**(1,767)**	
Pension expense	**211**	21,196
Refinancing cost (Note 17)	–	66,103
Operating loss before working capital changes	**(1,156,320)**	(850,504)
Decrease (increase) in:		
Receivables	**(11,869)**	7,956
Due from related parties	**251,391**	(171,483)
Available-for-sale financial assets	–	(24,798)
LTIP Deposits	**(213,855)**	(131,000)
Other current assets	**(65,260)**	228,502
Increase (decrease) in:		
Due to related parties	**(2,937)**	(1,250)
Accrued expenses and other current liabilities	**270,566**	(7,736)
Accrued LTIP	–	(330,609)
Net cash used in operations	**(928,284)**	(1,280,922)
Dividends received (Note 24)	**2,365,101**	9,241,497
Interest paid	**(494,005)**	(650,985)
Interest received	**85,905**	119,901
Income tax paid	**(17,762)**	(21,129)
Net cash from operating activities	**1,010,955**	7,408,362
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of/additions to:		
Investments and advances (Note 8)	**(9,983,368)**	(4,243,417)
Property and equipment (Note 9)	**(26,232)**	(35,964)
Software costs (Note 9)	**(630)**	(3,763)

(Forward)

	Years Ended December 31	
	2014	2013
Collections/proceeds from sale of:		
AFS financial assets (Note 9)	**₱458,584**	₱10,868
Investments and advances (Note 8)	**3,896,111**	–
Property and equipment	–	2,355
Proceed from the exchangeable bond (Note 21)	**6,532,905**	
Increase (decrease) in other noncurrent assets	**(14,199)**	2,307
Net cash from (used in) investing activities	**863,171**	(4,267,614)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from:		
Subscription arising from exercise of stock option (Notes 14 and 19)	**58,423**	224,666
Issuance of shares (Note 14)	–	6,118,000
Payments of/for:		
Note payable (Note 11)	–	(4,700,000)
Refinancing cost	–	(397,169)
Transaction costs related to issuance of shares (Note 14)	**(102)**	(140,297)
Long-term debt (Note 11)	**(64,800)**	(66,150)
Due to related parties	–	(1,171)
Dividends paid (Note 14)	**(2,297,792)**	(915,236)
Net cash from (used in) financing activities	**(2,304,271)**	122,643
EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**(11,065)**	10,605
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(441,210)**	3,273,996
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**4,529,313**	1,255,317
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 5)	**₱4,088,103**	₱4,529,313

See accompanying Notes to Parent Company Financial Statements.

METRO PACIFIC INVESTMENTS CORPORATION
NOTES TO PARENT COMPANY FINANCIAL STATEMENTS

1. Corporate Information

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

MPIC is 55.8% 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 25).

MPHI is a Philippine corporation whose stockholders are Enterprise Investment Holdings, Inc. (EIH) (60.0% interest), Intalink B.V. (26.7% interest) and First Pacific International Limited (FPIL) (13.3% interest). First Pacific Company Limited (FPC), a company incorporated in Bermuda and listed in Hong Kong, through its subsidiaries, Intalink B.V. and FPIL, holds 40% equity interest in EIH and investment financing which under Hong Kong Generally Accepted Accounting Principles, require FPC to account for the results and assets and liabilities of EIH and its subsidiaries as part of FPC group companies in Hong Kong.

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

The accompanying parent company financial statements as at and for the years ended December 31, 2014 and 2013 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 separate or parent company financial statements are prepared on a historical cost basis, except for derivatives and certain available-for-sale (AFS) financial assets that are measured at fair value. The parent company financial statements are presented in Philippine Peso, which is the Company's functional and presentation currency, and all values are rounded to the nearest thousand peso (₱000) except when otherwise indicated. The parent company financial statements are prepared for submission to the Bureau of Internal Revenue (BIR) and the Philippine SEC.

The Company also prepares and issues consolidated financial statements for the same period as the separate financial statements, presented in compliance with Philippine Financial Reporting Standards (PFRS). The Company files its consolidated financial statements with the Philippine SEC.

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

<u>Changes in Accounting Policies</u>
The accounting policies adopted are consistent with those of the previous financial year except for the following change in accounting policy and adoption of new PFRS and Philippine interpretation effective January 1, 2014. Except as otherwise indicated, adoption of the following standards, interpretations and amendments did not have any impact on the parent company financial statements:

- *Amendments to PFRS 10, PFRS 12 and PAS 27 - Investment Entities* — 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.

- Philippine Interpretation IFRIC 21, *Levies (IFRIC 21)* — 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.

- PAS 32, *Financial Instruments: Presentation - 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.

- 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 no novated derivatives during the current period. However, these amendments would be considered for future novations.

The following improvements to the standards were also adopted but did not have any impact on the parent company financial statements:

- 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.

- Annual Improvements to PFRSs (2011-2013 Cycle) – PFRS 1, *First-time Adoption of International Financial Reporting Standards* — 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 parent company financial statements are as follows:

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

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

All other assets are classified as non-current.

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

The Company classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities, respectively.

Fair Value Measurement
The Company measures derivatives at fair value at each reporting date and, for the purposes of impairment testing, uses fair value less costs of disposal to determine the recoverable amount of some of its non-financial assets. Also, fair values of financial instruments measured at amortized cost are disclosed in Note 23.

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 parent company financial statements are categorized within the fair value hierarchy, described, as follows, based on the lowest-level input that is significant to the fair value measurement as a whole:

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

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

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

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

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

Cash and Cash Equivalents

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

Short-term Deposits

Short-term deposits 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 parent company statement of financial position when it becomes a party to the contractual provisions of the instrument. All regular way purchases and sales of financial assets are recognized on the settlement date. Regular way purchases and sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace. Derivatives are also recognized on a trade date basis.

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

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

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

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

The Company has no HTM investments and financial liabilities at FVPL as at December 31, 2014 and 2013.

Amortized Cost

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

'Day 1' Profit or Loss

Where the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Company recognizes the difference between the transaction price and fair value (a 'Day 1' profit or loss) in the parent company statement of comprehensive income unless it qualifies for recognition as some other type of asset. In cases where data is not observable, the difference between the transaction price and model

value is only recognized in the parent company statement of comprehensive income when the inputs become observable or when the instrument is derecognized. For each transaction, the Company determines the appropriate method of recognizing the 'Day 1' profit or loss amount.

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

Financial Assets and Liabilities at FVPL. Financial assets and liabilities at FVPL include financial assets and liabilities held for trading and those designated upon initial recognition as at FVPL. Financial assets and liabilities are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets and liabilities classified as at FPVL are carried at fair value in the parent company statement of financial position, with any gains or losses being recognized in the profit or loss. Interests earned on holding financial assets at FVPL are reported as interest income using the effective interest rate. Dividends earned on holding financial assets at FVPL are recognized in the parent company statement of comprehensive income when the right to payment had been established.

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

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the financial assets or liabilities or recognizing gains or losses on them on different bases; or

- The assets are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or

- The financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

The Company accounts for its derivative transactions (including embedded derivatives) under this category with fair value changes being reported directly in the parent company statement of comprehensive income, except when the derivative is designated in an effective hedging relationship. In that case, the fair value change is either reported in the parent company statement comprehensive of income with the corresponding adjustment from the hedged transaction (fair value hedge) or deferred in equity (cash flow hedge) as other comprehensive income.

The Company's financial asset at FVPL as at 2013 consisted of bifurcated derivatives only, which derivative asset was derecognized in 2014 (see Note 22).

Loans and Receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as financial assets at FVPL, HTM investments or AFS financial assets. After initial measurement, loans and receivables are subsequently measured at amortized cost using the effective interest rate method, less any impairment. The amortization is included as part of interest income in the parent company statement of comprehensive income. Losses arising from impairment are recognized in the parent company statement of comprehensive income. Loans and receivables are included in current

assets if maturity is within 12 months after the end of reporting period, otherwise these are classified as noncurrent assets.

Loans and receivables include cash and cash equivalents, receivables, cash deposits, investments in preferred shares with mandatory redemption, and due from related parties (see Notes 5, 6, 7, 8, 12, 22 and 23).

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

After initial measurement, AFS financial assets that are quoted are subsequently measured at fair value. The unrealized gains and losses arising from the change in fair value of AFS financial assets are recognized as other comprehensive income in the equity section of the parent company statement of financial position until the investment is derecognized or determined to be impaired at which time the cumulative gains and losses are reclassified to the parent company statement of comprehensive income. When the Company holds more than one investment in the same security, these are deemed to be disposed of on an average costing basis. Interest earned on holding AFS debt financial assets are reported as interest income using the effective interest rate method. Dividends earned on holding AFS financial assets are recognized in the parent company statement of comprehensive income when the right of payment has been established. AFS equity financial assets that are unquoted are carried at cost less any impairment in value.

As at December 31, 2014 and 2013, this category includes investments in quoted and unquoted shares classified as AFS Financial Assets (see Note 9) and investment in preferred shares of Beacon Electric Asset Holdings, Inc. (Beacon Electric) (see Note 8).

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

Issued financial instruments or their components, which are not classified as financial liabilities at FVPL are classified as other financial liabilities, where the substance of the contractual arrangement results in the Company having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue. Any effects of restatement of foreign currency-denominated liabilities are recognized in the parent company statement of comprehensive income.

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

All of the Company’s financial liabilities are classified as other financial liabilities which include loans and borrowings (see Notes 10, 11, 12, 13, 22 and 23).

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

Derivatives
Freestanding and separated embedded derivatives are classified as financial assets or financial liabilities at FVPL unless they are designated as effective hedging instruments. Derivative instruments are initially recognized at fair value on the date in which a derivative transaction is entered into or bifurcated, and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Consequently, gains and losses from changes in fair value of derivatives not designated as effective accounting hedges are recognized immediately in the parent company statement of comprehensive income.

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

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

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

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

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

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

- Where the Company will hold a derivative as an economic hedge (and does not apply hedge accounting), for period beyond 12 months after the end of reporting period, the derivative is

classified as noncurrent (or separated into current and noncurrent portions) consistent with the classification of the underlying item.

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

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

Classification of Financial Instruments Between Liability and Equity
A financial instrument is classified as liability if it provides for a contractual obligation to:

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

If the Company does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

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

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

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

If, in a subsequent year, the amount of the impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the parent company statement of comprehensive income, to the extent that the carrying value of the asset does not exceed what the amortized cost would have been had the impairment not been recognized at the date impairment is reversed. The amount of reversal shall be recognized in the parent company statement of comprehensive income.

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

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the parent company statement of comprehensive income. The asset together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Company. Such impairment loss shall not be reversed.

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

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

Derecognition of Financial Instruments

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

- the Company's rights to receive cash flows from the asset have expired; or

- the Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or

- the Company has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

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

Offsetting of Financial Instruments

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

Real Estate for Sale

Real estate for sale, which is included as part of "Other current assets" account in the parent company statement of financial position, represents the cost of lots and condominium units not yet sold. Real estate for sale is carried at the lower of cost and net realizable value (NRV). Cost includes the cost of land plus actual development costs incurred up to the end of reporting period. NRV is the selling price in the ordinary course of business less estimated costs to complete and make the sale.

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.

Investments in Subsidiaries and Associates and Interest in a Joint Venture

Investments in subsidiaries and associates and interest in a joint venture are accounted for at cost. The investments are carried in the parent company statement of financial position at cost less any

impairment in value. The Company recognizes dividend income from its subsidiaries, associates and joint venture when its right to receive the dividend is established.

Property and Equipment
Property and equipment, included as part of "Other noncurrent assets" account in the parent company statement of financial position, are carried at cost, excluding day-to-day servicing, less accumulated depreciation and any impairment loss. The initial cost of property and equipment comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the property and equipment to its working condition and location for its intended use. Such cost includes the cost of replacing part of such property and equipment and borrowing cost for long-term construction project when recognition criteria are met. When significant parts of property and equipment are required to be replaced at intervals, the Company recognizes such parts as individual assets with specific useful lives and depreciation, respectively. Likewise, when a major repairs are performed, its cost is recognized in the carrying amount of the property and equipment as a replacement if the recognition criteria are satisfied.

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

Depreciation commences once the property and equipment are available for use and is computed on a straight-line basis over the estimated useful lives of the assets (see Note 9).

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

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

Software Cost
Software cost, included as part of "Other noncurrent assets" account in the parent company statement of financial position, includes the cost of software purchased from a third party, and other direct costs incurred in the software configuration and interface, coding and installation to hardware, including parallel processing, and data conversion. Software cost is amortized on a straight-line basis over the estimated useful life of five years (see Note 9). The carrying cost is reviewed for impairment whenever there is an indication that software cost may be impaired.

Impairment of Nonfinancial Assets
The Company assesses at each end of reporting period whether there is an indication that the Company's investments in subsidiaries and associates and interest in a joint venture, property and equipment and software costs may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs 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 to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators. Impairment losses are recognized in the parent company statement of comprehensive income.

An assessment is made at each end of reporting period as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the parent company statement of comprehensive income. After such a reversal, the depreciation and amortization charges are adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Equity

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

Preferred Shares. Preferred share is classified as equity if it is non-redeemable, or redeemable only at the Company's option, and any dividends are discretionary. Dividends thereon are recognized as distributions within equity upon approval by the Company's BOD.

Preferred share is classified as a liability if it is redeemable on a specific date or at the option of the shareholders, or if dividend payments are not discretionary. Dividends thereon are recognized as interest expense in the parent company statement of comprehensive income as accrued.

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

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

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

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

Provisions
Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the parent company statement of comprehensive income, net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

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

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

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

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

Management Fees. Fees are recognized when services are rendered (included as part of “Other income (expense) - net” account in the parent company statement of comprehensive income).

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

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

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

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

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

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

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

Borrowing Costs

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

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

All other borrowing costs are expensed as incurred.

Retirement Benefits

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

normal retirement age with the required credited years of service based on the provisions of RA 7641.

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

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

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

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

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

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

The cost of equity-settled transactions (cost of ESOP) with employees is measured by reference to the fair value of the stock options at the date at which they are granted. Fair value is determined using an option-pricing model, further details of which are set forth in Note 19. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the share price of the Company (“market conditions”).

The cost of equity-settled transactions is recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (“vesting date”). The cumulative cost of ESOP recognized for equity-settled transactions at each end of reporting period until the vesting date reflects the extent to which the vesting period has expired and the Company’s best estimate at that date of the number of awards that will ultimately vest. The parent company statement of comprehensive income credit or expense (recognized as employee benefits and presented as ESOP expense) and additional investment in subsidiaries (represent cost of ESOP

apportioned to executives of subsidiaries) for a period represents the movement in cumulative cost of ESOP recognized as at the beginning and end of that period.

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

Where the terms of an equity-settled award are modified, the minimum cost of ESOP recognized is the cost of ESOP as if the terms had not been modified, if the original terms of the award are met. If the modification increases the fair value of the equity instruments granted, as measured immediately before and after the modification, the entity shall include the incremental fair value granted in the measurement of the amount recognized for services received as consideration for the equity instruments granted. The incremental fair value granted is the difference between the fair value of the modified equity instrument and that of the original equity instrument, both estimated as at the date of the modification. If the modification occurs during the vesting period, the incremental fair value granted is included in the measurement of the amount recognized for services received over the period from the modification date until the date when the modified equity instruments vest, in addition to the amount based on the grant date fair value of the original equity instruments, which is recognized over the remainder of the original vesting period. If the modification occurs after vesting date, the incremental fair value granted is recognized immediately, or over the vesting period if the employee is required to complete an additional period of service before becoming unconditionally entitled to those modified equity instruments.

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

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share (see Note 20).

Long-term Employee Benefits

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

Foreign Currency-Denominated Transactions and Translations

The parent company financial statements are presented in Philippine peso, which is the Company's functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency rate of exchange ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rate of exchange ruling at the end of reporting period. All differences are credited or charged to operations.

Income Taxes

Current Tax. Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the tax authority. The tax rates and tax laws used

to compute the amount are those that are enacted or have substantively been enacted at the end of reporting period where the Company operates and generates taxable income.

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

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

Deferred tax liabilities are recognized for all taxable temporary differences, except (a) where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income; and (b) in respect of taxable temporary differences associated with investments in subsidiaries and associates and interest in joint a venture, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

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

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

Deferred tax relating to items recognized outside profit or loss is recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity.

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

Sales Tax

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

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

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

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

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

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

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

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

3. Management's Use of Judgments and Estimates

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

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

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

Issuance of Exchangeable Bond 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. The Exchangeable Bond qualified as an equity instrument and resulted in a reduction of the cost of investment in MPHHI.

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

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

- *Investment in Beacon Electric's preferred shares.* In determining the appropriate accounting policy for the Company's investment in financial instruments, factors that the Company consider included the following: contractual characteristics of the financial instrument; the purpose for which the instrument is held, for example trading, long-term investment or hedging; and the accounting policy choice of the reporting entity. In applying these, the Company has made a judgment that PAS 39 is the appropriate accounting for its investment in preferred shares of Beacon Electric because: the preferred shares are non-voting and as such, would not provide the Company with control, joint control or significant influence over Beacon 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 8).

The carrying value of investments consists of the following:

	2014	2013
	(In Thousands)	
Investment in Meralco (see Note 8)	**₱13,019,723**	₱–
Investment in Beacon Electric (see Note 8):		
Common shares	**25,829,879**	25,829,879
Preferred shares	**11,573,222**	11,573,222

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 (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:

- *NE Pacific Shopping Center Corporation (NEPSCC)*. Despite the Company having representation in the BOD, interest in this entity is classified as AFS financial assets consistent with management intention to sell this investment in line with strategic business review and decision to focus on infrastructure since 2008. The Company sold all of its shares in NEPSCC on February 28, 2014 (see Note 9).

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

Interests in Landco. Prior to December 2014, the 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 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 21).

Estimates

The key assumptions concerning future and other key sources of estimation at the end of reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below. The Company based its assumptions and estimates on parameters available when the parent company financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

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

Fair values of financial instruments are presented in Note 23.

Impairment of Loans and Receivables. The Company estimates the allowance for doubtful accounts related to receivables using a combination of specific and collective assessment. The amounts calculated in each level of impairment assessment are combined to determine the total amount of allowance for doubtful accounts. First, the Company evaluates specific accounts that are considered individually significant for any objective evidence that certain counterparties 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 counterparty and the counterparty's current credit status based on third party credit reports and known market factors. The allowance provided is based on the difference between the present value of the receivable that the Company expects to collect, discounted at the receivables' original effective interest rate and the carrying amount of the receivable. These specific allowances are re-evaluated and adjusted as additional information received affects the amounts estimated. If no impairment loss is determined for an individually assessed receivable, the receivable is included in a group of receivables with similar credit risk characteristics and is collectively assessed for impairment. The provision under collective assessment is based on historical collection and write-off experience and change in counterparty payment terms. Impairment assessment is performed on a continuous basis throughout the year.

The carrying value of receivables, net of allowance for doubtful accounts, amounted to ₱97.8 million and ₱1,161.8 million as at December 31, 2014 and 2013, respectively. Allowance for doubtful accounts amounted to nil and ₱36.4 million as at December 31, 2014 and 2013, respectively (see Note 6). The aggregate carrying value of due from related parties, including advances to related parties, amounted to ₱2,667.9 million and ₱1,966.2 million as at December 31, 2014 and 2013, respectively (see Notes 8 and 12).

Impairment of AFS Financial Assets. The Company treats an AFS financial asset as impaired when there has been a significant or prolonged decline in the fair value below its acquisition cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires judgment. The Company treats "significant" generally as 20.0% or more and "prolonged" as greater than 12 months for quoted equity securities. In addition, the Company evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities.

No impairment loss was recognized against AFS financial assets for the years ended December 31, 2014 and 2013. The carrying value of AFS financial assets, including investment in Beacon Electric preferred shares, amounted to ₱11,610.2 million and ₱12,279.6 million as at December 31, 2014 and 2013, respectively (see Notes 8 and 9).

Impairment of Investments in Subsidiaries, Associates and Interest in a Joint Venture. Impairment review is performed when certain impairment indicators are present. For investments in subsidiaries, associates and interest in a joint venture, receipt of dividend that meets the following conditions may be an internal indicator that the investment is impaired. Impairment testing is required when a dividend is received and:

- there is evidence available that the carrying amount of the investments in the Company's separate financial statements exceeds the carrying amount of subsidiaries, associates and joint ventures net assets; or
- the dividend exceeds the total comprehensive income of subsidiaries, associates and joint venture.

The carrying value of the investment in subsidiaries, associates and interest in a joint venture (excluding the advances and the investment in Beacon Electric preferred shares) amounted to ₱80,709.2 million and ₱64,635.2 million as at December 31, 2014, and 2013, respectively (see Note 8).There were no impairment losses recognized for the years ended December 31, 2014 and 2013.

Realizability of deferred income tax assets. The Company reviews the carrying amounts of deferred income taxes at each reporting date and reduces deferred income tax assets to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the deferred income tax assets to be utilized.

Deferred income tax assets have not been recognized as at December 31, 2014 and 2013 because management believes that the Company may not have sufficient future taxable profits available to allow all or part of the deferred income tax assets to be utilized in the near future.

The Company's deductible temporary differences, MCIT and NOLCO for which no deferred tax assets have been recognized amounted to ₱5,083.1 million and ₱4,145.7 million as at December 31, 2014 and 2013, respectively (see Note 18).

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 16, are reviewed at each reporting date.

Share-based Payments. The Company measures the cost of cash and equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payments requires determining the most appropriate valuation model for a grant of equity instruments, which is dependent on the terms and conditions of the grant. This also requires determining the most appropriate inputs to the valuation model including the expected life of the option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payments are disclosed in Note 19. The Company recognizes expenses based on the

estimated number of grants that will ultimately vest and will require settlement. The Company's average turnover rate over the past few years is used to determine the attrition rate in computing the benefit expense and estimated liability.

Equity-based compensation expense recognized in 2014 and 2013 under Equity reserve from ESOP in equity amounted to ₱56.6 million and ₱18.2 million, respectively (see Notes 8, 14 and 19).

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

LTIP expense for the years ended December 31, 2014 and 2013 amounted to ₱194.8 million and ₱178.5 million, respectively. LTIP payable as at December 31, 2014 and 2013 amounted to ₱342.6 million and ₱147.7 million, respectively (see Notes 13, 15 and 16).

4. Operating Segment Information

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

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

- *Water utilities*, which relate to the provision of water and sewerage services by Maynilad Water Holding Company, Inc. (MWHC) and its subsidiaries Maynilad Water Services, Inc. (Maynilad) and Philippine Hydro, Inc. (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 Cavitex Infrastructure Corporation (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 LRT 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 Company'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, Power segments:

Maynilad
Under Maynilad's concession agreement with the Philippine government, 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 Metropolitan Waterworks and Sewerage System (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 North Luzon Expressway (NLEX) and every three calendar years for the Manila-Cavite Toll Expressway (CAVITEX).

As at February 26, 2015, MPTC continues to await approval by the Government of toll rate adjustments for R1 of CAVITEX and NLEX, which should have been effective from January 1, 2012 and January 1, 2013, respectively.

Meralco
Meralco was among the first entrants to the Performance-Based Regulation (PBR). Rate-setting under PBR is governed by the Rules for Setting Distribution Wheeling Rates (RDWR). The PBR scheme sets tariffs based on the regulated asset base of the Distribution Utility (DU), and the required operating and capital expenditures once every regulatory period (RP), to meet operational performance and service level requirements responsive to the need for adequate, reliable and quality power, efficient service, growth of all customer classes in the 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 Company's consolidated financial statements.

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

Performance of the operating segments is also assessed based on a measure of recurring profit or core income. Core income is measured as net income attributable to owners of the Company excluding the effects of foreign exchange and derivative gains or losses and non-recurring items (NRI), net of tax effect of aforementioned. NRI represent gains or losses that, through occurrence or size, are not considered usual operating items.

Segment expenses and segment results exclude transfers or charges between business segments. These transfers are also eliminated for purposes of the consolidated financial statements. For the years ended December 31, 2014 and 2013, 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, 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.

Except for the equity in net earnings recognized from the Company's investment in DMT, all revenues of the Company were primarily derived from within the Philippines.

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

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

	Year Ended December 31, 2014							
	Water Utilities	**Toll Operations**	**Healthcare**	**Power Distribution**	**Rail**	**Other Businesses**	**Eliminations**	**Consolidated**
Total revenue from external sales	**₱18,362,675**	**₱8,641,232**	**₱6,828,024**	**₱–**	**₱–**	**₱–**	**₱–**	**₱33,831,931**
Cost of sales	**(5,430,566)**	**(3,575,262)**	**(3,912,204)**	–	–	–	–	**(12,918,032)**
Gross Margin	**12,932,109**	**5,065,970**	**2,915,820**	–	–	–	–	**20,913,899**
Operating expenses	**(2,115,697)**	**(832,134)**	**(2,040,480)**	–	**(27,250)**	**(993,823)**	–	**(6,009,384)**
Other income (charges) – net	**(529,690)**	**269,831**	**161,436**	**405,063**	–	**(30,266)**	–	**276,374**
Profit before Financing Charges	**10,286,722**	**4,503,667**	**1,036,776**	**405,063**	**(27,250)**	**(1,024,089)**	–	**15,180,889**
Interest expense – net	**(2,006,912)**	**(1,184,105)**	**(186,509)**	–	**2,356**	**(529,494)**	–	**(3,904,664)**
Profit before Non-controlling Interest and Income Tax	**8,279,810**	**3,319,562**	**850,267**	**405,063**	**(24,894)**	**(1,553,583)**	–	**11,276,225**
Non-controlling interest	**(3,932,916)**	**(716,616)**	**(272,088)**	–	**5,433**	**566**	–	**(4,915,621)**
Provision for (benefit from) income tax	**40,062**	**(845,152)**	**(258,450)**	–	**3,567**	**(17,945)**	–	**(1,077,918)**
Contribution from Subsidiaries	**4,386,956**	**1,757,794**	**319,729**	**405,063**	**(15,894)**	**(1,570,962)**	–	**5,282,686**
Share in net earnings of equity method investees	**(10,722)**	**480,786**	**145,247**	**2,622,356**	**(12,202)**	–	–	**3,225,465**
Contribution from Operations - Core Income	**(4,376,234)**	**2,238,580**	**464,976**	**3,027,419**	**(28,096)**	**(1,570,962)**	–	**8,508,151**
Non-recurring income (charges)	**(278,454)**	**(91,292)**	**(32,491)**	**(55,326)**	**(52,419)**	**(58,495)**	–	**(568,477)**
Segment Income (Loss)	**₱4,097,780**	**₱2,147,288**	**₱432,485**	**₱2,972,093**	**(₱80,515)**	**(₱1,629,457)**	**₱–**	**₱7,939,674**
Core EBITDA	**₱12,841,371**	**₱5,239,987**	**₱1,708,596**	**₱405,063**	**(₱27,171)**	**(₱979,833)**	**₱–**	**₱19,188,013**
Core EBITDA Margin	**70%**	**61%**	**25%**	**–%**	**–%**	**–%**	**–%**	**57%**
Non-recurring Income (Charges)	**(₱487,854)**	**(₱4.597)**	**(₱28,626)**	**(₱55,326)**	**(₱65,233)**	**(₱78,283)**	**₱–**	**(₱719,919)**
Provision for income tax	**(33,465)**	**(92,012)**	**(2,022)**	–	–	**(2,583)**	–	**(130,082)**
Non-controlling interest	**242,865**	**5,317**	**(1,843)**	–	**12,814**	**22,371**	–	**281,524**
Net nonrecurring income (charges)	**(₱278,454)**	**(₱91,292)**	**(₱32,491)**	**(₱55,326)**	**(₱52,419)**	**(₱58,495)**	**₱–**	**(₱568,477)**
Assets and Liabilities								
Segment assets	**₱84,732,879**	**₱42,339,852**	**₱13,082,320**	**₱–**	**₱1,654,032**	**₱7,555,878**	**₱19,471,873**	**₱168,836,834**
Investment in associates, at equity	**123,126**	**6,651,435**	**2,381,903**	**55,309,870**	**488,294**	**220,323**	–	**65,174,951**
Consolidated Total Assets	**₱84,856,005**	**₱48,991,287**	**₱15,464,223**	**₱55,309,870**	**2,142,326**	**₱7,776,201**	**₱19,471,873**	**₱234,011,785**
Segment Liabilities	**₱45,275,215**	**₱34,446,731**	**₱4,848,000**	**₱7,188,000**	**₱72,912**	**₱8,381,198**	**₱4,228,119**	**₱104,440,175**
Other Segment Information								
Capital expenditures -								
Service concession asset and property and equipment	**₱4,700,610**	**₱2,569,430**	**₱856,097**	**₱–**	**₱–**	**₱60,328**	**₱–**	**₱8,186,465**
Depreciation and amortization	**2,554,650**	**736,320**	**671,821**	–	**79**	**44,255**	–	**4,007,125**

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

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

	2014	2013
	(In Thousands)	
Consolidated Core EBITDA	**₱19,188,013**	₱17,264,680
Depreciation and amortization	**(4,007,124)**	(3,766,640)
Consolidated operating profit for the year	**15,180,889**	13,498,040
Adjustments to reconcile with consolidated net income:		
Interest income	**385,292**	462,046
Share in net earnings of equity method investees	**3,225,465**	2,293,988
Interest expense	**(4,289,956)**	(3,989,717)
Nonrecurring income (expenses)	**(850,001)**	49,599
Provision for income tax	**(1,077,918)**	(835,298)
Consolidated net income for the year	**₱12,573,771**	₱11,478,658

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

	2014	2013
	(In Thousands)	
Consolidated core income for the year	**₱8,508,151**	₱7,229,147
Foreign exchange gains (losses) - net	**17,783**	69,222
Other nonrecurring income (losses)	**(456,179)**	(340,420)
Net tax effect of aforementioned adjustments	**(130,081)**	250,634
Net income for the year attributable to owners of the Parent Company	**7,939,674**	7,208,583
Net income for the year attributable to non-controlling interest	**4,634,097**	4,270,075
Consolidated net income for the year	**₱12,573,771**	₱11,478,658

The following table shows the analysis and allocation of the consolidated results of operations of the Company to core and NRI, the manner by which the Company reports and assesses their performance, makes decision and allocates resources, for the years ended December 31, 2014 and 2013 and is provided to reconcile the preceding consolidated segment information, amounts and balances with the Company's consolidated statements of income:

	2014				2013			
	Core	**NRI**	**Reclassification**	**Consolidated**	Core	NRI	Reclassification	Consolidated
				(In Thousands; as restated – Note 2)				
OPERATING REVENUES								
Water and sewerage services revenue	**₱18,362,675**	₱–	₱–	**₱18,362,675**	₱16,895,200	₱–	₱–	₱16,895,200
Toll fees	**8,641,232**	–	–	**8,641,232**	8,153,627	–	–	8,153,627
Hospital revenue	**6,676,613**	–	–	**6,676,613**	5,699,612	–	–	5,699,612
School revenue	**151,411**	–	–	**151,411**	127,777	–	–	127,777
	33,831,931	–	–	**33,831,931**	30,876,216	–	–	30,876,216
COST OF SALES AND SERVICES	**(12,918,032)**	**(164,203)**	–	**(13,082,235)**	(11,844,839)	–	–	(11,844,839)
GROSS PROFIT	**20,913,899**	**(164,203)**	–	**20,749,696**	19,031,377	–	–	19,031,377
General and administrative expenses	**(6,009,384)**	**(814,115)**	–	**(6,823,499)**	(5,833,596)	(427,186)	–	(6,260,782)
Interest expense	**(4.289,956)**	**(11,071)**	–	**(4,301,027)**	(3,989,717)	(11,062)	–	(4,000,779)
Share in net earnings of associates and joint ventures	**3,630,528**	**(58,279)**	**(405,063)**	**3,167,186**	2,699,051	(8,061)	(405,063)	2,285,927
Interest income	**385,292**	**51**	–	**385,343**	462,046	445	–	462,491
Other income and expenses	**(128,689)**	**327,698**	**405,063**	**604,072**	(104,804)	253,058	405,063	553,317
INCOME BEFORE INCOME TAX	**14,501,690**	**(719,919)**	–	**13,781,771**	12,264,357	(192,802)	–	12,071,551
PROVISION FOR (BENEFIT FROM) INCOME TAX							–	
Current	**(1,155,122)**	**(4,605)**	–	**(1,159,727)**	(1,049,993)	(11,000)	–	(1,060,993)
Deferred	**77,204**	**(125,477)**	–	**(48,273)**	214,694	253,402	–	468,100
	(1,077,918)	**(130,082)**	–	**(1,208,000)**	(835,299)	242,402	–	(592,893)
NET INCOME	**₱13,423,772**	**(₱850,001)**	₱–	**₱12,573,771**	11,429,058	49,600	–	11,478,658
Net Income Attributable to:								
Owners of the Parent Company	**₱8,508,151**	**(₱568,477)**	₱–	**₱7,939,674**	₱7,229,147	(₱20,564)	₱–	₱7,208,583
Non-controlling interest	**4,915,621**	**(281,524)**	–	**4,634,097**	4,199,911	70,164	–	4,270,075
	₱13,423,772	**₱850,001**	**₱**	**₱12,573,771**	₱11,429,058	₱49,600	₱–	₱11,478,658

The following table shows the reconciliation of consolidated amounts and the amounts reflected in the parent company financial statements as at and for the years ended December 31, 2014 and 2013.

	2014		
	Consolidated	**Subsidiaries, Associates and a Joint Venture**	**Parent Company**
		(In Thousands)	
Operating revenues	**₱33,831,931**	**₱33,831,931**	**₱–**
Net income for the year attributable to owners of the parent company	**7,939,674**	**(2,224,981)**	**10,164,655**
Total assets	**234,011,785**	**132,242,098**	**101,769,687**
Total liabilities	**104,440,175**	**88,505,958**	**15,934,217**
Capital expenditures	**8,186,465**	**8,153,699**	**32,766**

	2013		
	Consolidated	Subsidiaries, Associates and a Joint Venture	Parent Company
		(In Thousands)	
Operating revenues	₱30,876,216	₱30,876,216	₱–
Net income for the year attributable to owners of the parent company	7,208,583	(777,422)	7,986,005
Total assets	200,584,034	114,971,829	85,612,205
Total liabilities	87,303,598	79,754,920	7,548,678
Capital expenditures	7,122,584	7,079,871	42,713

5. Cash and Cash Equivalents

As at December 31, this account consists of:

	2014	2013
	(In Thousands)	
Cash on hand and in banks	**₱17,261**	₱27,748
Short-term deposits	**4,070,842**	4,501,565
	₱4,088,103	₱4,529,313

Cash in banks earns interest at the prevailing bank deposit rates. Short-term deposits are made for varying periods of up to three months depending on the immediate cash requirements of the Company and earn interest at the prevailing short-term deposits rates. Interest earned from cash and cash equivalents and short-term deposits amounted to ₱92.1 million and ₱116.0 million for the years ended December 31, 2014 and 2013, respectively (see Note 17).

6. Receivables

As at December 31, this account consists of:

	2014	2013
	(In Thousands)	
Dividends receivable (see Note 8)	**₱50,000**	₱115,555
Interest receivables	**6,855**	261,047
Advances to employees	**6,834**	6,100
Accounts receivable	**1,161**	1,945
Notes receivable (see Note 21)	–	782,525
Other receivables	**32,955**	31,036
	97,805	1,198,208
Less allowance for doubtful accounts	–	36,405
	97,805	1,161,803
Less current portion	**97,805**	573,341
	₱–	₱588,462

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

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

Additional information on the notes receivable are 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 reclassified its interests in Landco, including the receivables in Landco and ABHC, as assets held for sale (see Note 21).

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 21).

c. Other notes receivable amounting to ₱30.0 million comprising of defaulted loans and the related interest receivable amounting to ₱6.4 million as at December 31, 2013, were fully provided with allowance and subsequently written off in 2014.

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

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

7. Other Current Assets

As at December 31, this account consists of:

	2014	2013
	(In Thousands)	
Deposits (see Note 11)	**₱186,364**	₱188,044
Input taxes	**73,200**	64,924
Real estate for sale	**16,911**	25,637
Other deposits and prepayments	**19,962**	11,476
	₱296,437	₱290,081

Deposits pertain to the Company's Debt Service Account (DSA) which holds funds on reserve to service scheduled semi-annual repayment of long-term debt and related interest (see Note 11).

Real estate for sale consists of developed lots and condominium units carried at cost. In 2014, the Company sold one of its properties for ₱13.5 million which resulted in a gain of ₱4.8 million (see Note 17).

Other deposits and prepayments mainly pertain to creditable withholding taxes, rental deposits and prepaid expenses.

8. Investments and Advances

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

		Direct MPIC Ownership Interest	
Investee	Principal Activity	**2014**	2013
Subsidiaries:			
MPTC	Investment holding	**99.88**	99.88
MWHC[(a)]	Investment holding	**51.27**	51.27
Maynilad	Utilities	**5.19**	5.19
MPWIC	Investment holding	**100.00**	100.00
Metro Pacific Light Rail Corporation (MPLRC)	Investment holding	**100.00**	100.00
Metro Pacific Hospitals Holdings, Inc. (MPHHI)[(b)]	Investment holding	**85.62**	100.00
Porrovia Corporation[(c)]	Investment holding	**50.00**	50.00
MPIC-JGS Airport Holdings, Inc. (MPIC-JGS)	Investment holding	**58.75**	58.75
MPIC Infrastructure Holdings Limited (MIHL)	Investment holding	**100.0**	100.00
Fragrant Cedar Holdings, Inc. (FCHI)	Investment holding	**100.0**	100.00

Investee	Principal Activity	Direct MPIC Ownership Interest 2014	2013
Neo Oracle Holdings, Inc. (NOHI) [d]	Real estate	**96.60**	96.60
Metro Global Green Waste, Inc. (MGGW)	Investment holding	**70.00**	–
Riverside Medical Center, Inc (RMCI)	Hospital operation	–	51.00
East Manila Hospital Managers Corp. (EMHMC)	Hospital operation	–	100.00
Asian Hospital Inc. (AHI)	Hospital operation	–	5.66
Colinas Verdes Hospital Managers Corporation(CVHMC)	Hospital operation	–	100.0
Bumrungrad International Philippines Inc. (BIPI)	Investment holding	–	100.0
Joint venture:			
Beacon Electric	Investment holding	**50.00**	50.00
Associates:			
AFCSI	Operator of contactless payment system	**20.00**	–
Meralco	Power distribution	**5.00**	–
First Gen Northern Electric Corp. (FGNEC)	Power generation	**33.33**	33.33
Davao Doctors Hospital, Inc. (DDH)	Hospital operation	–	34.85
Medical Doctors, Inc. (MDI)	Hospital operation	–	33.28

(a) Effective February 2014, DMCI-MPIC Water Company, Inc. changed its corporate name to Maynilad Water Holding Company, Inc.
(b) Effective February 2015, Neptune Stroika Holdings Inc. 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.
(c) Effective June 2014, Light Rail Manila Corporation changed its corporate name to Porrovia Corporation.
(d) Formerly Metro Pacific Corporation (MPC). NOHI's corporate life ended December 31, 2013 and is currently under the process of liquidation.

All the above investees were incorporated in the Philippines, except for MIHL, which was incorporated in British Virgin Islands (BVI).

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

	2014	2013
	(In Thousands)	
Investments in subsidiaries:		
MPTC	**₱19,136,862**	₱19,129,842
MWHC	**12,276,767**	12,276,767
Maynilad	**2,071,042**	2,071,007
MPHHI	**4,005,646**	601,494
MIHL	**3,258,632**	1,477,575
MGGW	**264,624**	–
NOHI	**230,132**	230,132
FCHI	**66,532**	66,532
MPLRC	**25,000**	17,250
Porrovia	**10,000**	10,000
MPIC-JGS	**5,875**	5,875
MPWIC	**5,000**	5,000
BIPI	**–**	731,951
CVHMC	**–**	300,000
RMCI	**–**	275,621
AHI	**–**	152,758
EMHMC	**–**	12,500
	41,356,112	37,364,304

(Forward)

	2014	2013
	(In Thousands)	
Investments in associates:		
Meralco (see Note 12)	**₱13,019,723**	₱–
AFCSI	**503,235**	–
MDI	**–**	927,923
DDH	**–**	512,865
FGNEC	**250**	250
	13,523,208	1,441,038
Interests in a joint venture - Beacon Electric:		
Common shares	**25,829,879**	25,829,879
Preferred shares	**11,573,222**	11,573,222
Advances	**756,387**	756,387
	38,159,488	38,159,488
Advances to MPLRC	**923,320**	–
Advances to MPWIC	**898,350**	130,000
Advances to FCHI	**44,475**	–
Advances to MPHHI	–	768,128
	₱94,904,953	₱77,862,958

Movements of investments and advances are as follows:

	December 31, 2014			
	Subsidiaries	**Associates**	**Joint Venture**	**Total**
		(In Thousands)		
Investments:				
Balance at beginning of year	**₱37,364,304**	**₱1,441,038**	**₱37,403,101**	**₱76,208,443**
Acquisitions during the year	**2,053,854**	**13,522,958**	**–**	**15,576,812**
ESOP (see Note 19)	**6,632**	**–**	**–**	**6,632**
Hospital reorganization	**1,163,194**	**(1,440,788)**	**–**	**(277,594)**
Reclassification	**768,128**	**–**	**–**	**768,128**
	41,356,112	**13,523,208**	**37,403,101**	**92,282,421**
Advances:				
Balance at beginning of year	**898,128**	**–**	**756,387**	**1,654,515**
Additional advances during the year	**1,736,145**	**–**	**–**	**1,736,145**
Reclassification	**(768,128)**	**–**	**–**	**(768,128)**
	1,866,145	**–**	**756,387**	**2,622,532**
	₱43,222,257	**₱13,523,208**	**₱38,159,488**	**₱94,904,953**

	December 31, 2013			
	Subsidiaries	Associates	Joint Venture	Total
		(In Thousands)		
Investments:				
Balance at beginning of year	₱26,718,512	₱1,441,038	₱37,403,101	₱65,562,651
Acquisitions during the year	3,879,490	–	–	3,879,490
LTIP (see Note 16)	(10,670)	–	–	(10,670)
ESOP (see Note 19)	5,372	–	–	5,372
Reclassification	6,771,600	–	–	6,771,600
	37,364,304	1,441,038	37,403,101	76,208,443

(Forward)

	December 31, 2013			
	Subsidiaries	Associates	Joint Venture	Total
	(In Thousands)			
Advances:				
Balance at beginning of year	₱7,305,800	₱–	₱756,387	₱8,062,187
Additional advances during the year	363,928	–	–	363,928
Reclassification	(6,771,600)	–	–	(6,771,600)
	898,128	–	756,387	1,654,515
	₱38,262,432	₱1,441,038	₱38,159,488	₱77,862,958

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

	2014	2013
	(In Thousands)	
Subsidiaries:		
MPTC	**₱1,219,202**	₱1,371,201
MWHC	**475,831**	6,786,398
CVHMC	**80,000**	65,000
Maynilad	**51,922**	779,562
RMCI	**20,400**	15,300
AHI	**3,274**	2,187
EMHMC	**–**	41,000
Associates:		
DDH	**17,251**	31,365
MDI	**26,603**	56,928
Joint Venture - Beacon Electric preferred shares		
Common shares (see Note 12)	**4,450,000**	–
Preferred shares	**405,063**	405,063
	₱6,749,546	₱9,554,004

MPTC
MPTC was acquired by MPIC in 2008. The acquisition also resulted in the Company's owning 100.0% of Metro Pacific Tollways Development Corporation (MPTDC), a wholly owned subsidiary of MPTC, an indirect ownership of 67.1% interest in MNTC, the concession holder of the NLEX, and 46.0% indirect interest in TMC, through MPTDC. As at December 31, 2014, MPTC's ownership in MNTC is at 75.6%.

In July 2011, Bases Conversion and Development Authority (BCDA) and MNTC signed the Business and Operating Agreement (BOA) covering BCDA's assignment to MNTC of its right, interests and obligations relating to the management operation and maintenance of the 94-kilometer Subic-Clark-Tarlac Expressway (SCTEX). On February 9, 2015, MNTC received the Notice of Award from the BCDA for the management, operation and maintenance of the SCTEX following the results of the Price Challenge held last January 30, 2015. On February 26, 2015, MNTC and BCDA signed the Business Agreement (BA) that 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 effectivity of the BA is subject to conditions precedent, among which is the Toll Regulatory Board (TRB) approval and signing of the Supplemental Toll Operation Agreement (STOA). On February 26, 2015, the Business Operating Agreement was signed with full takeover of the SCTEX operation expected by second quarter.

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.

MPTC also has investment in CIC through a Management Letter Agreement. CIC holds the concession for the operation and maintenance of the CAVITEX, a 14-km long toll road built in two segments running from Parañaque to Cavite. The concession period extends until 2033 for the originally built road and until 2046 for the subsequent extension.

Metro Strategic Investments Holdings, Inc., a subsidiary of MPTC, on the other hand, holds 2.0% interest in Citra Metro Manila Tollways Corporation (CMMTC). CMMTC is engaged primarily in the design, construction and financing of the Metro Manila Skyway (in three stages) and the proposed Metro Manila Tollways projects.

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

Maynilad also holds investment in Phil Hydro, Inc. (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 until 2035.

MPWIC
On August 17, 2011, the Company incorporated MPWIC to carry on the general business of operating, managing, maintaining and rehabilitating waterworks, sewerage and sanitation systems and services, and to invest, purchase, acquire or own and dispose property of every kind in a corporation engaged in business or activities with the same purpose as MPWIC.

In 2013, the Company advanced ₱130.0 million to MPWIC which is subject to equity conversion once the latter has filed its increase of capital stock with the Philippine SEC. The ₱130.0 million was used by MPWIC to acquire a 39% equity interest in Manila Water Consortium Inc. (MWCI). MWCI has 51% ownership in Cebu Manila Water Development, Inc. (CMWD) which holds a 20-year Water Purchase Agreement (WPA) for the supply of 18 million liters per day for the first year and 35 million liters per day of water for the 2nd to 20th year to Metropolitan Cebu Water District (MCWD). In 2014, the Company made additional capital infusion amounting to ₱768.4 million subject to equity conversion.

On December 22, 2014, MPWIC entered into an agreement to operate and maintain the 100 mld bulk water facility of Rio Verde Water Consortium, Inc (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.

MPLRC
On April 12, 2011, the Company incorporated MPLRC for the purpose of (a) engaging in the development, construction, operation, repair, maintenance, management and other allied business involving infrastructure projects, such as railways, railroads and other transport systems, airports, tollways, piers and other public works except electrical energy projects, for the private and public sector; (b) investing in such projects whether as shareholder, partner or otherwise; and (c) bidding and negotiating for such projects.

On October 2, 2014, MPLRC's subsidiary, Light Rail Manila Corporation (LRMC; effective ownership interest at 55% as at December 31, 2014) signed together with the Department of Transportation and Communications (DOTC) and the Light Rail Transit Authority (LRTA) the Concession Agreement for the ₱65-billion Light Rail Transit Line 1 Cavite Extension and Operations & Maintenance Project (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 which is subject to certain conditions precedent. 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.

MPHHI and Hospitals
MPHHI is the Company's holding company for its investment in the healthcare segment. As at December 31, 2013, MPPHI had investment in the following hospitals:

- 52.4% in Asian Hospital Inc. (AHI)
- 51% in De Los Santos Medical Center Inc. (DLSMC);
- 51% in DLS-STI Megaclinic, Inc. (Megaclinic); and
- 51% in Central Luzon Doctors' Hospital, Inc.

In 2014, MPIC restructured its investments in the hospital companies by transferring all directly owned hospitals to MPHHI:

- BIPI which owns 27.5% interest in AHI;
- AHI at a direct ownership of 5.7%;
- RMCI;
- MDI;
- DDH;
- EMHMC, operator of Our Lady of Lourdes Hospital ("OLLH"); and
- CVHMC, operator of Cardinal Santos Medical Center.

The transfer of the abovementioned hospitals resulted in a gain of ₱849.2 million, net of ₱95.8 million transaction costs (see Notes 15 and 17).

On July 2, 2014, GIC, through Arran Investment Private Limited, invested ₱3.7 billion for a 14.4% interest in MPHHI. GIC also advanced to MPIC ₱6.5 billion by way of an Exchangeable Bond which can be exchanged into a 25.5% stake in MPHHI in the future, subject to certain conditions. This transaction decreased MPIC's ownership in MPHHI from 100.00% as at December 31, 2013 to 85.62% as at December 31, 2014 and at 60.1% on a fully diluted basis upon conversion of the Exchangeable Bond to common shares in the future (see Note 21).

MGGW
MPIC and Global Green International Energy (GGIE), a Singapore-based company, have partnered to develop a renewable energy / waste management project. MPIC and GGIE invested 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 MGGW, as an investment holding company for the waste-to-energy projects.

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

MIHL
MIHL holds investment in FPM Infrastructure Holdings Limited (FPM Infra), a BVI company. As at December 31, 2013, MIHL's interest in FPM Infra is at 25%. On July 31, 2014, FPC transferred its 75% shareholding in FPM Infra to MIHL 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 MPIC through 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.

FPM Infra holds 100% equity interest in AIF Toll Road Holdings (Thailand) Limited (AIF), which sole purpose is to hold the 29.45% equity interest in Don Muang Tollway Public Ltd (DMT), a major toll road operator in Bangkok, Thailand. DMT has a concession that 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.

In 2014, DMT shares owned by AIF were pledged as security for the Term Loan Facility Agreement with Thanachart Bank Public Company Limited amounting to Baht 2,100 million (or approximately US$65 million) payable until November 2021. The loan is subject to a floating interest 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$45.0 million. All dividend proceeds in respect of the investment in DMT shall be applied to repay this loan.

FCHI
On March 23, 2012, the Company incorporated FCHI which main activity is to hold shares of stocks of companies, condominium units and other properties purely for investment purposes only. In 2014, the Company made additional advances for equity amounting ₱44.5 million to fund FCHI's purchase of additional real estate properties which shall be used to house or accommodate consultants and other guests of the Company, its affiliates, subsidiaries and other related companies.

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

On July 18, 2012, the BOD of NOHI approved the shortening of the corporate life of NOHI to until December 31, 2013. NOHI is currently under the process of liquidation but holds investments in properties that have high market values based on latest appraisal and valuation report.

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

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

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

On June 24, 2014, MPIC, with the conformity of PCEV, 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 (see Note 12). The transaction was completed through a block sale at the PSE on June 26, 2014.

As at December 31, 2014 and 2013, Beacon Electric's interest in Meralco is at 44.96% and 49.96%, respectively. Thus, MPIC's effective ownership in Meralco as at December 31, 2014 and 2013 is at 27.48% and 24.98%, respectively.

Fair value of Beacon Electric's investment in Meralco, based on the quoted price as at December 31, 2014 and 2013 amounted to ₱129.7 billion and ₱141.3 billion, respectively. While the fair value of MPIC's direct investment in Meralco based on the quoted price as at December 31, 2014 amounted to ₱14.4 billion.

MPIC also has investment in Beacon Electric's preferred shares that are classified as "AFS financial assets" but are presented as part of "investments and advances".

MPIC also made advances to Beacon Electric which are non-interest bearing with no fixed repayment terms. The Company views such advances as part of its long-term investment in Beacon Electric.

AFCSI
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 Company holding 20% of the total shares subscribed.

As at December 31, 2014, investment in AFCSI amounted to ₱503.2 million, including ₱203.2 million of unpaid subscription.

FGNEC

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

9. Other Noncurrent Assets

As at December 31, this account consists of:

	2014	2013
	(In Thousands)	
Deposits [a]	**₱474,495**	₱462,495
Deposits for LTIP [b] (see Note 16)	**344,855**	131,000
Property and equipment	**69,120**	67,502
AFS financial assets	**37,000**	706,409
Software cost	**32,534**	50,071
Derivative asset (see Notes 6 and 22)	–	31,713
Others	**9,337**	7,137
	₱967,341	₱1,456,327

a. 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.

b. On December 18, 2013, the Company entered into an Investment Management Agreement (IMA) with a Trustee Bank to fund the 2013-2015 LTIP program which is expected to be paid in 2016 (see Note 16). As at December 31, 2014 and 2013, the LTIP fund balance amounted to ₱344.9 million and ₱131.0 million.

AFS financial assets. Except for Manila Polo Club and NEPSCC, AFS financial assets are carried at cost as there are no reliable sources and bases for subsequent fair value determination. This account comprises of:

	2014	2013
	(In Thousands)	
Shares of stock in:		
Pacific Global One Aviation Co., Inc. (PGOACI) [(a)]	**₱25,000**	₱25,000
Manila Polo Club [(b)]	**12,000**	11,000
NEPSCC [(c)]	**–**	458,584
Landco (see Notes 6 and 21) [(d)]	**–**	211,825
	₱37,000	₱706,409

a. On September 26, 2011, the Company co-incorporated, PGOACI, with Philippine Long Distance Telephone Company (PLDT), Meralco PowerGen Corporation, Philex Mining Corporation, MPTC and Jubilee Sky Limited, to operate as a private aviation firm. The Company invested ₱25.0 million for an equity ownership of 10% (see Note 3).

b. In 2011, the Company purchased golf share costing ₱7.0 million. As at December 31, 2014 and 2013, fair value of golf share in Manila Polo Club amounted to ₱12.0 million and ₱11.0 million, respectively. Changes in fair value were recognized in other comprehensive income.

c. NEPSCC is engaged in leasing properties, particularly mall spaces. On February 28, 2014, MPIC sold to Cosco Capital Inc. all of its NEPSCC shares of stock representing 36.89% of NEPSCC's issued and outstanding capital stock (see Note 17).

d. Landco is primarily engaged in all aspects of real estate business and was previously a separate reportable operating segment. Following a strategic review of the Company's businesses in 2008, and its focus on infrastructure, MPIC decided to divest its 51.0% controlling interest in Landco. MPIC disposed of portion of its remaining interest in Landco until in 2011, the remaining interest in Landco is at 19%. 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 21).

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

	December 31, 2012	Additions/ Amortization	**December 31, 2013**	**Additions/ Amortization**	**December 31, 2014**
			(In Thousands)		
Cost	₱85,948	₱3,763	**₱89,711**	**₱630**	**₱90,341**
Less accumulated amortization	20,474	19,166	**39,640**	**18,167**	**57,807**
	₱65,474	(₱15,403)	**₱50,071**	**(₱17,537)**	**₱32,534**

Property and Equipment. The account consists of:

	December 31, 2013	**Additions/ Depreciation**	**Disposals**	**December 31, 2014**
		(In Thousands)		
Cost:				
Transportation equipment	**₱70,067**	**₱27,905**	**(₱20,380)**	**₱77,592**
Leasehold improvements	**32,208**	**2,102**	**–**	**34,310**
Office equipment	**10,182**	**657**	**–**	**10,839**
Computer equipment	**14,897**	**1,852**	**(1,000)**	**15,749**
Furniture and fixtures	**6,006**	**250**	**(20)**	**6,236**
	133,360	**32,766**	**(21,400)**	**144,726**
Less accumulated depreciation:				
Transportation equipment	**27,479**	**13,959**	**(13,984)**	**27,454**
Leasehold improvements	**19,007**	**5,734**	**–**	**24,741**
Office equipment	**4,252**	**904**	**–**	**5,156**
Computer equipment	**10,408**	**3,267**	**(880)**	**12,795**
Furniture and fixtures	**4,712**	**749**	**(1)**	**5,460**
	65,858	**24,613**	**(14,865)**	**75,606**
	₱67,502	**₱8,153**	**(6,535)**	**₱69,120**

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

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

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

This account consists of:

	2014	2013
	(In Thousands)	
Accrued expenses and other payables (see Note 15):		
Personnel costs	**₱225,411**	₱156,296
Fringe benefit tax	**117,721**	54,505
Professional fees	**24,836**	17,467
Others	**95,064**	57,481
Interest payable (see Note 11) [(a)]	**198,912**	189,955
Accounts payable	**67,265**	39,417
Others [(b)]	**87,777**	49,307
	₱816,986	₱564,428

a. Interest payable amounting to ₱188.0 million and ₱190.0 million as at December 31, 2014 and 2013 pertains to the interest charges from a long-term bank loan, generally settled semi-annually (see Note 11). As at December 31, 2014, interest payable amounting to ₱10.9 million constitutes the current portion of the present value of the interest due on the Exchangeable Bond (see Notes 13 and 21).

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

The Company reversed accruals amounting to ₱27.0 million and ₱15.5 million in 2014 and 2013, respectively, and are included under "Other income (expense) - net" account in the parent company statements of comprehensive income (see Note 17). These amounts represent excess accruals for certain obligations and payables recognized in prior years over actual settlements.

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

Long-term Debt. As at December 31, 2014 and 2013, MPIC's outstanding loan comprises of *₱6.48 Billion Fixed Rate Note* with BDO. The loan, which is due in 2023, is payable in ten years, with semiannual interest payment. 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 the outstanding debt. The remaining debt issue cost related to the prepaid loan amounting to ₱4.27 million was recognized as interest expense in 2013 (see Note 17).

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 (see Note 7) 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 or later than 30 days prior to the exercise date. As at December 31, 2014 and 2013, MPIC has complied with its debt covenants.

Future repayments of principal are as follows:

	2014	2013
	(In Thousands)	
2014	**₱–**	₱64,800
2015	**64,800**	64,800
2016	**64,800**	64,800
2017	**64,800**	64,800
2018 and onwards	**6,188,400**	6,188,400
	₱6,382,800	₱6,447,600

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

12. Related Party Transactions

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

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

	Relationship		Management Fees (see Note 17)	Interest Income (see Note 17)	Dividend Income (see Note 8)	Rent and Utilities Expense (see Note 15)	Total
					(In Thousands)		
MWHC	Subsidiary	**2014**	**₱–**	**₱–**	**₱475,831**	**₱–**	**₱475,831**
		2013	–	–	6,786,398	–	6,786,398
Maynilad	Subsidiary	**2014**			**51,922**		**51,922**
		2013	–	–	779,562	–	779,562
MPTC	Subsidiary	**2014**			**1,219,202**		**1,219,202**
		2013	–	–	1,371,201	–	1,371,201
Beacon Electric	Joint Venture	**2014**			**4,855,063**		**4,855,063**
		2013	–	–	405,063	–	405,063
AHI	Subsidiary	**2014**	**7,873**		**3,274**		**11,147**
		2013	7,426	–	2,187	–	9,613
RMCI	Subsidiary	**2014**	**–**	**–**	**20,400**	**–**	**20,400**
		2013	–	–	15,300	–	15,300
EMHMC	Subsidiary	**2014**	**16,978**	**–**	**–**	**–**	**16,978**
		2013	17,565	–	41,000	–	58,565

	Relationship		Management Fees (see Note 17)	Interest Income (see Note 17)	Dividend Income (see Note 8)	Rent and Utilities Expense (see Note 15)	Total
CVHMC	Subsidiary	**2014**	**₱20,682**	**₱–**	**₱80,000**	**₱–**	**₱100,682**
		2013	19,391	–	65,000	–	84,391
MDI	Associate	**2014**	**–**	**–**	**26,603**	**–**	**26,603**
		2013	–	–	56,928	–	56,928
DDH	Associate	**2014**	**–**	**–**	**17,251**	**–**	**17,251**
		2013	–	–	31,365	–	31,365
MPHHI	Subsidiary	**2014**	**–**	**1,488**	**–**	**–**	**1,488**
		2013	–	3,000	–	–	3,000
PLDT	Associate of FPC	**2014**	**–**	**–**	**–**	**–**	**–**
		2013	–	–	–	11,168	11,168
		2014	**₱45,533**	**₱1,488**	**₱6,749,546**	**₱–**	**₱6,796,567**
		2013	₱44,382	₱3,000	₱9,554,004	₱11,168	₱9,612,554

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

		Due from related parties:		**Due to related parties:**	
	Nature of Transaction	**2014**	2013	**2014**	2013
			(In Thousands)		
Subsidiaries					
NOHI	Advances	**₱–**	₱–	**₱358,458**	₱359,168
MPWIC	Advances	**171**	102,157		–
MPHHI	Advances and accrued interest	**4,812**	51,474		–
CVHMC	Management fees	**11,850**	21,788		–
EMHMC	Management fees	**10,112**	20,275	**–**	–
MPLRC	Advances	**–**	5,433	**–**	–
AHI	Management fees	**4,415**	2,143	**–**	–
BIPI	Advances	**–**	1,744	**–**	–
MPTC	Advances	**582**	424	**–**	–
Maynilad	Advances	**538**	368	**–**	–
FCHI	Advances	**228**	6,141	**11**	–
Joint Venture in which the Company is a venturer					
Beacon Electric	Advances	**4,531**	4,530	**–**	–
	Payable	**–**	–	**7,187,871**	–
Associates					
Meralco	Advances	**290**	2,355	**–**	–
AFCSI	Advances	**808**	–	**–**	
*Other related parties**					
FPC	Advances	**3,257**	87,225	**–**	–
LRMC		**55**		**–**	
Metro Pacific Investments Foundation, Inc. (MPIF)	Advances	**896**	672	**–**	–
Ideaspace Foundation Inc. (Ideaspace)	Advances	**1,836**	–	**–**	1,250
PLDT	Advances	**144**	–	**–**	–
Others	Advances	**811**	4,994	**248**	1,236
		45,336	311,723	**7,546,588**	361,654
Less current portion		**45,336**	260,249	**7,546,588**	361,654
		₱–	₱51,474	**₱–**	₱–

**Other related parties are either indirect subsidiaries, parent company or companies under common control or management.*

Beacon Electric
On June 24, 2014, MPIC entered into a Share Purchase Agreement with Beacon Electric for the sale of the latter's 56.35 million Meralco shares for an aggregate consideration of ₱13.24 billion. 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.

As at December 31, 2014, MPIC's payable to Beacon Electric related to this transaction amounted to ₱7.2 billion (net of discounting impact amounting to ₱55.5 million) after payment of ₱1.6 billion on transaction date and ₱4.5 billion through offsetting with MPIC's share of dividends on common shares declared by Beacon Electric on June 24, 2014 and November 17, 2014 (see Note 24).

NOHI
The balance represents the various advances made for MPIC to pay documentary stamp taxes for its various loans and issuance of common shares, payment for software costs and advances to finance MPIC's daily operations in prior years.

MPWIC
In 2013, the Company made advances to MPWIC amounting to ₱102.0 million which amount was extended by MPWIC to Manila Water Consortium Inc. for the Cebu Water project. The advances were fully settled by MPWIC in January 2014.

MPHHI and BIPI
MPIC's receivables from MPHHI and BIPI resulted from Bumrungad International Limited's (BIL) assignment to MPIC of its rights to loans and advances amounting to ₱68.7 million through a Deed of Assignment (VCI Assignment) signed on December 6, 2011. These loans and advances are as follows:

- BIPI Shareholder Advances, which represents the amount owed by BIPI to BIL in relation to shareholder advances from BIL for working capital purposes and outstanding consulting fees amounting to ₱10.5 million of which ₱9.2 million was paid in 2013 and the balance fully paid in 2014.

- MPHHI Shareholder Loan pertain to an interest bearing loan with a principal amount of ₱30.0 million owed by MPHHI to BIL under the Omnibus Loan and Pledge Agreement dated February 18, 2005. The MPHHI Shareholder Loan is subject to 10% interest per annum with a maturity date of February 15, 2015. As at December 31, 2014 and 2013, the amount due from MPHHI amounted to ₱4.8 million and ₱51.5 million, respectively. In 2014, MPHHI prepaid portion of the loan and agreed on a final payment date to be June 30, 2015.

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

Compensation of Key Management Personnel
The compensation and benefits of the Company's key management personnel for the years ended December 31, 2014 and 2013 are as follows:

	2014	2013
	(In Thousands)	
Short-term employee benefits	**₱382,444**	₱314,079
Post employment benefits - Retirement cost (see Note 16)	**25,709**	23,742
Share-based payment - ESOP (see Note 19)	**49,944**	12,834
Other employee benefits:		
LTIP expense (see Note 16)	**194,832**	178,498
Others	**3,591**	–
	₱656,520	₱529,153

Directors' Remuneration
Annual remuneration of the directors amounted to ₱3.8 million and ₱7.0 million for the years ended December 31, 2014 and 2013, respectively (see Note 15).

Non-executive directors are entitled to a per diem allowance of ₱50,000 for each attendance in the Company's Board meetings. The Company's By-Laws provide that an amount equivalent to 1.0% of net profit after tax of the Company shall be allocated and distributed among the directors of the Company who are not officers of the Company or its subsidiaries and affiliates, in such manner as the BOD may deem proper. No accrual was made with respect to this scheme for the years ended December 31, 2014 and 2013 in the absence of resolution from the BOD. There are no other special arrangements pursuant to which any director will be compensated.

13. **Other Noncurrent Liabilities**

This account consists of:

	2014	2013
	(In Thousands)	
Long-term incentive plan payable (see Note 16)	**₱342,560**	₱147,728
Subscription payable (see Notes 8 and 24)	**203,235**	–
Interest payable (see Notes 10 and 21)	**142,557**	–
Accrued retirement cost (Note 16)	**13,885**	412
	₱702,237	₱148,140

Interest payable pertains to the noncurrent portion of the present value of the interest due on the Exchangeable Bond (see Notes 10 and 21).

14. **Equity**

Details of authorized and issued capital stock follow:

		Common shares		Preferred Shares – Class A		Preferred Shares – Class B	
		No. of Shares	**Par Value/ Issue Price per share**	No. of Shares	**Par Value/ Issue Price per share**	No. of Shares	**Price per share**
Authorized Capital Stock (ACS):							
Registration Date	**Activity**						
March 20, 2006	Incorporation	100,000	₱1.00				
June 5, 2006	Increase in ACS	4,599,900,000	1.00				
As at December 31, 2007 and 2006		4,600,000,000	1.00				
August 12, 2008	Increase in ACS	7,350,000,000	1.00	5,000,000,000	₱0.01		
As at December 31, 2008		11,950,000,000	1.00	5,000,000,000	0.01		
February 13, 2009	Increase in ACS	8,050,000,000	1.00	–	–	1,500,000,000	₱1.0
December 21, 2009	Increase in ACS	2,688,518,336	1.00	–	–	–	–
As at December 31, 2010 and 2009		22,688,518,336	1.00	5,000,000,000	0.01	1,500,000,000	1.0
May 31, 2011	Increase in ACS	5,811,481,664	1.00	–	–	–	–
As at December 31, 2014, 2013 and 2012		28,500,000,000	1.00	5,000,000,000	0.01	1,500,000,000	1.0
Issued and Outstanding:							
Date	**Activity**						
September 6, 2006	Original subscription of MPIC's majority shareholders	968,820,495	₱1.00	–	₱–	–	₱–
October 23, 2006	Issuance of shares to NOHI majority owners in exchange for MPIC shares	181,290,038	1.00	–	–	–	–
November 8, 2006	Tendered shares of NOHI minority shareholders in exchange for MPIC shares	48,841,989	1.00	–	–	–	–
As at December 31, 2006		1,198,952,522	1.00	–	–	–	–
December 31, 2007	Tendered shares of NOHI minority shareholders in exchange for MPIC shares	143,966,271	1.00	–	–	–	–
As at December 31, 2007		1,342,918,793	1.00	–	–	–	–
June 30, 2008	Additional subscription of MPIC's majority shareholders	3,791,525,175	2.00	–	–	–	–
June 30, 2008	Conversion of loan from MPHI to equity	1,893,282,845	1.00	–	–	–	–
As at December 31, 2008		7,027,726,813	1.00	–	–	–	–
February 13, 2009	Issuance on existing subscriptions from MPHI	2,389,040,000	2.00	–	–	–	–
July 9, 2009	Issuance on existing subscriptions from LAWL Pte. Ltd (LAWL)	791,110,491	2.60	–	–	–	–
July 29, 2009	Conversion of advances from MPHI to equity			5,000,000,000	0.01	–	–
October 2, 2009	Issuance in exchange for Meralco shares	4,464,202,634	3.20	–	–	–	–
September 19, 2009	Additional subscriptions of MPHI	4,770,000,000	3.00	–	–	–	–
December 21, 2009	Conversion of advances/loan from MPHI to equity	672,129,584	3.00	–	–	–	–
Various	Exercise of stock option plan	13,945,000	2.41*	–	–	–	–
As at December 31, 2009		20,128,154,522	1.00	5,000,000,000	0.01	–	–
Various	Exercise of stock option plan	32,310,000	2.12*	–	–	–	–
As at December 31, 2010		20,160,464,522	1.00	5,000,000,000	0.01	–	–
May 31, 2011	Conversion of advances/loan from MPHI to equity	2,030,769,230	3.25	–	–	–	–
July 13, 2011	Additional subscriptions of MPHI	2,400,000,000	3.60	–	–	–	–
Various	Exercise of stock option plan	2,060,000	2.73*	–	–	–	–
As at December 31, 2011		24,593,293,752	1.00	5,000,000,000	0.01	–	–
Various	Exercise of stock option plan	20,530,000	2.41*	–	–	–	–
As at December 31, 2012		24,613,823,752	1.00	5,000,000,000	0.01	–	–
January 22, 2013	Additional subscriptions of MPHI	1,330,000,000	4.60	–	–	–	–
Various	Exercise of stock option plan	82,150,000	2.73*	–	–	–	–
As at December 31, 2013		26,025,973,752	₱1.00	5,000,000,000	₱0.01	–	–
Various	Exercise of stock option plan	20,297,000	2.88*	–	–	–	–
As at December 31, 2014		26,046,270,752	₱1.00	5,000,000,000	₱0.01	–	–

**Weighted average exercise price.*

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

- At various dates in 2014 and 2013, a total of 20.3 million and 82.2 million common shares, respectively, were issued in connection with the Company stock option plan (see Note 19).

- 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.

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

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

There were no Class B Preferred Shares issued as at December 31, 2014 and 2013.

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

Issue	Offer price	Date of SEC approval	Number of registered shares securities	Number of holders of securities as at December 31, 2014	2013
Tender offer to shareholders of Metro Pacific Corporation (MPC) covering subscription warrants relating to common shares of MPIC with par value of ₱1.0 per share	Four (4) MPC shares for one (1) MPIC share plus three (3) warrants	October 25, 2006	Common shares of 56,878,766*	**1,334**	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, 143,976,804 warrants were converted as at December 31, 2007 and 2,549,163 warrants expired on December 15, 2007.

Cash Dividends
Dividends paid and declared are as follows:

	2014	2013
	(In Thousands)	
Paid and declared:		
Final dividend in respect of the previous financial year approved and paid during the following year:		
Common shareholders (₱0.022 and ₱0.02 per share in 2014 and 2013, respectively)	**₱572,640**	₱519,878
Class A preferred shareholders	**2,500**	2,500
Interim dividend declared and paid during the interim period:		
Common shareholders (₱0.026 and ₱0.015 per share in 2014 and 2013, respectively)	**677,095**	390,358
Class A preferred shareholders	**3,750**	2,500
Special one-off dividend		
Common shareholders (₱0.04 per share in 2014)	**1,041,807**	–
	₱2,297,792	₱915,236
Proposed final dividend:		
Common shareholders (₱0.037 and ₱0.022 per share in 2014 and 2013, respectively)	**₱1,030,886**	₱572,640
Class A preferred shareholders	**1,250**	2,500
	₱1,032,136	₱575,140

Proposed final dividends on both common and Class A preferred shares were declared after 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 of the record date at March 25, 2015 with payment date of April 17, 2015. On the same date, the BOD also approved the declaration of cash dividends of 10% based on the par value of Class A Preferred Shares or the amount of ₱1.3 million in favor of MPHI, the sole holder of Class A Preferred shareholders.

Equity Reserves
This account is used to recognize the value of equity-settled share-based payments provided to employees, including key management personnel, as part of their remuneration. As at December 31, 2014 and 2013, other reserve from ESOP amounted to ₱115.7 million and ₱80.5 million, respectively (see Note 19).

15. **Operating Expenses**

As at December 31, 2014, this account consists of:

	2014	2013
	(In Thousands)	
Personnel costs	**₱850,344**	₱638,023
Taxes and licenses	**170,997**	7,188
Professional fees	**153,972**	164,786
Provision for corporate initiatives	**71,590**	146,400
Outside services	**59,965**	67,466
Public relation	**44,002**	46,522
Depreciation and amortization (see Note 9)	**42,780**	43,887
Transportation	**32,928**	29,455
Donations	**10,200**	23,500
Rent	**11,513**	10,215
Communication, light and water	**9,437**	9,521
Supplies	**9,410**	7,235
Insurance	**9,370**	5,445
Seminars and conferences	**4,364**	4,131
Directors' fee	**3,782**	6,988
Representation	**3,169**	1,446
Membership dues	**2,212**	1,554
Repairs and maintenance	**2,147**	2,390
Others	**22,376**	20,885
	₱1,514,558	₱1,237,037

Personnel costs for the years ended December 31, 2014 and 2013 consist of:

	2014	2013
	(In Thousands)	
Salaries and wages	**₱464,144**	₱355,943
LTIP expense (see Note 16)	**194,832**	178,498
Fringe benefit tax	**64,564**	28,288
Retirement cost (see Note 16)	**30,377**	26,590
ESOP expense (see Note 19)	**49,944**	12,834
Others	**46,483**	35,870
	₱850,344	₱638,023

16. **Employee Benefits**

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

The total cost of the LTIP for 2014 and 2013 amounted to ₱194.8 million and ₱178.5 million, respectively, presented under "Personnel costs" in the parent company statements of comprehensive income (see Note 15). The details of accrued LTIP are as follows, as at December 31:

	2014	2013
	(In Thousands)	
Beginning balance	**₱147,728**	₱310,509
Payout	–	(335,655)
Reversal[(a)]	–	(5,624)
Current provision	**190,238**	176,383
Interest	**5,462**	1,464
Actuarial loss (gain)	**(868)**	651
LTIP payable (see Note 13)	**₱342,560**	₱147,728

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

On December 18, 2013, MPIC entered into a new IMA with the same Trustee Bank for the funding of the 2013-2015 LTIP program. As at December 31, 2014 and 2013, the LTIP fund balance amounted to ₱344.9 million and ₱131.0 million, respectively (see Note 9).

Pension

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

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

The Company's contributions to the plan are made based on the employee's monthly basic salary which is at 10.0%. Additionally, an employee has an option to make a personal contribution to the fund, at an amount not exceeding 40.0% of his monthly salary. The Company then provides an additional contribution to the fund which aims to match the employee's contribution but only up to a maximum of 5.0% of the employee's monthly salary. Although the plan has a defined contribution format, the Company regularly monitors compliance with R.A. 7641, which provides for its qualified employees under a defined benefit minimum guarantee. The defined minimum guarantee is equivalent to a certain percentage of the monthly salary payable to an employee at normal retirement age with the required credited years of service based on the provisions of R.A. 7641. Accordingly, the Company accounted for the retirement obligation under the higher of defined benefit obligation relating to the minimum guarantee and the obligation arising from the defined contribution plan. Disclosures required for a defined benefit retirement plan apply to the Company's retirement plan.

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

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

	2014	2013
	(In Thousands)	
Current service cost	**₱30,356**	₱27,471
Net interest cost (income)	**21**	(881)
Total retirement cost	**₱30,377**	₱26,590

Remeasurement effects recognized in OCI are as follows:

	2014	2013
	(In Thousands)	
Actuarial loss	**₱7,561**	₱3,933
Loss (return) on assets excluding amount included in net interest cost	**5,701**	(330)
	13,262	3,603
Less deferred tax	**–**	(696)
Actuarial loss, net of deferred tax	**₱13,262**	₱2,907

The funded status and amounts recognized in the statements of financial position for accrued retirement cost are as follows:

	2014	2013
	(In Thousands)	
Present value of obligation	**₱181,143**	₱136,405
Fair value of plan assets	**(167,258)**	(135,993)
Accrued retirement cost	**₱13,885**	₱412

Movements in the present value of obligation are as follows:

	2014	2013
	(In Thousands)	
Present value of obligation at the beginning of the year	**₱136,405**	₱99,917
Current service cost	**30,356**	27,471
Interest cost	**6,821**	5,084
Actuarial loss due to:		
Experience adjustments	**(5,549)**	3,845
Changes in financial assumptions	**13,110**	88
Present value of obligation at the end of the year	**₱181,143**	₱136,405

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

	2014	2013
	(In Thousands)	
Fair value of plan assets at beginning of the year	**₱135,993**	₱102,226
Interest income included in net interest cost	**6,800**	5,965
Actual (loss) return excluding amount included in net interest cost	**(5,701)**	330
Actual contributions	**30,166**	27,472
Fair value of plan assets at end of the year	**₱167,258**	₱135,993
Actual return on plan assets	**₱1,099**	₱6,295

The allocations of the fair value of the trust fund as at December 31, 2014 and 2013 are as follows:

	2014	2013
	(In Thousands)	
Investments in:		
Government securities	**₱112,498**	₱65,322
Unit trust funds	**40,109**	32,354
Cash in banks	**11,022**	37,426
Receivables and others	**3,629**	891
	₱167,258	₱135,993

As at December 31, 2014 and 2013, the trust fund consists of the following:

- Investments in government securities consist primarily of fixed-rate treasury notes and retail treasury bonds that bear interest ranging from 2.88% to 7.77% (2014) and 5.38% to 7.00% (2013) per annum and have maturities of up to 2032 (as at 2014) and 2037 (as at 2013).
- Unit trust funds include subscription with unit investment fund offered by local institutional investment banks.
- Cash and cash equivalents include regular savings and time deposits, which bear interest ranging from 2.50% to 5.50% (2014) and 2.00% to 5.50% (2013) per annum.
- Receivables include interest receivables, dividends receivables and other receivables.

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

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

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

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

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

	2014	2013
Discount rate	**4.66%**	5.00%
Salary increase rate	**10.00%**	7.00%

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

The weighted average duration of the expected benefit payments is approximately 21.33 years and 18.46 years in 2014 and 2013, respectively.

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

	2014	2013
	(In Thousands)	
Less than one year	**₱38,715**	₱41,355
More than one year to five years	**79,396**	85,446
More than five years to 10 years	**26,255**	22,374
More than 10 years to 15 years	**107,354**	55,292
More than 15 years to 20 years	**200,125**	173,498
More than 20 years	**682,539**	309,496

Sensitivity Analysis. The calculation of the defined benefit obligation is sensitive to the assumptions set above. The following table summarizes how the present value of defined benefit obligation as at December 31 would have increased (decreased) as a result of change in the respective assumptions by:

	Increase (Decrease)	**2014**	2013
Discount rate	+1%	**(₱7,142)**	₱300
	-1%	**9,490**	(534)
Salary increase rate	+1%	**8,666**	3,950
	-1%	**(6,794)**	(25)

The Company currently expects to make approximately ₱27.2 million of cash contributions to its retirement fund in 2015.

17. **Interest Income, Interest Expense and Other Income (Expenses)**

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

	2014	2013
	(In Thousands)	
Interest income:		
Cash and cash equivalents (see Note 5)	**₱92,147**	₱115,957
Notes receivable (see Note 6)	**67,674**	95,418
	₱159,821	₱211,375
Interest expense:		
Long-term debt (see Note 11)	**₱492,095**	₱602,573
Accretion on financial liabilities (see Notes 8 and 10)	**181,234**	–
Amortization of debt issue cost (see Note 11)	–	4,265
	₱673,329	₱606,838
Other income (expenses) - net:		
Gain on dilution of interest in a subsidiary (see Note 21)	**₱4,200,892**	₱–
Gain on sale of investments (see Note 8)	**944,993**	–
Gain on sale of AFS (see Note 9)	**222,322**	1,254
Management fees (see Note 12)	**45,754**	47,656
Reversal of accruals (see Note 10)	**26,966**	15,522
Foreign exchange (loss) gain – net	**(11,065)**	10,606
Refinancing cost	–	(66,103)
Others	**31,258**	82,462
	₱5,461,120	₱91,397

18. **Income Taxes**

<u>Current Tax</u>

The provision for current income tax consists of:

	2014	2013
	(In Thousands)	
MCIT	**₱1,756**	₱3,710
Final tax on interest income	**16,189**	23,186
	₱17,945	₱26,896

Deferred Tax

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

	2014	2013
	(In Thousands)	
Deferred tax liabilities:		
Gain on dilution of interest in subsidiary (see Note 21)	**₱483,334**	₱–
Unrealized fair value gain on AFS financial assets	–	24,799
	₱483,334	₱24,799

The deferred tax liability relating to the gain on dilution of interest in subsidiary pertains to the applicable tax on the expected gain on the future conversion of the Exchangeable Bond. While the gain on dilution of interest in subsidiary was recognized for accounting purposes for the year ended December 31, 2014, the taxable gain shall be recognized upon actual conversion of the Exchangeable Bond (see Note 21).

b. The details of the carry forward benefits of NOLCO, MCIT and other deductible temporary difference for which deferred tax assets, amounting to ₱1,531.5 million and ₱1,249.6 million, were not recognized as at December 31, 2014 and 2013, respectively, since management believes that it is not probable that future taxable income will be available against which the deferred tax assets can be utilized as follows:

	2014	2013
	(In Thousands)	
Items recognized in profit or loss:		
NOLCO	**₱4,210,980**	₱3,662,201
MCIT	**9,439**	8,343
Nondeductible expenses	**848,081**	473,864
Item recognized in OCI:		
Actuarial loss	**14,554**	1,292
	₱5,083,054	₱4,145,700

The carry forward benefits of MCIT amounting to ₱9.4 million and ₱8.3 million as at December 31, 2014 and 2013, respectively, can be claimed as tax credit against future income taxes payable as follows:

Year Incurred	Balance as at December 31, 2013	Additions	Expired	Adjustment	Balance as at December 31, 2014	Expiry Year
				(In Thousands)		
2014	₱–	₱1,756	₱–	₱516	₱2,272	2017
2013	3,710	–	–	–	3,710	2016
2012	3,457	–	–	–	3,457	2015
2011	1,176	–	1,176	–	–	2014
	₱8,343	₱1,756	₱1,176	₱516	₱9,439	

As at December 31, 2014 and 2013, unrecognized NOLCO amounting to ₱4,210.9 million and ₱3,662.2 million, respectively, can be carried forward and claimed as deduction from regular taxable income as follows:

Year Incurred	Balance as at December 31, 2013	Additions	Expired	Balance as at December 31, 2014	Expiry Year
			(In Thousands)		
2014	₱–	₱1,330,373	₱–	₱1,330,373	2017
2013	1,925,639	–	–	1,925,639	2016
2012	954,968	–	–	954,968	2015
2011	781,594	–	781,594	–	2014
	₱3,662,201	₱1,330,373	₱781,594	₱4,210,980	

The reconciliation between the Company's statutory income tax and the effective income tax on net income for the years ended December 31, 2014 and 2013 follows:

	2014	2013
	(In Thousands)	
Statutory income tax at 30%	**₱3,054,780**	₱2,403,870
Adjustments for:		
Dividend income exempted from final tax	**(2,024,864)**	(2,866,201)
Net change in unrecognized deferred tax assets	**503,071**	459,214
Income already subjected to final tax	**(1,638,106)**	(34,787)
Final tax on interest income	**16,189**	23,186
Nondeductible expenses	**105,119**	37,904
MCIT	**1,756**	3,710
Effective income tax	**₱17,945**	₱26,896

19. Share-based Payment

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

As amended, the overall limit on the number of shares that may be issued upon exercise of all options to be granted and yet to be exercised under the Plan must not exceed 5.0% of the shares in issue from time to time.

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

First Grant. The Company granted on December 9, 2008 (Tranche A) and March 10, 2009 (Tranche B) options in respect of 123,925,245 common shares to its senior management. Details of the said tranches follow: (a) Tranche A for 61,000,000 shares, 50.0% of which vested immediately on January 2, 2009 with an exercise price of ₱2.12 per share and (b) Tranche B for 62,925,245 shares, 50.0% of which vested on March 10, 2009 with an exercise price of ₱2.73 per share. The remaining 50.0% of each said tranche will vest on the first anniversary of the initial vesting date. The share options automatically vest on their respective vesting schedules. The grantees of the said option may exercise in whole or in part their respective options at any time after vesting but prior to the expiration of three years after all of the options shares for such tranche have vested. Both tranches of the First Grant expired on January 2, 2013 and March 10, 2013, respectively.

Second and Third Grants. In 2010, in consideration of SEC's policy to exclude the independent directors from ESOP grant and pending MPIC's consequent position paper filed with the Philippine 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 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 was granted at the exercise price of ₱3.53 to senior management of Maynilad (the Third Grant B) and on April 14, 2011, another 3,000,000 common shares was granted at the exercise price of ₱3.66 to a MPIC officer (the Third Grant C).

Fourth Grant. On October 14, 2013, MPIC made an ESOP grant (the Fourth Grant) consisting of 112.0 million common shares, to its directors and senior management officers. 112.0 million common shares were granted under Tranche A while 8.0 million common shares will be included under Tranche B. The grantees include the 3 independent directors of the Company. Of the total shares granted, 14.0 million common shares are allocated to senior management of MPTC. The grant was approved by the 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)	
Second grant	**0.5**	1.5
Third grant	**2.1**	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. The carrying value of ESOP recognized under "Equity Reserves" in the equity section of the parent company statement of financial position amounted to ₱115.7 million and ₱80.5 million as at December 31, 2014 and 2013, respectively (see Note 14).

Total ESOP charged to "Personnel costs" under "Operating expenses" and "Investments and advances" as at and for the years ended December 31, 2014 and 2013 are shown below:

	2014		
	Personnel costs (Note 15)	**Investments and advances** (Note 8)	**Equity Reserves** (Note 14)
	(In Thousands)		
Third grant – Tranche B	**₱–**	**₱35**	**₱35**
Fourth grant – Tranche A	**49,944**	**6,597**	**56,541**
	₱49,944	**₱6,632**	**₱56,576**

	2013		
	Personnel costs (Note 15)	Investments and advances (Note 8)	Equity Reserves (Note 14)
	(In Thousands)		
Second grant:			
Tranche B	₱356	₱2,215	₱2,571
Third grant:			
Tranche A	–	1,315	1,315
Tranche B	–	231	231
Tranche C	279	–	279
Fourth grant:	12,199	1,611	13,810
	₱12,834	₱5,372	₱18,206

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 14)	(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 14)	–	–	–	–	(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, 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 Note 14)	(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 Note 14)	–	–	(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, 2013	3,500,000	₱3.50	–	**₱3.53**	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 14)	–	–	–	–
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 14)	(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.*

20. Earnings Per Share

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

		2014	2013
		(In Thousands, Except for Per Share Amounts)	
Net income		**₱10,164,655**	₱7,986,005
Effect of dividends on preference equity holders of the Parent Company		**(5,000)**	(5,000)
	(a)	**10,159,655**	7,981,005
Outstanding common shares at the beginning of the year		**26,025,974**	24,613,824
Effect of issuance of common shares during the year		**11,882**	1,313,984
Weighted average number of common shares for basic earnings per share	(b)	**26,037,856**	25,927,808
Effects of potential dilution from ESOP		**24,338**	61,514
Weighted average number of common shares adjusted for the effects of potential dilution	(c)	**₱26,062,194**	₱25,989,322
Basic earnings per share	(a/b)	**₱0.390**	₱0.308
Diluted earnings per share	(a/c)	**₱0.390**	₱0.307

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

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

21. Significant Contracts, Agreements and Commitments

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 financial position of Landco in preparation for an eventual sale to third parties. The agreement contemplates the implementation of the following transactions in the near future: (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 foregoing steps will be implemented in different phases in the near future with the conversion of the preferred shares to common shares in Landco and assumption of ABHC's payable to Landco of ₱155.3 million implemented in 2014.

After the aforementioned transactions, 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.

Dilution of interest in MPHHI. On July 2, 2014, GIC, through Arran, invested ₱3.7 billion for a 14.4% stake in MPHHI through subscription of primary shares and invested ₱6.5 billion in Exchangeable Bond issued by MPIC, which can be exchanged into a 158,137,590 shares of ₱10.0 par value Class A common shares of the MPHHI, in the future, subject to certain conditions. The Exchangeable Bond is subject to a fixed interest rate applicable per annum which, for the first year shall be equivalent to 0.27% and shall be repriced annually thereafter at a rate to be mutually agreed by MPIC and GIC. Final maturity date of the Exchangeable Bond is on December 31, 2019.

This transaction was accounted for in the parent company financial statements as an equity transaction which resulted to a *gain on dilution of interest in a subsidiary* representing the difference between (a) the GIC's investment in the Exchangeable Bond amounting to ₱5.9 billion (net of deferred tax liability of ₱483.3 million and present value of the interest payable of ₱149.2 million) and (b) carrying value of the MPHHI Class A common shares to be exchanged in the future amounting to ₱1.7 billion. While the *gain on dilution of interest in a subsidiary* was recognized for accounting purposes for the year ended December 31, 2014, the taxable gain shall be recognized upon actual conversion of the Exchangeable Bond (see Note 17).

22. Financial Risk Management Objectives and Policies

The Company's principal financial instruments consist mainly of borrowings from a related party, and third party lenders and creditors, proceeds of which were used for the acquisition of investments and in financing operations. The Company has other financial assets and financial liabilities such as cash and cash equivalents, receivables, accrued expenses and other current liabilities, as well as other related party transactions that arise directly from the Company's operations. The Company also holds AFS financial assets.

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

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

The Company monitors its cash position using a cash forecasting system. All expected collections, check disbursements and other cash payments are determined on a daily basis to arrive at the projected cash position to cover its obligations and ensuring that obligations are met as they fall due. The Company monitors its cash flow position particularly the collections from receivables, receipts of dividends and the funding requirements of operations to ensure an adequate balance of inflows and outflows. The Company also has an online facility with its depository banks wherein bank balances are monitored daily to determine the actual Company cash balances at any time. The Company has cash and cash equivalents amounting to ₱4,088.1 million and ₱4,529.3 million as at December 31, 2014 and 2013, respectively, which are allocated to meet the Company's short-term liquidity needs.

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

- Managing the concentration and maturity profile of debt maturities;
- Maintaining debt financing plans; and
- Monitoring statement of financial position liquidity ratios against internal, external and regulatory requirements.

Liquidity risk concentrations arise when a number of economic features would cause the Company's ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. As at December 31, 2014, the Company has negative working capital as a result of liability to Beacon Electric in relation to the acquisition of Meralco shares (see Notes 8 and 12). Management sees this circumstance as temporary partly due to timing of inflows and outflows of cash flows. Such situation is warranted and properly planned and addressed by the Company as payable to Beacon Electric is to be settled partially through offsetting against the dividends declared by Beacon Electric on February 26, 2015 (see Note 25) and the remaining portion to be sourced from internal cash flows coming from expected dividends to be declared by the Company's subsidiaries.

The table below summarizes the maturity profile of the Company's financial assets and financial liabilities as at December 31, 2014 and 2013 based on undiscounted contractual payments and include forecast interest payment for long-term debt.

	2014						
	On Demand	Within 1 Year	1–2 Years	2–3 Years	3–4 Years	More than 4 Years	Total
				(In Thousands)			
Financial Assets							
Cash and cash equivalents*	**₱17,200**	**₱4,070,843**	**₱–**	**₱–**	**₱–**	**₱–**	**₱4,088,043**
Receivables	–	**97,805**	–	–	–	–	**97,805**
Due from related parties	–	**45,336**	–	–	–	–	**45,336**
AFS financial assets**	–	–	–	–	–	**11,610,222**	**11,610,222**
Total	**17,200**	**4,213,984**	–	–	–	**11,610,222**	**15,841,406**
Financial Liabilities							
Accrued expenses and other current liabilities:							
Accrued interest payable	**188,045**	**17,793**	**27,487**	**35,702**	**44,577**	**55,219**	**368,823**
Accrued expenses	**370,960**	–	–	–	–	–	**370,960**
Accounts payable	**69,272**	–	–	–	–	–	**69,272**
Other payable***	**1,429**	–	–	–	–	–	**1,429**
Due to related parties	**358,717**	**7,243,410**	–	–	–	–	**7,602,127**
Long-term debt	–	**548,937**	**545,319**	**539,082**	**987,755**	**6,792,120**	**9,413,213**
	988,423	**7,810,140**	**572,806**	**574,784**	**1,032,332**	**6,847,339**	**17,825,824**
Liquidity gap	**(₱971,223)**	**(₱3,596,156)**	**(₱572,806)**	**(₱574,784)**	**(₱1,032,332)**	**₱4,762,883**	**(₱1,984,418)**

** Excluding cash on hand amounting to ₱0.06 million as at December 31, 2014.*
*** Including investment in preferred shares of Beacon amounting to ₱11,573.2 million as at December 31, 2014.*
**** Excluding statutory payables.*

	2013						
	On Demand	Within 1 Year	1–2 Years	2–3 Years	3–4 Years	More than 4 Years	Total
				(In Thousands)			
Financial Assets							
Cash and cash equivalents*	₱27,708	₱4,501,565	₱–	₱–	₱–	₱–	₱4,529,273
Receivables	222	359,006	210,549	–	210,235	978,367	1,758,379
Due from related parties	214,298	45,950	51,475	–	–	–	311,723
AFS financial assets**	–	458,584	–	–	–	11,821,047	12,279,631
Total	242,228	5,365,105	262,024	–	210,235	12,799,414	18,879,006
Financial Liabilities							
Accrued expenses and other current liabilities:							
Accrued interest payable	189,955	–	–	–	–	–	189,955
Accrued expenses	283,721	–	–	–	–	–	283,721
Accounts payable	42,522	–	–	–	–	–	42,522
Other payable***	1,430	–	–	–	–	–	1,430
Due to related parties	361,654	–	–	–	–	–	361,654
Long-term debt	–	558,805	553,827	550,173	543,873	7,795,950	10,002,628
	879,282	558,805	553,827	550,173	543,873	7,795,950	10,881,910
Liquidity gap	(₱637,054)	₱4,806,300	(₱291,803)	(₱550,173)	(₱333,638)	₱5,003,464	₱7,997,096

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

Credit Risk

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

The Company's exposure to credit risk is equal to the carrying amount of its financial assets, except for those presented in the following table. The Company has no concentration of credit risk.

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

	2014		
	Gross Maximum Exposure (a)	**Fair Value and Financial Effect of Collateral or Credit Enhancement (b)**	**Net Exposure (c) = (a) – (b)**
		(In Thousands)	
Cash and cash equivalents*	**₱4,088,043**	**₱2,343**	**₱4,085,700**
Receivables	**97,805**	**–**	**97,805**
Due from related parties	**45,336**	**4,542**	**40,794**
	₱4,231,184	**₱6,885**	**₱4,224,299**

** Excludes cash on hand amounting to ₱0.06 million as at December 31, 2014.*

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

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

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

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

	2014				
	Neither Past Due nor Impaired	**Past Due but not Impaired**			**Total**
		<30 Days	**30–120 Days**	**>120 Days**	
			(In Thousands)		
Loans and receivables:					
Cash and cash equivalents[(a)]	**₱4,088,043**	**₱–**	**₱–**	**₱–**	**₱4,088,043**
Receivables:					
Interest receivable	**6,855**	–	–	–	**6,855**
Dividend receivable	**50,000**	–	–	–	**50,000**
Accounts receivable	**1,161**	–	–	–	**1,161**
Advances to employees	**6,834**	–	–	–	**6,834**
Other receivables	**32,955**	–	–	–	**32,955**
Due from related parties	**45,336**	–	–	–	**45,336**
Cash deposits[(b)]	**186,364**	–	–	–	**186,364**
	₱4,417,548	**₱–**	**₱–**	**₱–**	**₱4,417,548**

[(a)] Excludes cash on hand amounting to ₱0.06 million as at December 31, 2014.
[(b)] Included under "Other current assets" account in the parent company statement of financial position.

	2013				
	Neither Past Due nor Impaired	Past Due but not Impaired			Total
		<30 Days	30–120 Days	>120 Days	
			(In Thousands)		
Loans and receivables:					
Cash and cash equivalents[(a)]	₱4,529,273	₱–	₱–	₱–	₱4,529,273
Receivables:					
Notes receivable	752,525	–	–	–	752,525
Interest receivable	254,642	–	–	–	254,642
Dividend receivable	115,555	–	–	–	115,555
Accounts receivable	1,945	–	–	–	1,945
Advances to employees	6,100	–	–	–	6,100
Other receivables	31,036	–	–	–	31,036
Due from related parties	311,723	–	–	–	311,723
Cash deposits[(b)]	188,044	–	–	–	188,044
	₱6,190,843	₱–	₱–	₱–	₱6,190,843

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

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

Cash and cash equivalents and sinking fund are classified as high grade since these are placed with reputable local and international banks, which meet the standards set by the Company's Board.

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

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

		2014		
	High Grade	**Standard Grade**	**Sub-standard Grade**	**Total**
		(In Thousands)		
Loans and receivables:				
Cash and cash equivalents[(a)]	**₱4,088,043**	**₱–**	**₱–**	**₱4,088,043**
Receivables:				
Interest receivable	**6,855**	–	–	**6,855**
Dividend receivable	**50,000**	–	–	**50,000**
Accounts receivable	**1,161**	–	–	**1,161**
Advances to employees	**6,834**	–	–	**6,834**
Other receivables	**32,955**	–	–	**32,955**
Due from related parties	**45,336**	–	–	**45,336**
Cash deposits[(b)]	**186,364**	–	–	**186,364**
	₱4,417,548	**₱–**	**₱–**	**₱4,417,548**

[(a)] *Excluding cash on hand amounting to ₱0.06 million as at December 31, 2014.*
[(b)] *Included under "Other current assets" account in the parent company statement of financial position.*

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

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

Capital Management

The primary objective of the Company's capital management policies is to ensure that the Company maintains a strong financial position and healthy capital ratios to support its business and maximize shareholder value.

The Company ensures that it is compliant with all debt covenants. The Omnibus Agreement provides that the Company shall ensure during the terms of the Notes that its debt-to-equity ratio does not exceed 70:30, and its debt service coverage ratio (DSCR) is at a minimum of 1.3x. To be able to declare dividends, the Company shall achieve a DSCR of 1.5x. As at December 31, 2014 and 2013, the Company is in compliance with the required financial ratios and other loan covenants.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may obtain additional advances from shareholders, return capital to shareholders, issue new shares or new debt or redeem 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 debt over equity.

During 2014, the Company's strategy, which was unchanged from 2013, was to maintain a sustainable debt-to-equity ratio. The debt-to-equity ratios on December 31, 2014 and 2013 are as follows:

	2014	2013
	(In Thousands)	
Long-term debt	**₱6,382,800**	₱6,447,600
Equity	**85,835,470**	78,063,527
Debt-to-equity ratio	**1:13.4**	1:12.1

23. Financial Assets and Financial Liabilities

Categories of Financial Instruments

Categories of the Company's financial assets and financial liabilities as at December 31, 2014 and 2013 are as follows:

	2014				
	Financial Assets			**Financial Liabilities**	
	FVPL	**Loans and Receivables**	**AFS Financial Assets**	**Other Financial Liabilities**	**Total**
			(In Thousands)		
ASSETS					
Cash and cash equivalents[(a)]	**₱–**	**₱4,088,043**	**₱–**	**₱–**	**₱4,088,043**
Receivables - net	**–**	**97,805**	**–**	**–**	**97,805**
Due from related parties	**–**	**45,336**	**–**	**–**	**45,336**
Other current assets	**–**	**188,332**	**–**	**–**	**188,332**
Other noncurrent assets [(b)]	**–**	**1,575,737**	**11,610,222**	**–**	**13,185,959**
	₱–	**₱5,995,253**	**₱11,610,222**	**₱–**	**₱17,605,475**

	2014				
	Financial Assets			Financial Liabilities	
	FVPL	**Loans and Receivables**	**AFS Financial Assets**	**Other Financial Liabilities**	**Total**
			(In Thousands)		
LIABILITIES					
Accrued expenses and other current liabilities[c]	**₱–**	**₱–**	**₱–**	**₱640,573**	**₱640,573**
Due to related parties	**–**	**–**	**–**	**7,546,588**	**7,546,588**
Long-term debt	**–**	**–**	**–**	**6,382,800**	**6,382,000**
	₱–	**₱–**	**₱–**	**₱14,569,961**	**₱14,569,161**

[a] Excludes cash on hand to ₱0.06 million as at December 31, 2014.
[b] Includes advances for equity to Beacon Electric and investment in preferred shares of Beacon Electric classified as AFS financial assets.
[c] Excludes statutory payables.

	2013				
	Financial Assets			Financial Liabilities	
	FVPL	Loans and Receivables	AFS Financial Assets	Other Financial Liabilities	Total
			(In Thousands)		
ASSETS					
Cash and cash equivalents[a]	₱–	₱4,529,273	₱–	₱–	₱4,529,273
Receivables - net	–	1,161,803	–	–	1,161,803
Due from related parties	–	311,723	–	–	311,723
Other current assets - net	–	190,657	–	–	190,657
Other noncurrent assets [b]	31,713	1,349,882	12,279,631	–	13,661,226
	₱31,713	₱7,543,338	₱12,279,631	₱–	₱19,854,682
LIABILITIES					
Accrued expenses and other current liabilities[c]	₱–	₱–	₱–	₱518,042	₱518,042
Due to related parties	–	–	–	361,654	361,654
Long-term debt	–	–	–	6,447,600	6,447,600
	₱–	₱–	₱–	₱7,327,296	₱7,327,296

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

Fair Values

The comparison of the carrying values and fair values of all of the Company's financial instruments (those with carrying amounts that are not equal to their fair values) as at December 31, 2014 and 2013 are as follows:

	2014		2013	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
		(In Thousands)		
Financial Asset				
Receivables (Note 6)	**₱–**	**₱–**	₱1,161,803	₱1,481,026
Financial Liability				
Long-term debt	**₱6,382,800**	**₱7,214,999**	₱6,447,600	₱7,460,446

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate such value:

Cash and Cash Equivalents, Due from Related Parties, Cash Deposits, and Accrued Expenses and Other Current Liabilities
Due to the short-term nature of transactions, the fair value of cash and cash equivalents, due from related parties, cash deposits, and accrued expenses and other current liabilities approximate the carrying amounts at the end of the reporting period.

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

Long-term Debt
Estimated fair value is based on the discounted present value of future cash flows using the prevailing interest rates ranging from 2.55% to 4.37% and 2.13% to 5.53% in 2014 and 2013, respectively.

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

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

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

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

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

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

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

		2014 *(In Thousands)*		
	Total	**Level 1**	**Level 2**	**Level 3**
Financial Asset -				
AFS financial assets	**₱12,000**	**₱12,000**	**₱–**	**₱–**

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

During 2014 and 2013, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into or out of Level 3 fair value measurements.

24. Supplemental Cash Flow Information

	2014	2013
	(In Thousands)	
Noncash investing and financing activities:		
Offsetting of share on common share dividends from Beacon against the investment for the acquisition of Meralco shares	**₱4,450,000**	₱–
Subscription payable for the additional investment in AFCSI	**203,325**	–
Additional investment in Maynilad and MPTC arising from ESOP (see Notes 8 and 19)	**6,632**	5,372
Reclassification of Advances to MPTC to Investment in MPTC as a result of the approval of capital stock increase of the latter (see Note 8)	–	6,771,600
Settlement of advances from MPTDC by application of dividends collection from MPTC (see Note 12)	–	(231,585)
Addition (reduction) in investments in Maynilad and MPTC arising from LTIP (see Notes 8 and 15)	–	(10,669)

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 12, MPIC acquired 56.35 million shares of Meralco at an aggregate consideration of ₱13.24 billion. Of the amount due to Beacon Electric, ₱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.

25. Events after the Reporting Period

Aside from MPIC's dividend declaration on February 26, 2015 (see Note 14), events occurring after the reporting period include:

MPIC Share Placement. MPIC, together with its principal shareholder, MPHI entered into a placement agreement with UBS AG, Hong Kong 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.

MPHI consequently saw its economic interest in MPIC 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 8.

26. **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 or otherwise stated, 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* — In July 2014, the IASB issued the final version of PFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces PAS 39 Financial Instruments: Recognition and Measurement and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of PFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before February 1, 2015. The adoption of PFRS 9 will have an effect on the classification and measurement of the Company's financial assets, but no impact on the classification and measurement of the Company's financial liabilities.

- 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.

- Amendments to PAS 19, *Defined Benefit Plans: Employee Contributions* — 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.

- Amendments to PFRS 11, *Joint Arrangements*: Accounting for Acquisitions of Interests — 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 re-measured 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.

- Amendments to PAS 16 and PAS 38, *Clarification of Acceptable Methods of Depreciation and Amortization* — 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 amortise intangible assets. The amendments are effective prospectively for annual periods beginning on or after January 1, 2016, with early adoption permitted.

- Amendments to PAS 16 and PAS 41 Agriculture: Bearer Plants — 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.

- Amendments to PAS 27, *Equity Method in Separate Financial Statements* — 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.

- 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.

- 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 International Accounting Standards Board (IASB) and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed.

- 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 adoption of PFRS 9 will have an effect on the classification and measurement of the Company's financial assets but will have no impact on the classification and measurement of the Company's financial liabilities. The adoption will also have an effect on the Company's application of hedge accounting. The Company is currently assessing the impact of adopting this standard.

- PFRS 9, *Financial Instruments* (2014 or final version) — In July 2014, the final version of PFRS 9, *Financial Instruments*, was issued. PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of PFRS 9 is permitted if the date of initial application is before February 1, 2015.

The adoption of PFRS 9 will have an effect on the classification and measurement of the Company's financial assets and impairment methodology for financial assets, but will have no impact on the classification and measurement of the Company's financial liabilities. The adoption will also have an effect on the Company's application of hedge accounting. 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 recognizing 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.

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

- PFRS 2, *Share-based Payment – Definition of Vesting Condition* — The amendment revised the definitions of vesting condition and market condition and added the definitions of performance condition and service condition to clarify various issues. This amendment shall be prospectively applied to share-based payment transactions for which the grant date is on or after July 1, 2014. It is expected that this amendment would not be relevant to the Company.

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

- PFRS 8, *Operating Segments – Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets* — The amendments require entities to disclose the judgment made by management in aggregating two or more operating segments. This disclosure should include a brief description of the operating segments that have been aggregated in this way and the economic indicators that have been assessed in determining that the aggregated operating segments share similar economic characteristics. The amendments also clarify that an entity shall provide reconciliations of the total of the reportable segments' assets to the entity's assets if such amounts are regularly provided to the chief operating decision maker. These amendments are effective for annual periods beginning on or after July 1, 2014 and are applied retrospectively. These amendments will have no impact as the Company is not required to disclose segment reporting.

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

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

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

  b. The accumulated depreciation is eliminated against the gross carrying amount of the asset.

  The amendment is effective for annual periods beginning on or after July 1, 2014. The amendment shall apply to all revaluations recognized in annual periods beginning on or after the date of initial application of this amendment and in the immediately preceding annual period. It is expected that this amendment would not be relevant to the Company.

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

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

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

  b. The accumulated amortization is eliminated against the gross carrying amount of the asset.

  The amendments also clarify that the amount of the adjustment of the accumulated amortization should form part of the increase or decrease in the carrying amount accounted for in accordance with the standard.

  The amendments are effective for annual periods beginning on or after July 1, 2014. The amendments shall apply to all revaluations recognized in annual periods beginning on or after the date of initial application of this amendment and in the immediately preceding annual

period. The amendment will have no impact on the Company's financial position and performance.

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

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

- PFRS 3, *Business Combinations – Scope Exceptions for Joint Arrangements* — The amendment clarifies that PFRS 3 does not apply to the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself. The amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively. The amendment will have no impact on the Company's financial position and performance.

- PFRS 13, *Fair Value Measurement – Portfolio Exception* — The amendment clarifies that the portfolio exception in PFRS 13 can be applied to financial assets, financial liabilities and other contracts. The amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively. The amendment will have no significant impact on the Company's financial position and performance.

- PAS 40, *Investment Property* — The amendment clarifies the interrelationship between PFRS 3 and PAS 40 when classifying property as investment property or owner-occupied property. The amendment stated that judgment is needed when determining whether the acquisition of investment property is the acquisition of an asset or a group of assets or a business combination within the scope of PFRS 3. This judgment is based on the guidance of PFRS 3. This amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively. The amendment will have no impact on the Company's financial position or performance.

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).