Metro Pacific Investments Corporation

Parent Company Financial Statements
December 31, 2017 and 2016

and

Independent Auditor's Report

A member firm of Ernst & Young Global Limited

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Building a better working world

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BOA/PRC Reg. No. 0001,
December 14, 2015, valid until December 31, 2018
SEC Accreditation No. 0012-FR-4 (Group A),
November 10, 2015, valid until November 9, 2018

INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders
Metro Pacific Investments Corporation

Report on the Audit of the Parent Company Financial Statements

Opinion

We have audited the parent company financial statements of Metro Pacific Investments Corporation (the Company), which comprise the parent company statements of financial position as at December 31, 2017 and 2016, and the parent company statements of comprehensive income, parent company statements of changes in equity and parent company statements of cash flows for the years then ended, and notes to the parent company financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying parent company financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Parent Company Financial Statements* section of our report. We are independent of the Company in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit of the parent company financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Parent Company Financial Statements

Management is responsible for the preparation and fair presentation of the parent company financial statements in accordance with PFRSs, 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.

In preparing the parent company financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Parent Company Financial Statements

Our objectives are to obtain reasonable assurance about whether the parent company financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these parent company financial statements.

As part of an audit in accordance with PSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the parent company financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the parent company financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the parent company financial statements, including the disclosures, and whether the parent company financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

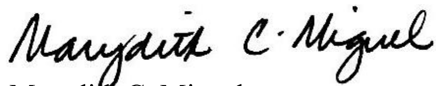
We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

Our audits were conducted for the purpose of forming an opinion on the parent company financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in a separate schedule is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of Metro Pacific Investments Corporation. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The engagement partner on the audit resulting in this independent auditor's report is Marydith C. Miguel.

SYCIP GORRES VELAYO & CO.



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PTR No. 6621301, January 9, 2018, Makati City

March 1, 2018

METRO PACIFIC INVESTMENTS CORPORATION

PARENT COMPANY STATEMENTS OF FINANCIAL POSITION

(Amounts in Thousands)

	December 31	
	2017	2016
ASSETS		
Current Assets		
Cash and cash equivalents and short-term deposits (Notes 5, 20 and 21)	**₱14,545,347**	₱4,161,985
Restricted cash (Notes 5, 20 and 21)	**181,345**	183,018
Receivables (Notes 20 and 21)	**101,991**	76,410
Due from related parties (Notes 10, 20 and 21)	**11,825**	62,494
Input taxes	**146,728**	116,598
Other current assets	**37,720**	38,222
Total Current Assets	**15,024,956**	4,638,727
Noncurrent Assets		
Investments and advances (Note 6)	**173,582,141**	165,311,450
Other noncurrent assets (Notes 6, 7, 14, 20 and 21)	**714,790**	522,612
Total Noncurrent Assets	**174,296,931**	165,834,062
	₱189,321,887	₱170,472,789
LIABILITIES AND EQUITY		
Current Liabilities		
Accrued expenses and other current liabilities (Notes 8, 20 and 21)	**₱1,241,742**	₱875,550
Income tax payable	**53**	669
Due to related parties (Notes 10, 20 and 21)	**4,164,594**	2,004,041
Current portion of long-term debt (Notes 9, 20 and 21)	**971,243**	357,457
Total Current Liabilities	**6,377,632**	3,237,717
Noncurrent Liabilities		
Long-term debt – net of current portion (Notes 9, 20 and 21)	**45,850,048**	36,381,597
Due to related parties (Notes 10, 20 and 21)	**11,767,118**	6,726,163
Deferred tax liability (Note 16)	**733,615**	487,818
Other noncurrent liabilities (Notes 11, 20 and 21)	**458,985**	374,844
Total Noncurrent Liabilities	**58,809,766**	43,970,422
Total Liabilities	**65,187,398**	47,208,139
Equity (Note 12)		
Capital stock	**31,625,830**	31,619,130
Additional paid-in capital	**68,464,820**	68,438,048
Treasury shares	**(167,363)**	(167,363)
Equity reserves	**193,303**	130,856
Other comprehensive income reserve	**55,712**	20,725
Retained earnings	**23,962,187**	23,223,254
Total Equity	**124,134,489**	123,264,650
	₱189,321,887	₱170,472,789

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	
	2017	2016
REVENUES		
Dividend income (Notes 6 and 10)	**₱8,445,023**	₱11,203,642
Interest income (Note 15)	**178,117**	92,286
	8,623,140	11,295,928
OPERATING EXPENSES (Note 13)	**(1,352,696)**	(1,118,640)
INTEREST EXPENSE (Notes 9, 10 and 15)	**(2,998,106)**	(2,448,599)
OTHER INCOME (EXPENSES) - Net (Note 15)	**(19,226)**	(1,055,167)
INCOME BEFORE INCOME TAX	**4,253,112**	6,673,522
PROVISION FOR TAX (Note 16)		
Interest income subject to final tax	**33,662**	17,795
Current	**334**	923
Deferred	**241,674**	–
	275,670	18,718
NET INCOME	**3,977,442**	6,654,804
OTHER COMPREHENSIVE INCOME		
Item that may be reclassified subsequently to profit or loss -		
Change in fair value of available-for-sale financial assets	**25,368**	500
Items that will not be reclassified subsequently to profit or loss:		
Actuarial gain on defined benefit plans (Note 14)	**13,742**	4,184
Income tax effect (Note 16)	**(4,123)**	(1,255)
	9,619	2,929
	34,987	3,429
TOTAL COMPREHENSIVE INCOME	**₱4,012,429**	₱6,658,233
EARNINGS PER SHARE (Note 18)		
Basic Earnings Per Common Share	**₱0.126**	₱0.221
Diluted Earnings Per Common Share	**₱0.126**	₱0.221

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, 2017 AND 2016

(Amounts in Thousands)

					Other Comprehensive Income Reserve				
	Capital Stock (Note 12)	Additional Paid-in Capital (Note 12)	Treasury Shares (Note 12)	Equity Reserves (Note 12)	Change in Fair Value of Available-for-sale Financial Assets (Note 21)	Actuarial Gain (Loss) (Note 14)	Total	Retained Earnings (Note 12)	Total
At January 1, 2017	**₱31,619,130**	**₱68,438,048**	**(₱167,363)**	**₱130,856**	**₱6,500**	**₱14,225**	**₱20,725**	**₱23,223,254**	**₱123,264,650**
Total comprehensive income for the year:									
Net income	–	–	–	–	–	–	–	**3,977,442**	**3,977,442**
Other comprehensive income	–	–	–	–	**25,368**	**9,619**	**34,987**	–	**34,987**
Issuance of shares:									
Common shares	–	–	–	–	–	–	–	–	–
Preferred shares	–	–	–	–	–	–	–	–	–
Executive Stock Option Plan (ESOP) (Note 17):	**6,700**	**28,345**	–	**(4,225)**	–	–	–	–	**30,820**
Restricted Stock Unit Plan (RSUP) (Note 17)	–	–	–	**66,672**	–	–	–	–	**66,672**
Transaction costs on issuance of shares	–	**(1,573)**	–	–	–	–	–	–	**(1,573)**
Cash dividends declared (Note 12)	–	–	–	–	–	–	–	**(3,238,509)**	**(3,238,509)**
At December 31, 2017	**₱31,625,830**	**₱68,464,820**	**(₱167,363)**	**₱193,303**	**₱31,868**	**₱23,844**	**₱55,712**	**₱23,962,187**	**₱124,134,489**
At January 1, 2016	₱27,935,374	₱49,980,484	₱–	₱90,786	₱6,000	₱11,296	₱17,296	₱19,284,241	₱97,308,181
Total comprehensive income for the year:									
Net income	–	–	–	–	–	–	–	6,654,804	6,654,804
Other comprehensive income	–	–	–	–	500	2,929	3,429	–	3,429
Issuance of shares:									
Common shares	3,600,000	18,360,000	–	–	–	–	–	–	21,960,000
Preferred shares	41,281	–	–	–	–	–	–	–	41,281
Executive Stock Option Plan (ESOP) (Note 17):	42,475	182,328	–	(26,785)	–	–	–	–	198,018
Restricted Stock Unit Plan (RSUP) (Note 17)	–	–	–	66,855	–	–	–	–	66,855
Transaction costs on issuance of shares	–	(84,764)	–	–	–	–	–	–	(84,764)
Treasury shares (Note 17)	–	–	(167,363)	–	–	–	–	–	(167,363)
Cash dividends declared (Note 12)	–	–	–	–	–	–	–	(2,715,791)	(2,715,791)
At December 31, 2016	₱31,619,130	₱68,438,048	(₱167,363)	₱130,856	₱6,500	₱14,225	₱20,725	₱23,223,254	₱123,264,650

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	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱4,253,112**	₱6,673,522
Adjustments for:		
Dividend income (Notes 6 and 22)	**(8,445,023)**	(11,203,642)
Interest expense (Note 15)	**2,998,106**	2,448,599
Provision for impairment of investments and advances (Note 15)	**690,000**	1,248,386
Long Term Incentive Plan (LTIP) expense (Notes 13 and 14)	**182,417**	167,149
Gain on sale of shares (Notes 6 and 15)	**(654,224)**	–
Interest income (Note 15)	**(178,117)**	(92,286)
Depreciation and amortization (Notes 7 and 13)	**24,324**	34,995
Share-based payment (Notes 13 and 17)	**66,672**	66,855
Excess of pension expense over actual contribution	**11,292**	14,471
Foreign exchange loss (gain) - net (Note 15)	**235**	(12)
Other income	**–**	(152,670)
Operating loss before working capital changes	**(1,051,206)**	(794,633)
Decrease (increase) in:		
Restricted cash	**1,673**	1,673
Receivables	**(12,870)**	(59,473)
Due from related parties	**50,669**	(45,905)
Other current assets	**(212,100)**	287,504
Increase (decrease) in:		
Due to related parties	**1,315**	(727)
Accrued expenses and other current liabilities	**203,871**	(460,589)
Net cash used in operations	**(1,018,648)**	(1,072,150)
Dividends received (Notes 6 and 22)	**8,445,023**	7,822,322
Interest paid	**(2,334,944)**	(1,910,132)
Interest received	**165,407**	87,284
Income tax paid	**(33,662)**	(17,795)
Net cash from operating activities	**5,223,176**	4,909,529

(Forward)

	Years Ended December 31	
	2017	2016
CASH FLOWS USED IN INVESTING ACTIVITIES		
Acquisitions of/additions to:		
Investments and advances (Note 6)	**(₱16,290,673)**	(₱29,598,787)
Property and equipment (Note 7)	**(25,004)**	(38,694)
Software costs (Note 7)	**–**	(4,971)
Investment in available-for-sale (AFS) financial assets	**(5,451,000)**	–
Other noncurrent assets	**(6,853)**	–
Payments to related parties (Note 6)	**(2,001,341)**	(4,243,410)
Collections/proceeds from sale of:		
Investments and advances (Note 6)	**13,106,161**	3,369,771
Redemption of investment held as AFS financial assets (Note 6)	**3,500,000**	–
Property and equipment and others (Note 7)	**2,826**	28,055
Net cash used in investing activities	**(7,165,884)**	(30,488,036)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from:		
Loan availment	**10,500,000**	7,500,000
Issuance of shares (Note 12)	**–**	22,001,281
Subscription arising from exercise of stock option (Notes 12 and 17)	**30,820**	198,018
Payments of/for:		
Transaction costs related to issuance of shares (Note 12)	**(1,574)**	(84,763)
Debt issue costs	**(52,500)**	(38,962)
Long-term debt (Note 9)	**(384,800)**	(414,800)
Dividends paid (Note 12)	**(3,238,509)**	(2,715,791)
Treasury shares	**–**	(167,363)
Net cash from financing activities	**6,853,437**	26,277,620
EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**(235)**	12
NET INCREASE IN CASH AND CASH EQUIVALENTS	**4,910,494**	699,125
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**4,161,985**	3,462,860
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 5)	**₱9,072,479**	₱4,161,985

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 common shares of stock are listed in and traded through the Philippine Stock Exchange (PSE). On August 6, 2012, MPIC launched Sponsored Level 1 American Depositary Receipt (ADR) Program with Deutsche Bank as the appointed depositary bank in line with the Company's thrust to widen the availability of its shares to investors in the United States.

Metro Pacific Holdings, Inc. (MPHI) owns 41.9% of the total issued common shares (or 42.0% of the total outstanding common shares) of MPIC as at December 31, 2017 and 2016. As sole holder of the voting Class A Preferred Shares, MPHI's combined voting interest as a result of all of its shareholdings is estimated at 55.0% as at December 31, 2017 and 2016 (see Note 12).

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, 2017 and 2016 were approved and authorized for issuance by the Board of Directors (BOD) on March 1, 2018.

Company's Operating Segments
The Company's operating segments are as follows:

- *Power*, which primarily relates to the operations of Manila Electric Company (MERALCO) in relation to the distribution, supply and generation of electricity and Global Business Power Corporation (GBPC) in relation to power generation. The investment in MERALCO is held both directly and indirectly through Beacon Electric Asset Holdings, Inc. (Beacon Electric) while the investment in GBPC held through Beacon Electric's wholly-owned entity, Beacon PowerGen Holdings Inc. (BPHI).

- *Toll operations,* which primarily relate to operations and maintenance of toll facilities by Metro Pacific Tollways Corporation (MPTC) and its subsidiaries NLEX Corporation (NLEX Corp; formerly Manila North Tollways Corporation), Cavitex Infrastructure Corporation (CIC), Tollways Management Corporation (TMC; a subsidiary beginning April 2017), and foreign investees, CII Bridges and Roads Investment Joint Stock Company (CII B&R), Don Muang Tollway Public Ltd (DMT) and PT Nusantara Infrastructure Tbk (PT Nusantara). Certain toll projects are either under pre-construction or on-going construction as at December 31, 2017 (see Note 6).

- *Water,* which relates 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 other water-related services by MetroPac Water Investments Corporation (MPW).

- *Healthcare*, which primarily relates to operations and management of hospitals and nursing colleges and such other enterprises that have similar undertakings by Metro Pacific Hospital Holdings, Inc. (MPHHI) and subsidiaries.

- *Rail*, which primarily relates to Metro Pacific Light Rail Corporation (MPLRC) and its subsidiary, Light Rail Manila Corporation (LRMC), the concessionaire for the operations and maintenance of the Light Rail Transit Line 1 (LRT-1) and construction of the LRT-1 south extension.

- *Logistics*, which primarily relates to the Company's logistics business through MetroPac Logistics Company, Inc. (MPLC) and its subsidiary, MetroPac Movers, Inc. (MMI).

- *Others*, which represent holding companies and operations of subsidiaries and other investees involved in real estate and provision of services.

As at December 31, the Company's subsidiaries, joint ventures and associates are as follows:

		Direct MPIC Ownership Interest	
Investee	Principal Activity	**2017**	2016
Subsidiaries:			
Beacon Electric	Investment holding	**100.0**	–
MPTC	Investment holding	**99.9**	99.9
MWHC	Investment holding	**51.3**	51.3
Maynilad	Utilities	**5.2**	5.2
MPW	Investment holding	**100.0**	100.0
MPLRC	Investment holding	**100.0**	100.0
MPHHI[(a)]	Investment holding	**85.6**	85.6
Porrovia Corporation	Investment holding	**50.0**	50.0
MPIC-JGS Airport Holdings, Inc. (MPIC-JGS)	Investment holding	**58.8**	58.8
MPIC Infrastructure Holdings Limited (MIHL)	Investment holding	**100.0**	100.0
Fragrant Cedar Holdings, Inc. (FCHI)	Property Lessor	**100.0**	100.0
Neo Oracle Holdings, Inc. (NOHI)	Real estate	**96.6**	96.6
Metro Global Green Waste, Inc. (MGGW)	Investment holding	**70.0**	70.0
MetroPac Logistics Company, Inc. (MPLC)	Investment holding	**100.0**	100.0
MetroPac Clean Energy Holdings Corporation (MPCEH)	Investment holding	**100.0**	100.0
MetPower Venture Partners Holdings, Inc.(MVPHI) [(b)]	Investment holding	**100.0**	–
Joint ventures:			
Beacon Electric	Investment holding	–	75.0
Landco Pacific Corporation (Landco)	Real estate	**38.1**	38.1
Associates:			
MERALCO	Power distribution	**10.5**	15.0
Indra Philippines, Inc. (Indra Phils.)	Management and IT consultancy	**25.0**	25.0
AF Payments, Inc. (AFPI)	Operator of contactless payment system	**20.0**	20.0
First Gen Northern Electric Corp. (FGNEC)	Power generation	**33.3**	33.3

(a) The non-controlling shareholder of MPHHI also holds an Exchangeable Bond issued by MPIC which can be exchanged into a 25.51% stake in MPHHI in the future, subject to certain conditions. With the Exchangeable Bond, the non-controlling shareholder is entitled to 39.89% effective ownership interest in MPHHI (see Note 6).
(b) Incorporated in 2017.

All of the above investees were incorporated in the Philippines, except for MIHL, which was incorporated in British Virgin Islands (BVI) (see Note 6).

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 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 parent company financial statements, presented in compliance with Philippine Financial Reporting Standards (PFRS). Metro Pacific Investments Corporation and its subsidiaries (collectively referred to as the "Group") also files its consolidated financial statements with the Philippine SEC.

Statement of Compliance

The parent company financial statements are prepared in compliance with Philippine Financial Reporting Standards (PFRS).

Changes in Accounting Policies and Disclosures

Our accounting policies are consistent with those followed in the preparation of the Company's annual consolidated financial statements for the year ended December 31, 2016, except for the following adoption of new and amended Philippine Financial Reporting Standards (PFRS) effective January 1, 2017.

The Company applied the following PFRS and amendments to existing standards effective January 1, 2017. Except for additional disclosure requirements, adoption of the following standards did not have any material impact on the Company's financial position or performance:

- Amendments to PFRS 12, *Clarification of the Scope of the Standard (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)* – The amendments clarify that the disclosure requirements in PFRS 12, other than those relating to summarized financial information, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale.

- Amendments to PAS 7, *Statement of Cash Flows, Disclosure Initiative* – The amendments to PAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). See Note 22 for the required disclosures.

- Amendments to PAS 12, *Income Taxes, Recognition of Deferred Tax Assets for Unrealized Losses* – The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective (see Note 24).

The principal accounting and financial reporting policies adopted in preparing the Company's 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 is current when it is:
- Expected to be realized or intended to be sold or consumed in the normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realized within twelve months after the reporting period, or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:
- It is expected to be settled in 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 AFS fair value at each reporting date and, for the purposes of impairment testing, uses fair value less costs of disposal to determine the recoverable amount of some of its non-financial assets. Also, fair values of financial instruments measured at amortized cost are disclosed in Note 21.

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

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Company.

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

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

Input Taxes
Input taxes represent taxes paid on purchases of applicable goods and services which can be recovered as tax credit against future output VAT liability of the Company.

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 financial assets at FVPL, HTM investments and financial liabilities at FVPL as at December 31, 2017 and 2016.

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:

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, short-term deposits (excluding Unit Investment Trust Fund or UITF presented as short-term deposits but classified as AFS financial assets), receivables, restricted cash, cash deposits and due from related parties (see Notes 5, 10, 20 and 21).

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.

This category includes investments in UITF (see Note 5), and quoted and unquoted shares classified as AFS financial assets (see Notes 20 and 21).

As at December 31, 2016, the investment in preferred shares of Beacon Electric was classified under the AFS financial assets category. However, with the step-up acquisition of Beacon Electric in June 2017, all investments in Beacon Electric (both common and preferred shares) are accounted for using cost method in accordance with PAS 27, *Separate Financial Statements* (see Note 6).

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 8, 9, 10, 11, 20 and 21).

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

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 is reported in the parent company statement of financial position if there is a currently enforceable legal right to set off the recognized amounts and there is intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The Company assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Company and all of the counterparties.

Investments in Subsidiaries, Associates and Joint Ventures
Investments in subsidiaries, associates and joint ventures 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 ventures 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 7).

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 7). 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 interests in joint ventures, 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.

Treasury Shares. Own equity instruments that are reacquired (treasury shares) are recognized at cost and deducted from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognized in the additional paid-in capital.

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 retained earnings.

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) or Restricted Stock Unit Plan (RSUP).

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.

ESOP

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 17. 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 18).

<u>RSUP</u>
The Company has an RSUP 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 awards.

The cost of equity-settled transactions (cost of RSUP) with employees is measured by reference to the fair value of the shares at the date at which they are granted. Fair value is determined based on the prevailing closing market price of the shares, further details of which are set forth in Note 17.

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 RSUP 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 statements of comprehensive income credit or expense (recognized as employee benefits and

presented as RSUP expense) for a period represents the movement in cumulative cost of RSUP recognized as at the beginning and end of that period.

No expense is recognized for awards that do not ultimately vest. The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share (see Note 18).

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

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 (Arran), 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 the Exchangeable Bond is denominated in Philippine Peso, the same currency as the functional currency of MPIC as the issuing entity. The Exchangeable Bond qualified as an equity instrument such that the proceeds from the Exchangeable Bond together with the share subscription of GIC in MPHHI were considered as equity transactions that reduced MPIC's cost of investment in MPHHI (see Note 6).

Investments in Beacon Electric. Prior to June 2017, the Company made the following judgments with respect to its investments in Beacon Electric's common shares and preferred shares:

- *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. Prior to June 2017, the Company had 75% ownership interest in Beacon Electric

through the common shares. The other 25% as at December 31, 2016, was held by PLDT Communications and Energy Ventures, Inc. (PCEV). Despite ownership of 75% of the common shares of Beacon Electric, the Company accounted for its investment in Beacon Electric's common shares as investment in a joint venture because MPIC and PCEV retains 50/50 voting arrangement for as long as: (i) PCEV owns at least 20% of the outstanding capital stock of Beacon Electric, or (ii) the purchase price for the Beacon Electric shares acquired in May 2016 has not been fully paid by MPIC (see Notes 6 and 10).

- *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.

- *Direct Investments in MERALCO and Investments in MERALCO and GBPC through Beacon Electric.* MPIC had 15% direct interest in MERALCO as at December 31, 2016. Also, Beacon Electric has a 34.96% interest in MERALCO and 56% in GBPC as at December 31, 2016. Beacon Electric, PCEV and MPIC agreed, under an Omnibus Investment Agreement, on certain corporate governance matters, including Board composition, election of officers, shareholders' action, representation to the respective BODs of MERALCO and GBPC, nomination of the MERALCO and GBPC Board Committees and nomination of MERALCO and GBPC 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 and GBPC using the same MERALCO and GBPC shares as collateral for funding such investment. The Company has made a judgment that the decision making power of Beacon Electric over the MERALCO and GBPC 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 and GBPC shares but is obligated to vote the MERALCO and GBPC shares strictly in accordance with the instructions of the two shareholders. On this basis, both MERALCO and GBPC were associates of MPIC.

However, in June 2017, MPIC entered into a Deed of Absolute Sale of Shares with PCEV to acquire the remaining 25% interest in Beacon Electric from PCEV. This acquisition was accounted for as a business combination resulting in investments in both Beacon Electric's common and preferred shares being accounted for as an investment in subsidiary. MERALCO remains to be accounted for as an investment in an associate while GBPC through Beacon Electric is effectively accounted for as an investment in subsidiary (see Note 6).

The carrying values of the investments in MERALCO (direct) and Beacon Electric consists of the following:

	2017	2016
	(In Thousands)	
Investment in MERALCO (see Note 6)	**₱27,427,458**	₱39,175,647
Investment in Beacon Electric – Common and Preferred shares (see Note 6):	**83,168,143**	66,034,548

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. The Company initially records all financial instruments at fair value and subsequently carries certain financial assets and financial liabilities at fair value, which requires extensive use of accounting estimates and judgment. Valuation techniques are used particularly for financial assets and financial liabilities that are not quoted in an active market. Where valuation techniques are used to determine fair values (e.g., discounted cash flow, 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 would affect either the parent company statement of comprehensive income or parent company statement of changes in equity.

Fair values of financial instruments are presented in Note 21.

Impairment of Loans and Receivables. The Company estimates the allowance for doubtful accounts related to receivables using a combination of specific and collective assessment. The amounts calculated in each level of impairment assessment are combined to determine the total amount of allowance for doubtful accounts. First, the Company evaluates specific accounts that are considered individually significant for any objective evidence that certain 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 ₱102.0 million and ₱76.4 million as at December 31, 2017 and 2016, respectively. Allowance for doubtful accounts amounted to ₱21.4 million as at December 31, 2017 and 2016 (see Note 20). The carrying value of due from related parties amounted to ₱11.8 million and ₱62.5 million as at December 31, 2017 and 2016, respectively (see Note 10).

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, 2017 and 2016. The carrying value of the AFS financial assets are as follows:

	2017	2016
	(In Thousands)	
UITF (see Note 5)	**₱5,472,868**	₱–
Beacon Electric – Preferred shares (see Note 6)	–	20,622,265
Quoted and unquoted shares [(a)]	**42,000**	38,500
	₱5,514,868	₱20,660,765

[(b)] *Included under "Other noncurrent assets" account in the statements of financial position.*

Impairment of Investments in Subsidiaries, Associates and Interests in Joint Ventures. Impairment review is performed when certain impairment indicators are present. For investments in subsidiaries, associates and interests in joint ventures, 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 investments in subsidiaries, associates and joint ventures amounted to ₱172,286.0 million (excluding the advances to investee) as at December 31, 2017 and ₱141,907.7 million (excluding the advances and the investment in Beacon Electric preferred shares) as at December 31, 2016 (see Note 6). Impairment losses in investments in subsidiaries, associates and interests in joint ventures recognized for the years ended December 31, 2017 and 2016 amounted to ₱690.0 million and ₱773.9 million, respectively (see Note 6).

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, 2017 and 2016 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 has deductible temporary differences, MCIT, and NOLCO, aggregating to ₱9,842.9 million and ₱7,940.1 million as at December 31, 2017 and 2016, respectively, for which no deferred tax assets have been recognized (see Notes 16).

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 14, are reviewed at each reporting date.

Retirement cost for the years ended December 31, 2017 and 2016 amounted to ₱20.3 million and ₱21.4 million, respectively.

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 17. 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 2017 and 2016 under "Equity reserve" from ESOP and RSUP amounted to ₱66.7 million and ₱66.9 million, respectively (see Notes 13 and 17).

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, 2017 and 2016 amounted to ₱182.4 million and ₱167.1 million, respectively. LTIP payable as at December 31, 2017 and 2016 amounted to ₱380.2 million and ₱197.8 million, respectively (see Notes 11, 13 and 14).

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 the following segments based on services and products namely: power, toll operations, water, healthcare, rail, logistics and others (see Note 1). However, given that the logistics business does not yet meet the quantitative thresholds to qualify as

an operating segment, the results of the logistics operations are included in the 'other businesses' column.

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, 2017 and 2016, no revenue transactions with a single customer accounted for 10% or more of MPIC Group's consolidated revenues. Except for the equity in net earnings recognized in the consolidated financial statements from the Group's investments in foreign investees (see Note 6), all revenues of the MPIC Group 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.

The segment revenues, core income, assets, liabilities, and other segment information of MPIC Group's reportable operating segments as at and for the years ended December 31, 2017 and 2016 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, 2017 *(In Millions)*							
	Power	**Toll Operations**	**Water**	**Healthcare**	**Rail**	**Other Businesses**	**Eliminations**	**Consolidated**
Total revenue from external sales	**₱13,042**	**₱13,107**	**₱21,327**	**₱10,737**	**₱3,155**	**₱1,144**	**₱–**	**₱62,512**
Cost of sales and services	**(8,645)**	**(4,858)**	**(6,968)**	**(6,185)**	**(1,773)**	**(699)**	**–**	**(29,128)**
Gross Margin	**4,397**	**8,249**	**14,359**	**4,552**	**1,382**	**445**	**–**	**33,384**
General and administrative expenses	**(1,440)**	**(1,417)**	**(3,110)**	**(3,129)**	**(583)**	**(1,708)**	**–**	**(11,387)**
Other income (charges) – net	**2,723**	**422**	**(251)**	**282**	**97**	**12**	**–**	**3,285**
Profit before Financing Charges	**5,680**	**7,254**	**10,998**	**1,705**	**896**	**(1,251)**	**–**	**25,282**
Interest expense – net	**(1,791)**	**(1,399)**	**(1,616)**	**(94)**	**(5)**	**(2,470)**	**–**	**(7,375)**
Profit before Non-controlling Interest and Income Tax	**3,889**	**5,855**	**9,382**	**1,611**	**891**	**(3,721)**	**–**	**17,907**
Non-controlling interest	**(820)**	**(1,175)**	**(3,366)**	**(641)**	**(231)**	**12**	**–**	**(6,221)**
Provision for income tax	**(702)**	**(1,422)**	**(2,308)**	**(534)**	**(377)**	**(144)**	**–**	**(5,487)**
Contribution from Subsidiaries	**2,367**	**3,258**	**3,708**	**436**	**283**	**(3,853)**	**–**	**6,199**
Share in net earnings (losses) of equity method investees	**7,011**	**643**	**25**	**249**	**-**	**(23)**	**–**	**7,905**
Contribution from Operations - Core Income (Loss)	**9,378**	**3,901**	**3,733**	**685**	**283**	**(3,876)**	**–**	**14,104**
Non-recurring (charges)	**260**	**1,118**	**(428)**	**4**	**(3)**	**(1,904)**	**–**	**(953)**
Segment Income (Loss)	**₱9,638**	**₱5,019**	**₱3,305**	**₱689**	**₱280**	**(₱5,780)**	**₱–**	**₱13,151**
Core EBITDA	**₱7,417**	**₱8,408**	**₱14,290**	**₱2,634**	**₱962**	**(₱1,141)**	**₱–**	**₱32,570**
Core EBITDA Margin	**57%**	**64%**	**67%**	**25%**	**30%**	**–%**	**–%**	**52%**
Non-recurring Charges	**₱271**	**₱1,050**	**(₱486)**	**₱10**	**(₱9)**	**(₱1,971)**	**₱–**	**(₱1,135)**
Provision for income tax	**(8)**	**41**	**(189)**	**(2)**	**3**	**(7)**	**–**	**(162)**
Non-controlling interest	**(3)**	**27**	**247**	**(4)**	**3**	**74**	**–**	**344**
Net nonrecurring charges	**₱260**	**₱1,118**	**(₱428)**	**₱4**	**(₱3)**	**(₱1,904)**	**₱–**	**(₱953)**
Assets and Liabilities								
Segment assets	**₱88,066**	**₱80,251**	**₱109,110**	**₱15,229**	**₱13,988**	**₱19,707**	**₱26,429**	**₱352,780**
Investment and advances	**127,458**	**17,948**	**399**	**3,381**	**–**	**1,785**	**–**	**150,971**
Consolidated Total Assets	**₱215,524**	**₱98,199**	**₱109,509**	**₱18,610**	**₱13,988**	**₱21,492**	**₱26,429**	**₱503,751**
Segment Liabilities	**₱96,495**	**₱69,871**	**₱50,461**	**₱5,580**	**₱8,564**	**₱50,265**	**₱6,836**	**₱288,072**
Other Segment Information								
Capital expenditures -								
Service concession asset and property, plant and equipment	**₱97**	**₱4,788**	**₱12,133**	**₱1,530**	**₱2,784**	**₱1,064**	**₱–**	**₱22,396**
Depreciation and amortization	**1,736**	**1,155**	**3,293**	**929**	**64**	**111**	**–**	**7,288**

	Year Ended December 31, 2016 (In Millions)							
	Power	Toll Operations	Water	Healthcare	Rail	Other Businesses	Adjustments/ Eliminations	Consolidated
Total revenue from external sales	₱–	₱11,902	₱20,466	₱8,967	₱3,016	₱469	₱–	₱44,820
Cost of sales and services	–	(4,857)	(6,458)	(4,871)	(1,850)	(322)	–	(18,358)
Gross Margin	–	7,045	14,008	4,096	1,166	147	–	26,462
General and administrative expenses	–	(1,416)	(2,701)	(2,882)	(549)	(1,025)	–	(8,573)
Other income (charges) - net	1,215	336	(82)	242	75	35	–	1,821
Profit before Financing Charges	1,215	5,965	11,225	1,456	692	(843)	–	19,710
Interest expense – net	–	(1,207)	(1,612)	(131)	19	(1,982)	–	(4,913)
Profit before NCI and Income Tax	1,215	4,758	9,613	1,325	711	(2,825)	–	14,797
Non-controlling interest	–	(999)	(3,239)	(545)	(227)	(18)	–	(5,028)
Provision for income tax	–	(1,237)	(2,826)	(423)	(211)	(134)	–	(4,831)
Contribution from Subsidiaries	1,215	2,522	3,548	357	273	(2,977)	–	4,938
Share in net earnings (losses) of equity method investees	6,014	995	16	232	–	(89)	–	7,168
Contribution from Operations - Core Income (Loss)	7,229	3,517	3,564	589	273	(3,066)	–	12,106
Non-recurring charges	(209)	(174)	198	(13)	2	(454)	–	(650)
Segment Income (Loss)	₱7,020	₱3,343	₱3,762	₱576	275	(₱3,520)	₱–	₱11,456
Core EBITDA	₱1,215	₱6,853	₱14,400	₱2,262	₱729	(₱736)	₱–	₱24,723
Core EBITDA Margin	–%	58%	70%	25%	24%	–%	–%	55%
Non-recurring Charges	(₱209)	(₱127)	(₱261)	(₱21)	₱6	(₱416)	₱–	(₱1,028)
Benefit from (provision for) income tax	–	(64)	739	–	(2)	–	–	673
Non-controlling interest	–	17	(280)	8	(2)	(38)	–	(295)
Net Non-recurring Charges	(₱209)	(₱174)	₱198	(₱13)	₱2	(₱454)	₱–	(₱650)
Assets and Liabilities								
Segment assets	₱–	₱71,399	₱102,096	₱13,678	₱8,956	₱7,446	₱21,471	₱225,046
Investments and advances	109,639	11,756	361	3,000	–	1,800	–	126,556
Consolidated Total Assets	₱109,639	₱83,155	₱102,457	₱16,678	₱8,956	₱9,246	₱21,471	₱351,602
Segment Liabilities	₱8,353	₱56,372	₱47,583	₱4,897	₱4,215	₱38,176	₱3,925	₱163,521
Other Segment Information								
Capital expenditures -								
Service concession assets and property, plant and equipment	₱–	₱10,125	₱10,589	₱1,359	₱943	₱132	₱–	₱23,148
Depreciation and amortization	–	889	3,174	806	37	107	–	5,013

The following table shows the reconciliation of MPIC Group's consolidated Core EBITDA to consolidated net income for the years ended December 31, 2017 and 2016.

	2017	2016
	(In Thousands)	
Consolidated Core EBITDA	**₱32,569,568**	₱24,722,709
Depreciation and amortization	**(7,287,736)**	(5,012,894)
Consolidated operating profit for the year	**25,281,832**	19,709,815
Adjustments to reconcile with consolidated net income:		
Interest income	**619,236**	414,879
Share in net earnings of equity method investees	**7,905,219**	7,168,291
Interest expense	**(7,994,821)**	(5,327,565)
Nonrecurring expenses – net	**(1,297,012)**	(354,604)
Provision for income tax	**(5,487,324)**	(4,831,195)
Consolidated net income for the year	**₱19,027,130**	₱16,779,621

The following table shows the reconciliation of MPIC Group's consolidated core income to consolidated net income for the years ended December 31, 2017 and 2016.

	2017	2016
	(In Thousands)	
Consolidated core income for the year	**₱14,104,064**	₱12,106,042
Non-recurring expenses – net	**(953,328)**	(649,683)
Net income for the year attributable to owners of the Parent Company	**13,150,736**	11,456,359
Net income for the year attributable to non-controlling interest	**5,876,394**	5,323,262
Consolidated net income for the year	**₱19,027,130**	₱16,779,621

The following table shows the analysis and allocation of the consolidated results of operations of MPIC Group to core and NRI, the manner by which MPIC Group reports and assesses their performance, makes decision and allocates resources, for the years ended December 31, 2017 and 2016 and is provided to reconcile the preceding consolidated segment information, amounts and balances with MPIC Group's consolidated statements of income:

	2017				2016			
	Core	**NRI**	**Reclassification**	**Consolidated**	Core	NRI	Reclassification	Consolidated
				(In Millions)				
OPERATING REVENUES								
Water and sewerage services revenue	**₱20,926**	**₱–**	**₱–**	**₱20,926**	₱20,280	₱–	₱–	₱20,280
Toll fees	**13,107**	**–**	**–**	**13,107**	11,902	–	–	11,902
Power and coal sales	**13,042**	**–**	**–**	**13,042**	–	–	–	–
Hospital and school revenue	**10,737**	**–**	**–**	**10,737**	8,967	–	–	8,967
Rail revenue	**3,155**	**–**	**–**	**3,155**	3,016	–	–	3,016
Logistics and other revenues	**1,545**			**1,545**	655	–	–	655
	62,512	**–**	**–**	**62,512**	44,820	–	–	44,820
COST OF SALES AND SERVICES	**(29,128)**	**(246)**	**–**	**(29,374)**	(18,358)	(12)	–	(18,370)
GROSS PROFIT	**33,384**	**(246)**	**–**	**33,138**	26,462	(12)	–	26,450
General and administrative expenses	**(11,386)**	**(740)**	**–**	**(12,126)**	(8,573)	(489)	–	(9,062)
Interest expense	**(7,995)**	**–**	**–**	**(7,995)**	(5,328)	–	–	(5,328)
Share in net earnings (losses) of equity method investees	**10,446**	**140**	**(2,541)**	**8,045**	8,383	(360)	(1,215)	6,808
Dividend income	**90**	**–**	**2,541**	**2,631**	138	–	1,215	1,353
Interest income	**619**	**4**	**–**	**623**	415	2	–	417
Construction revenue	**19,344**	**–**	**–**	**19,344**	16,799	–	–	16,799
Construction costs	**(19,344)**	**–**	**–**	**(19,344)**	(16,799)	–	–	(16,799)
Other income and expenses - net	**653**	**(293)**	**–**	**360**	468	(169)	–	299
INCOME (LOSS) BEFORE INCOME TAX	**25,811**	**(1,135)**	**–**	**24,676**	21,965	(1,028)	–	20,937
PROVISION FOR (BENEFIT FROM) INCOME TAX								
Current	**5,375**	**15**	**–**	**5,390**	4,089	2	–	4,091
Deferred	**112**	**147**	**–**	**259**	742	(675)	–	67
	5,487	**162**	**–**	**5,649**	4,831	(673)	–	4,158
NET INCOME (LOSS)	**₱20,324**	**(₱1,297)**	**₱–**	**₱19,027**	₱17,134	(₱355)	₱–	₱16,779
Net Income Attributable to:								
Owners of the Parent Company	**₱14,104**	**(₱953)**	**₱–**	**₱13,151**	₱12,106	(₱650)	₱–	₱11,456
Non-controlling interest	**6,220**	**(344)**	**–**	**5,876**	5,028	295	–	5,323
	₱20,324	**(₱1,297)**	**₱–**	**₱19,027**	₱17,134	(₱355)	₱–	₱16,779

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, 2017 and 2016.

		2017	
	Consolidated	**Subsidiaries, Associates and Joint Ventures**	**Parent Company**
		(In Millions)	
Operating revenues	**₱62,512**	**₱62,512**	**₱–**
Net income for the year attributable to owners of the parent company	**13,151**	**9,174**	**3,977**
Total assets	**503,751**	**314,429**	**189,322**
Total liabilities	**288,072**	**222,885**	**65,187**
Capital expenditures	**22,396**	**22,371**	**25**

		2016	
	Consolidated	Subsidiaries, Associates and Joint Ventures	Parent Company
		(In Millions)	
Operating revenues	₱44,820	₱44,820,	₱–
Net income for the year attributable to owners of the parent company	11,456	4,801	6,655
Total assets	351,602	181,129	170,473
Total liabilities	163,521	116,313	47,208
Capital expenditures	23,148	23,109	39

5. **Cash and Cash Equivalents, Short-Term Deposits and Restricted Cash**

As at December 31, this account consists of:

	2017	2016
	(In Thousands)	
Cash and cash equivalents	**₱9,072,479**	₱4,161,985
Short-term deposits	**5,472,868**	–
	₱14,545,347	₱4,161,985

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

Short-term deposits are deposits with original maturities of more than three months to one year from dates of acquisition and earn interest at the prevailing short-term deposits rates. As at December 31, 2017, short-term deposits account included the Company's UITF amounting to ₱5,472.9 million. While the UITF remains to be classified as AFS financial assets, the entire investment in UITF is classified under the short-term deposits account as the fund comprises of short-term money market securities, time and special deposit accounts with average maturity of less than 30

days (see Note 21). Management views these as temporary investments and part of its overall cash management policy.

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

	2017	2016
	(In Thousands)	
Cash on hand and in banks	**₱49,470**	₱37,963
Short-term deposits that qualify as cash equivalents	**9,023,009**	4,124,022
	₱9,072,479	₱4,161,985

Restricted Cash. Restricted cash classified under current assets pertains to sinking fund or debt service account (DSA) representing amounts set aside for semi-annual principal and interest payments of certain long-term debt. This DSA is maintained and replenished in accordance with the provision of the loan agreements.

Interest earned from cash and cash equivalents, short-term deposits and restricted cash amounted to ₱175.0 million and ₱90.4 million for the years ended December 31, 2017 and 2016, respectively (see Note 15).

6. Investments and Advances

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

	2017	2016
	(In Thousands)	
Investments in subsidiaries:		
Beacon Electric	**₱83,168,143**	₱–
MPTC	**32,300,315**	30,870,315
MWHC	**12,276,767**	12,276,767
MPW	**5,335,150**	4,180,150
MPHHI	**4,007,533**	4,007,533
MPLRC	**2,354,700**	2,354,200
MPLC	**2,226,320**	25,000
Maynilad	**2,071,042**	2,071,042
MGGW	**264,624**	264,624
NOHI	**230,132**	230,132
FCHI	**147,837**	66,563
MVPHI	**62,500**	–
Porrovia	**10,000**	10,000
MPCEH	**40,000**	10,000
MPIC-JGS	**969**	969
	144,496,032	56,367,295

(Forward)

	2017	2016
	(In Thousands)	
Investments in associates:		
MERALCO (see Note 10)	**₱27,427,458**	₱39,175,647
Indra Phils.	**326,525**	326,525
AFPI	**35,735**	625,735
FGNEC	**250**	250
	27,789,968	40,128,157
Investment in joint ventures:		
Landco	–	–
Beacon Electric:		
Common shares	–	45,412,283
Preferred shares	–	20,622,265
	–	66,034,548
Advances to investees	**1,296,141**	2,781,450
	₱173,582,141	₱165,311,450

Movements of investments and advances are as follows:

	December 31, 2017			
	Subsidiaries	**Associates**	**Joint Ventures**	**Total**
		(In Thousands)		
Investments:				
Balance at beginning of year	**₱56,367,295**	**₱40,128,157**	**₱66,034,414**	**₱162,529,866**
Additions:				
Acquisitions	**–**	**–**	**20,633,596**	**20,633,596**
Transfer	**86,668,010**	**–**	**(86,668,010)**	**–**
Equity funding into existing or newly incorporated entities	**2,678,132**	**100,000**	**–**	**2,778,132**
Application of advances	**2,282,595**	**–**	**–**	**2,282,595**
Less:				
Sale/disposal/redemption of shares	**3,500,000**	**11,748,189**	**–**	**15,248,189**
Impairment (see Note 15)	**–**	**690,000**	**–**	**690,000**
	144,496,032	**27,789,968**	**–**	**172,286,000**
Advances:				
Balance at beginning of year	**1,661,595**	**–**	**1,119,989**	**2,781,584**
Additional advances during the year	**1,090,900**	**–**	**410,000**	**1,500,900**
Less:				
Application of advances	**2,282,595**	**–**	**–**	**2,282,595**
Settlement	**–**	**–**	**701,889**	**701,889**
Transfers	**1,859**	**–**	**–**	**1,859**
	468,041	**–**	**828,100**	**1,296,141**
	₱144,964,073	**₱27,789,968**	**₱828,100**	**₱173,582,141**

	December 31, 2016			
	Subsidiaries	Associates	Joint Ventures	Total
		(In Thousands)		
Investments:				
Balance at beginning of year	₱55,539,940	₱40,005,657	₱37,403,101	₱132,948,698
Acquisitions	–	–	28,631,313	28,631,313
Equity funding into existing or newly incorporated entities	3,762,626	122,500	–	3,885,126
Application of advances to investments	434,500	–	–	434,500
Transfers	(3,369,771)	–	773,891	(2,595,880)
Impairment (see Note 15)	–	–	(773,891)	(773,891)
	56,367,295	40,128,157	66,034,414	162,529,866
Advances:				
Balance at beginning of year	266,275	–	756,387	1,022,662
Additional advances during the year	1,829,820	–	–	1,829,820
Application of advances to investments	(434,500)	–	–	(434,500)
Transfers	–	–	508,099	508,099
Settlement	–	–	(144,497)	(144,497)
	1,661,595	–	1,119,989	2,781,584
	₱58,028,890	₱40,128,157	₱67,154,403	₱165,311,450

Dividends
Dividend income are as follows:

	2017	2016
	(In Thousands)	
Subsidiaries:		
MPTC	**₱1,595,898**	₱1,424,201
MWHC	**1,430,571**	962,943
Maynilad	**155,888**	103,881
MPHHI	**82,996**	75,633
Associates:		
MERALCO	**2,628,709**	4,240,145
Indra Phils.	**10,042**	8,932
Joint Venture - Beacon Electric (see Note 10)		
Common shares	**–**	3,172,719
Preferred shares	**2,540,919**	1,215,188
	₱8,445,023	₱11,203,642

MERALCO and Beacon Electric
Beacon Electric. Beacon Electric was initially organized with the sole purpose of holding the respective shareholdings in MERALCO of PCEV and MPIC and for subsequent acquisitions of MERALCO shares.

In May 2016, BPHI acquired 56% of GBPC. GBPC's power generation facilities consist of: (i) 246 MW clean coal-fired power plant in Toledo City, Cebu, which is operated by Cebu Energy Development Corporation (CEDC); (ii) 164 MW and 150 MW clean coal-fired power plants in Iloilo City, which is operated by Panay Energy Development Corporation (PEDC); (iii) 60 MW coal facility, an 82 MW clean coal fired power plant and a 40 MW fuel oil facility operated by Toledo

Power Co. (TPC); (iv) a 72 MW fuel oil facility, a 20 MW fuel oil facility, a 7.5 MW fuel oil facility and a 5 MW fuel oil facility operated by Panay Power Corporation (PPC); and (v) 7.5 MW fuel oil facility operated by GBH Power Resources Inc. GBPC, through its operating generation subsidiaries, entered into bilateral off-take arrangements with power-off-takers such as distribution utilities, electric cooperatives, retail electricity suppliers and directly connected industrial customers.

As at December 31, 2016, the Company has 75% ownership interest in Beacon Electric and was classified as an interest in joint venture. However, MPIC and PCEV on June 27, 2017, entered into a Deed of Absolute Sale of Shares to acquire the remaining 25% interest in Beacon Electric for an aggregate purchase price of ₱21.8 billion. The acquisition was accounted for as a business combination resulting in Beacon Electric being accounted for as an investment in subsidiary with both the common shares and the preferred shares (previously classified as AFS financial assets) accounted for under PAS 27.

On May 29, 2017, Beacon Electric redeemed the 277,337,560 Class B preferred shares held by the Company amounting to ₱3.5 billion.

The outstanding loans of Beacon Electric are secured by a pledge on MERALCO shares owned by Beacon Electric and shall, from the date of the pledge over the MERALCO shares, maintain the loan to value ratio at 50%, subject to call/top up (in case the Loan to Value Ratio of the Pledge Shares is in excess of 60%) or a withdrawal (in case the Loan to Value Ratio of the Pledge Shares is below 40%). The loan agreements also contain provisions for the maintenance of a Debt Service Account to be used by the Company to service interest payments and principal repayments, maintenance of debt to equity ratio, debt service coverage ratio (DSCR) and loan to value ratio, continuity of or change in business, distribution of quarterly unaudited and annual audited financial statements to noteholders, payment of indebtedness as they fall due, sale of assets, maintenance of ownership in MERALCO, issuance of preferred shares, declaration and payment of dividends, additional indebtedness and guarantees, negative pledge, prepayments, additional investments, arm's length transactions, change in ownership, redemption of preferred shares, and loans or advances to directors, officers and stockholders.

BPHI's loan facility is secured by a pledge on GBPC shares owned by BPHI. Other covenants include maintenance of reserve account and achievement of certain financial ratios such as (i) DSCR at a minimum of 1.1x, to be first calculated in 2018; and (ii) DSCR before any restricted payments at 1.3x.

As at December 31, 2017, Beacon Electric and BPHI are in compliance with all the requirements stipulated in their respective loan agreements.

MERALCO. MERALCO is a Philippine corporation with its shares listed on the PSE. It is the largest distributor of electricity in the Philippines with its franchise valid until June 2028.

As disclosed above, MPIC acquired the remaining 25% interest in Beacon Electric in June 2017. As a result, MPIC's effective interest in MERALCO held indirectly through Beacon Electric increased from 26.2% to 34.96% beginning June 27, 2017.

In June 2017, MPIC completed the sale of 50.7 million shares representing approximately 4.5% of outstanding capital stock of MERALCO through an overnight private placement for ₱250.0 per share or total proceeds of ₱12.7 billion which resulted in a gain of ₱654.2 million, net of ₱272.6 million transaction costs, included as part of "Other income" account in the statement of comprehensive income for the year ended December 31, 2017. The proceeds from this transaction were used by the Company to partially fund its acquisition of the remaining 25% interest of PCEV in Beacon Electric

(see discussion above). After this transaction, MPIC's direct interest in MERALCO decreased from 15.0% to 10.5%.

Beginning June 27, 2017, after the transactions disclosed above, the Company's combined effective interest in MERALCO is at 45.5%. The fair value of the Company's effective investment in MERALCO at 45.5% based on quoted price of ₱327.10 per share amounted to ₱167.6 billion as of December 31, 2017. The fair value of the Company's combined effective interest in MERALCO as of December 31, 2016 at 41.2% based on quoted price of ₱264.80 per share amounted to ₱123.1 billion.

MPTC
MPTC was acquired by MPIC in 2008. MPTC's subsidiaries included NLEX Corp, CIC, MPCALA Holdings, Inc. (MPCALA) and Cebu Cordova Link Expressway Corporation (CCLEC), which were granted concession rights for the construction, operation and management of certain toll projects. In April 2017, MPTC increased its investment in TMC resulting in TMC being accounted for by MPTC as investment in subsidiary from being an associate.

NLEX Corp holds the concession rights for the North Luzon Expressway (NLEX) up to 2037; the Subic-Clark-Tarlac Expressway (SCTEX) up to 2043; and NLEX-SLEX Connector Road Project (Connector Road) which is still under preconstruction as at December 31, 2017. CIC holds the concession for the Manila - Cavite Expressway (CAVITEX), which concession period extends to 2033 for the originally built road and to 2046 for a subsequent extension.

MPCALA holds the concession for the Cavite Laguna Expressway (CALAEX) with a 35-year concession period. The CALAEX, which is on-going construction as at December 31, 2017, is a closed-system tolled expressway connecting the CAVITEX and the SLEX. CCLEC holds the concession agreement for the Cebu Cordova Link Expressway (CCLEX) with a 35-year concession period. The CCLEC construction contract award was made in November 2017 and completion is targeted by 2021.

TMC is responsible for the operation and maintenance of both the NLEX Project and Segment 7. TMC also operates and manages the SCTEX, pursuant to a letter agreement entered into by NLEX Corp and TMC in May 2015. On April 4, 2017, Metro Pacific Tollways North Corporation (MPT North; formerly Metro Pacific Tollways Development Corporation; a wholly-owned subsidiary of MPTC) completed the acquisition of common shares of TMC representing 7% of total issued and outstanding stock of TMC, increasing MPTC's ownership in TMC from 60% to 67%.

MPTC also has investments in associates domiciled and operating outside the Philippines, namely CII B&R, DMT and PT Nusantara.

DMT, a major toll road operator in Bangkok, Thailand holds a toll concession that runs until 2034 for the operation of a 21.9-km six-lane elevated toll road from central Bangkok to Don Muang International Airport and further to the National Monument, north of Bangkok. Investment in DMT was originally held through MPIC's wholly-owned subsidiary, MIHL. MIHL, through its subsidiary, MPT Asia Corporation (MPT Asia), effectively holds the 29.45% equity interest in DMT. On September 29, 2016, MPTC and MIHL entered into a Share Sale and Promissory Note Assignment Agreement for the purchase of all of the latter's shares in MPT Asia and assignment to MPTC of the Promissory Notes amounting to US$9.1 million for a total consideration of ₱3,364.8 million (included in the table 'Movements of investments and advances' under "Transfers" in 2016).

MPTC holds a significant minority equity interest equal to about 45% of the outstanding capital of CII B&R. CII B&R has various road and bridge projects in and around Ho Chi Minh City in Vietnam.

On November 3, 2017, MPTC, through its Indonesian subsidiary, PT Metro Pacific Tollways Indonesia (PT MPTI), acquired shares representing approximately 42.25% of the total issued capital stock of PT Nusantara on a fully-diluted basis. Together with PT MPTI's earlier acquisitions, PT MPTI holds a total of about 48.3% of the total issued capital stock of PT Nusantara on a fully diluted basis. PT Nusantara is a publicly listed limited liability company duly established and existing under the laws of the Republic of Indonesia. Its infrastructure portfolio in Indonesia includes toll roads (which is 80% of its core income), ports, energy, water and telecommunication towers.

MWHC and Maynilad
MWHC owns 92.9% in Maynilad as at December 31, 2017 and 2016.

Maynilad holds the exclusive concession granted by the Metropolitan Waterworks and Sewerage System (MWSS), on behalf of the Philippine Government, to provide water and sewerage services in the western area of Metro Manila up to 2037. 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.

MPW
On August 17, 2011, the Company incorporated MPW 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 MPW.

MPW's subsidiaries includes: (i) Metro Iloilo Bulk Water Supply Corporation (MIBWSC) which holds the concession for the 170 Million Liters per Day (MLD) Bulk Water Supply Project (BWS Project) with the Metro Iloilo Water District; (ii) Eco-System Technologies International, Inc. (ESTII), engaged in the business of designing, supplying, constructing, installing, and operating and maintaining wastewater and sewage treatment plant facilities; (iii) Cagayan De Oro Bulk Water, Inc. (COBI), the legal vehicle to carry out the 100 MLD Bulk Water Supply Project with Cagayan De Oro Water District; and (iv) Metro Pacific Water International Limited (MPWIL), a BVI entity which shall hold the investments in water companies outside of the Philippines.

MPW also has interests in the following associates: (i) 39.0% in Manila Water Consortium Inc. which has 70.6% effective economic interest in Cebu Manila Water Development, Inc., concessionaire for the 20-year Water Purchase Agreement with the Metropolitan Cebu Water District; (ii) 30% in EquiPacific HoldCo Inc., which has 90% stake in Laguna Water District Aquatech Resources Corp., the joint venture company responsible for the financing, rehabilitation, improvement, expansion, operation and maintenance of the Laguna Water District's water supply system; and (iii) 49% ownership in Watergy Business Solutions, Inc., a party to the Contractual Joint Venture Agreement which purpose was to develop a bulk water supply project to be sourced from the Maragondon River.

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, LRMC (effective ownership interest at 55% as at December 31, 2017 and 2016) signed together with the DOTC (now Department of Transportation – DOTr) and the Light Rail Transit Authority (LRTA) the 32-year Concession Agreement for the Light Rail Transit Line 1 Cavite Extension and Operations & Maintenance Project (LRT-1 Project). On September 12, 2015, LRMC took over the operations and maintenance of LRT-1 from DOTC and LRTA. As at December 31, 2017, the LRT-1 Cavite Extension is under pre-construction.

In 2016, LRMC signed a 15-year Omnibus Loan and Security Agreement (OLSA) with various financial institutions (collectively, as "Lenders") amounting to ₱24.0 billion, ₱15.3 billion of which is allocated for the Cavite Extension and ₱8.7 billion for the rehabilitation of the existing LRT-1 system. Cumulative drawn amount from this facility as at December 31, 2017 and 2016 amounted to ₱3,993.9 million and ₱657.0 million, respectively. The loan has a sponsors' funding commitment wherein for each drawdown until end of the construction period, the sponsors/shareholders shall infuse additional equity or extend debt to LRMC in an amount necessary to meet the debt-to-equity ratio. Additional equity investment of the sponsors shall not exceed ₱15,346.0 million, of which ₱8,440.0 million is effectively allocated to MPLRC. As at December 31, 2017, no additional equity nor debt from the sponsors was required.

<u>MPHHI</u>
MPHHI is MPIC's holding company for its investment in the healthcare segment. As at December 31, 2017 and 2016, MPIC holds 85.62% interest in MPHHI. GIC, through Arran, holds the 14.4% non-controlling interest through its subscription of the primary shares of MPHHI worth ₱3.7 billion on July 2, 2014. GIC also invested ₱6.5 billion in Exchangeable Bond issued by MPIC, which can be exchanged, in the future, into 158,137,590 shares of ₱10.0 par value Class A common shares of MPHHI representing 25.51% ownership interest, 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. With the Exchangeable Bond, GIC is entitled to 39.89% effective ownership interest in MPHHI.

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. The deferred tax liability recognized on this transaction amounted to ₱725.0 million and ₱483.3 million as at December 31, 2017and 2016, respectively (see Note 16).

As at December 31, 2017, the Company, through MPHHI and its subsidiaries, operates the following full service hospitals:

- In Metro Manila: Cardinal Santos Medical Center, Our Lady of Lourdes Hospital, Asian Hospital, De Los Santos Medical Center, Marikina Valley Medical Center and Dr. Jesus C. Delgado Memorial Hospital; and

- In other parts of the Philippines: Riverside Medical Center in Bacolod, Central Luzon Doctors Hospital in Tarlac, West Metro Medical Center in Zamboanga, Sacred Heart Hospital of Malolos Inc. in Bulacan and Saint Elizabeth Hospital Inc. in General Santos City.

MPHHI also has equity stake in the following hospitals: Makati Medical Center; Manila Doctors Hospital and Davao Doctors Hospital.

MPLC
On September 1, 2015, MPLC was incorporated with the primary purpose of engaging in the business of logistics services relating to products, commodities, articles, and goods, including but not limited to, storage, warehousing, warehouse and inventory management, transport and delivery.

MMI is MPLC’s subsidiary. On May 19, 2016, MMI completed the purchase of certain logistics businesses and assets (including certain contracts). The transaction involved the acquisition by MMI of the logistics businesses and assets (including certain contracts) of the sellers for a total purchase price consideration of ₱2,168.3 million, inclusive of applicable value-added taxes. After the completion of the transaction, a separate company that will be designated by the sellers will acquire twenty four percent (24%) of the outstanding capital stock of MMI.

MPLC holds 76% of MMI’s interest as at December 31, 2017 and 2016.

On April 4, 2017, Premier Logistics, Inc. (Premier), a subsidiary of MMI, completed the purchase of the businesses and assets, including key customer contracts of Ace Logistics Inc. (Ace) for an aggregate purchase price of ₱280.0 million. Ace is engaged in the business of logistics, including warehousing, parcel and e-commerce delivery, trucking, freight forwarding, customs brokerage and domestic shipping and also has strong presence in pre-delivery inspection in the automotive industry. The transaction involved the sale by Ace of identified logistics assets, the novation of certain key contracts of Ace with its clients and vendors, and the transfer of certain key officers and employees of Ace to Premier.

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. FCHI acquires real estate properties which are 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. After expiration of the Company’s corporate life on December 31, 2013, NOHI proceeded immediately to the liquidation phase, which shall take place over the succeeding three years or until the liquidation process is complete and all NOHI’s remaining assets have been disposed of and the proceeds divided accordingly among all those with remaining interest NOHI, under the management and supervision of an appointed liquidator.

NOHI holds investments in properties that have high market values based on latest appraisal and valuation report.

MGGW
MPIC and Global Green International Energy Pte. Ltd. (GGIE), a Singapore-based company, have partnered to develop a renewable energy/waste management project. On November 7, 2014, MPIC and GGIE incorporated MGGW, as an investment holding company for the waste-to-energy projects. However, in 2015, MPIC terminated its Investment Agreement with GGIE to develop a waste-to-energy facility in Tagum, Davao del Norte, for non-completion of the conditions precedent under the Investment Agreement by the stipulated long stop date. The amended Articles of Incorporation

reflecting the shortening of MGGW's corporate life to until December 31, 2017 was approved by SEC on December 29, 2016.

MGGW proceeded immediately to the liquidation phase. Once the liquidation process is complete and the entity secures BIR clearance, the remaining net assets shall be distributed to MPIC.

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, MPIC-JGS was not declared as the winning bidder for this project.

On February 15, 2016, the BOD of MPIC-JGS approved the shortening of the corporate life of MPIC-JGS to until February 15, 2016. MPIC-JGS proceeded immediately to the liquidation phase. Once the liquidation process is complete and the entity secures BIR clearance, the remaining net assets shall be distributed to the shareholders.

AFPI
AFPI was granted the rights and obligations to design, finance, construct, operate, and maintain the Automated Fare Collection System (AFCS) Project for LRT-1, LRT-2, and Metro Railway Transit Line 3 (MRT-3). The AFCS Project accommodates a contactless smartcard technology for stored value ridership and contactless medium technology for single journey ridership. This system shall be expandable to allow the inclusion of accepted participants and issuers into a generic micropayment solution fulfilling other commercial functions. AFPI had its Full System Acceptance (FSA) on December 16, 2015. Unless otherwise extended or terminated in accordance with the Service Concession Agreement, the concession period shall commence on FSA date and end ten years from the FSA date.

In 2017, due to the lower than expected penetration rate into the micropayments business, the Company recognized allowance for decline in value of investment amounting to ₱690.0 million. The recoverable amount of the investment in AFPI was measured using the estimate of the value in use of the investment. The valuation analysis involved discounting estimates of free cash flows by the discount rate of 11.9%. The estimates of cash flows were based on most recent financial budgets and forecasts representing best estimate of ranges of economic conditions that will exist over the forecast period. The forecast period covers the remaining concession term. The decline in value was recognized as "Other expense" in the statement of comprehensive income for the year ended December 31, 2017 (see Note 15).

Indra Phils.
On October 14, 2015, MPIC acquired from MERALCO 84,012 common shares, comprising 24.95% of the outstanding capital stock of Indra Phils. for an aggregate purchase price of ₱326.5 million. Indra Phils. is one of the leading provider of information technology solutions to various businesses and industries in the Philippines, with engagements in utilities and telecommunications, financial services and public administration.

FGNEC
FGNEC participated in the bidding for the proposed sale of the 246 MW Angat Hydroelectric Power Plant but was only declared as the second ranking bidder. On July 22, 2015, the BOD of FGNEC approved the shortening of the corporate life of FGNEC to until December 31, 2016. FGNEC proceeded immediately to the liquidation phase. Once the liquidation process is complete and the entity secures BIR clearance, the remaining net assets shall be distributed to the shareholders.

Landco
Landco is primarily engaged in all aspects of real estate business which includes real estate consultancy encompassing project management and business planning services; dealing in and disposing of all kinds of real estate projects involving commercial, industrial, urban, residential or other kinds of real property; construction, management, operation and leasing tenements of the corporation or other persons; and acting as real estate broker on a commission basis.

As at December 31, 2013, MPIC owned 19.0% interest in Landco which was classified as AFS financial assets. On December 22, 2014, the Company entered into an agreement with Landco and its controlling shareholder, AB Holdings Corporation (ABHC) to restructure and clean up the balance sheet of Landco in preparation for an eventual sale to third parties. Under the agreement, the Company shall be entitled to 66.1% 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 were reclassified to "Assets held for sale" as at December 31, 2014. The carrying amount of all interests in Landco, at that time, was expected to be recovered principally through a sale transaction and the sale was highly probable.

However, the expected disposal did not happen in 2015 nor in 2016 and as such, the investment no longer meet the 'held for sale' criteria as at December 31, 2016. The investment in Landco's common shares ceased to be classified as 'held of sale' and starting December 31, 2016, has been classified as investment in joint venture and was fully provided for an allowance in decline in value amounting to ₱773.9 million. The decline in value was recognized as "Other expense" in the statement of comprehensive income for the year ended December 31, 2016 (see Note 15). The decline in the value of the Company's interest in Landco was due to changes in cash flow forecast attributable to Landco's legacy projects.

Aside from the investment in the common shares of Landco, the Company also has advances to Landco amounting ₱828.1 million and ₱508.1 million as at December 31, 2017 and 2016, respectively. The Company also has receivable from ABHC amounting to ₱359.8 million included under the "Other noncurrent assets" account as at December 31, 2017 and 2016.

7. Property and Equipment and Software Costs

Property and Equipment. The account consists of:

	December 31, 2016	Additions/ Depreciation	Disposals	December 31, 2017
		(In Thousands)		
Cost:				
Transportation equipment	**₱79,009**	**₱12,691**	**(₱12,216)**	**₱79,484**
Leasehold improvements	**41,569**	**5,278**	**–**	**46,847**
Office equipment	**11,402**	**709**	**–**	**12,111**
Computer equipment	**20,243**	**5,235**	**(643)**	**24,835**
Furniture and fixtures	**8,293**	**1,091**	**–**	**9,384**
	160,516	**25,004**	**(12,859)**	**172,661**
Less accumulated depreciation:				
Transportation equipment	**30,821**	**14,057**	**(9,539)**	**35,339**
Leasehold improvements	**34,374**	**3,925**	**–**	**38,299**
Office equipment	**6,259**	**384**	**–**	**6,643**
Computer equipment	**18,172**	**3,228**	**(608)**	**20,792**
Furniture and fixtures	**6,233**	**565**	**–**	**6,798**
	95,859	**22,159**	**(10,147)**	**107,871**
	₱64,657	**₱4,845**	**(₱4,712)**	**₱64,790**

	December 31, 2015	Additions/ Depreciation	Disposals	December 31, 2016
		(In Thousands)		
Cost:				
Transportation equipment	₱65,677	₱29,942	(₱16,610)	₱79,009
Leasehold improvements	36,984	4,585	–	41,569
Office equipment	11,015	387	–	11,402
Computer equipment	18,490	2,417	(664)	20,243
Furniture and fixtures	6,952	1,363	(22)	8,293
	139,118	38,694	(17,296)	160,516
Less accumulated depreciation:				
Transportation equipment	29,199	12,635	(11,013)	30,821
Leasehold improvements	30,477	3,897	–	34,374
Office equipment	5,840	419	–	6,259
Computer equipment	15,390	3,395	(613)	18,172
Furniture and fixtures	5,922	330	(19)	6,233
	86,828	20,676	(11,645)	95,859
	₱52,290	₱18,018	(₱5,651)	₱64,657

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.

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

	December 31, 2015	Additions/ Amortization	Disposal	**December 31, 2016**	**Additions/ Amortization**	**Disposal**	**December 31, 2017**
				(In Thousands)			
Cost	₱92,402	₱4,971	₱–	**₱97,373**	**₱–**	**₱–**	**₱97,373**
Less accumulated amortization	76,168	14,319	–	**90,487**	**2,165**	**–**	**92,652**
	₱16,234	(₱9,348)	₱–	**₱6,886**	**(₱2,165)**	**₱–**	**₱4,721**

Property and equipment and software costs are reported under "Other noncurrent assets" of the Company's statements of financial position.

8. Accrued Expenses and Other Current Liabilities

This account consists of:

	2017	2016
	(In Thousands)	
Accrued expenses and other payables (see Note 13):		
Personnel costs	**₱278,032**	₱215,332
Fringe benefit tax	**215,372**	172,724
Professional fees	**68,712**	32,711
Others	**68,192**	43,597
Interest payable (see Notes 9 and 11)	**456,628**	330,042
Statutory payables	**68,667**	58,477
Subscription payable (see Notes 6, 11 and 22)	**35,735**	–
Accounts payable	**21,308**	15,672
Others	**29,096**	6,995
	₱1,241,742	₱875,550

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.

9. Long-term Debt

MPIC's outstanding loan comprises of the following:

Description	Interest Rate (per annum)	Terms	2017	2016
			(In Thousands)	
₱6.48 Billion Fixed Rate Note with BDO Unibank, Inc. (BDO) (the "Note")	7.5% p.a. for the first 5 years, subject to repricing on 5th year	Availed of in 2013; payable in 10 years with semiannual interest payment; contains negative pledge.	**₱6,188,400**	₱6,253,200
₱25.0 Billion Facility:				
▪ *₱10.0 Billion facility from Bank of the Philippine Islands (BPI)*	Fixed interest ranging from 5.2427% to 5.8850% p.a.	Drawn on various dates in 2015 with final drawdown made in 2016; principal payable semi–annually within ten years from and after initial drawdown date; contains negative pledge.	**9,750,000**	9,850,000
▪ *₱10.0 Billion facility from Philippine National Bank (PNB)*	Fixed interest for the first 5 years subject to repricing on 5th year; fixed interest ranging from 4.9253% to 5.7947% p.a.	Drawn on various dates in 2015 with final drawdown made in 2016; principal payable within 10 years from and after initial drawdown date; contains negative pledge.	**9,750,000**	9,850,000
▪ *₱5.0 Billion facility from BDO*	5.3906% p.a. for the first 5 years subject to repricing on the 5th year	Drawn in 2015; principal payable semiannually within 10 years from and after initial drawdown date; contains negative pledge	**4,875,000**	4,925,000

(Forward)

Description	Interest Rate (per annum)	Terms	**2017**	2016
			(In Thousands)	
₱16.5 Billion Facility				
▪ *₱10.0 Billion Facility from BDO*	Fixed interest at 5.00% p.a.	Drawn in 2016 and 2017; principal payable semiannually within 10 years from and after initial drawdown date; contains negative pledge	**₱9,930,000**	₱6,000,000
▪ *₱6.5 Billion Facility from China Banking Corporation (CBC)*	Fixed interest ranging from 6.0970% to 6.1240% p.a.	Drawn in 2017; principal payable semiannually within 10 years from and after initial drawdown date; contains negative pledge	**6,500,000**	–
			46,993,400	36,878,200
Less unamortized debt issue costs			**172,109**	139,146
Less current portion of long-term debt (net of unamortized debt issue costs of ₱24.7 million and ₱17.3 million in 2017 and 2016, respectively)			**971,243**	357,457
Noncurrent portion of long-term debt			**₱45,850,048**	₱36,381,597

On April 14, 2015, MPIC entered into separate agreements to secure loan facilities in the aggregate amount of ₱25.0 billion (*₱25.0 Billion Facility*), proceeds of which were used to partially finance the acquisition of 10% of the total issued and outstanding common shares of MERALCO held by Beacon Electric (see Note 6), investment in other projects and for other general corporate purposes. As at December 31, 2016, the facility has been fully drawn.

On December 1, 2015, MPIC entered into separate agreements to secure loan facilities in the aggregate amount of ₱16.5 billion (*₱16.5 Billion Facility*), proceeds of which were used by MPIC to finance its investment in various projects and other general corporate purposes. As at December 31, 2017, the facility has been fully drawn.

Covenants. These loans contain, among others, covenants regarding maintenance of reserve account and achieving certain financial ratios such as (1) debt-to-equity ratio not to exceed 70:30; and (2) debt-service coverage ratio (DSCR). These loans contain a negative pledge on all existing and future assets of MPIC. The Notes is redeemable at the option of the Noteholder, in whole but not in part, on the 5th year, by giving written notice of early redemption no earlier than 60 days nor later than 30 days prior to the exercise date.

As at December 31, 2017 and 2016, MPIC has complied with all its debt covenants.

Future repayments of principal are as follows:

	2017	2016
	(In Thousands)	
2017	**₱–**	₱374,800
2018	**995,900**	828,400
2019	**1,549,000**	1,444,000
2020	**2,836,000**	2,731,000
2021 and onwards	**41,612,500**	31,500,000
	₱46,993,400	₱36,878,200

10. **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 15)	Dividend Income (see Note 6)	Rent and Utilities Expense (see Note 13)	Donations and Contributions (see Note 13)	Total
					(In Thousands)		
MWHC	Subsidiary	**2017**	**₱–**	**₱1,430,571**	**₱–**	**₱–**	**₱1,430,571**
		2016	–	962,943	–	–	962,943
Maynilad	Subsidiary	**2017**	**4,600**	**155,888**	**–**	**–**	**160,488**
		2016	–	103,881	–	–	103,881
MPTC	Subsidiary	**2017**	**–**	**1,595,898**	**–**	**–**	**1,595,898**
		2016	–	1,424,201	–	–	1,424,201
Beacon Electric	Subsidiary	**2017**	**–**	**2,540,919**	**–**	**–**	**2,540,919**
	Joint Venture	2016	–	4,387,907	–	–	4,387,907
MERALCO	Associate	**2017**	**–**	**2,628,709**	**–**	**–**	**2,628,709**
		2016	–	4,240,145	–	–	4,240,145
Indra Phils.	Associate	**2017**	**–**	**10,042**	**–**	**–**	**10,042**
		2016	–	8,932	–	–	8,932
AFPI	Associate	**2017**	**–**	**–**	**–**	**–**	**–**
		2016	26,300	–	–	–	26,300
MMI	Subsidiary	**2017**	**3,929**	**–**	**–**	**–**	**3,929**
		2016	10,688	–	–	–	10,688
MPHHI	Subsidiary	**2017**	**3,120**	**82,996**	**–**	**–**	**86,116**
		2016	2,575	75,633	–	–	78,208
PLDT	Associate of FPC	**2017**	**–**	**–**	**18,323**	**–**	**18,323**
		2016	–	–	19,889	–	19,889
MPV Sports Foundation	Affiliate*	**2017**	**–**	**–**	**–**	**6,600**	**6,600**
		2016	–	–	–	11,000	11,000
One MERALCO	Affiliate*	**2017**	**–**	**–**	**–**	**90**	**90**
		2016	–	–	–	–	–
Metro Pacific Investments Foundation, Inc. (MPIF)	Affiliate*	**2017**	**–**	**–**	**–**	**9,300**	**9,300**
		2016	–	–	–	8,951	8,951
		2017	**₱11,649**	**₱8,445,023**	**₱18,323**	**₱15,990**	**₱8,490,985**
		2016	₱39,563	₱11,203,642	₱19,889	₱19,951	₱11,283,045

** Affiliates are companies under common control or management.*

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 are due and demandable, non-interest bearing, unsecured, requires cash settlement and are not impaired.

		Due from related parties		Due to related parties	
	Nature of Transaction	**2017**	2016	**2017**	2016
			(In Thousands)		
Parent					
MPHI		**₱60**	₱60	**₱–**	₱
Subsidiaries	Advances				
NOHI	Advances	**–**	–	**358,372**	358,376
MPHHI	Management fees and advances	**1,740**	15,842	**15**	19,161
MMI	Management fees and advances	**603**	11,978	**20,490**	–
MPTC	Advances	**856**	1,777	**–**	–
MPCEH	Advances	**1,962**	–	**–**	–
MPW	Advances	**840**	427	**–**	–
Maynilad	Advances	**3,566**	364	**–**	–
MPLRC	Advances	**–**	130	**–**	–
GBPC	Advances	**91**	–	**–**	–
DLSMC	Advances	**42**	42	**–**	–
EMHMC	Advances	**42**	42	**–**	–
MJAHI	Advances	**–**	–	**–**	–
MLCI	Advances	**4**	4	**–**	–
FCHI	Advances	**5**	–	**–**	–
BPHI	Advances	**9**	–	**–**	–
LRMC	Advances	**77**	–	**–**	–
MVPHI	Advances	**4**	–	**–**	–
Others	Advances	**40**	72	**–**	–
Joint Venture in which the Company is a venturer					
Beacon Electric	Advances	**–**	218	**–**	–
Associates					
AFPI	Management fees	**–**	29,456	**–**	–
MERALCO	Advances	**500**	5	**–**	–
*Other related parties**					
PCEV (Note 8)	Payable	**–**	–	**15,552,750**	8,352,558
FPC	Advances	**732**	729	**–**	–
MPIF	Advances	**–**	896	**–**	24
PLDT	Advances	**3**	–	**–**	–
Others	Advances	**649**	452	**85**	85
		11,825	62,494	**15,931,712**	8,730,204
Less current portion		**11,825**	62,494	**4,164,594**	2,004,041
		₱–	₱–	**₱11,767,118**	₱6,726,163

**Other related parties are affiliates through FPC.*

PCEV

Due to PCEV as at December 31, 2017 and 2016 represents the present value of the outstanding amount for the purchase price of Beacon Electric shares acquired in May 2016 and June 2017.

- On May 30, 2016, the Company acquired from PCEV 645,756,250 common shares and 458,370,086 preferred shares representing 25% economic rights of Beacon Electric for the total consideration of ₱26.2 billion (see Note 6). As at December 31, 2017, remaining amount due to PCEV of ₱7.2 billion (nominal amount) was recognized at its net present value of ₱6.7 billion and is included in the "Due to related parties" account.

- On June 13, 2017, MPIC entered into a Share Purchase Agreement with PCEV for the purchase of PCEV's 25% remaining interest in Beacon Electric (see Note 6) for a total

purchase price of ₱21.8 billion. Payable to PCEV as at December 31, 2017, amounting to ₱9.8 billion (nominal amount) was recognized at its net present value of ₱8.9 billion and is included in the "Due to related parties" account.

MPIF
MPIF is a private nonstock, nonprofit corporation established in the Philippines on April 21, 2009 to support projects, programs and activities for the improvement of community welfare, social education and public health through giving of grants to educational institutions for the establishment of student grants and loan funds, supporting disaster relief rehabilitation programs and activities, and conducting/sponsoring scientific/technical research and development activities for social and economic upliftment. MPIF is the corporate foundation of MPIC.

As at March 1, 2018, MPIF is in the process of securing the Philippine Council for NGO Certification (PCNC) accreditation and BIR certification for income tax exemption under Section 30(e) of the National Internal Revenue Code of 1997, as amended.

MPIC made contributions to MPIF amounting to ₱9.3 million and ₱9.0 million in 2017 and 2016, respectively.

Others
Other transactions with related parties 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, 2017 and 2016 are as follows:

	2017	2016
	(In Thousands)	
Short-term employee benefits	**₱349,930**	₱253,313
Post-employment benefits - Retirement cost (see Notes 13 and 14)	**16,260**	18,030
Share-based payment (see Notes 13 and 17)	**66,672**	66,855
LTIP expense (see Notes 13 and 14)	**182,417**	167,149
	₱615,279	₱505,347

Directors' Remuneration
Annual remuneration of the directors amounted to ₱6.1 million and ₱3.5 million for the years ended December 31, 2017 and 2016, respectively (see Note 13). Directors were also allocated common shares under the Company's ESOP and RSUP.

Non-executive directors are entitled to a per diem allowance of ₱100,000 (2016: ₱50,000) for each attendance in the Company's Board meetings and ₱50,000 (2016: ₱30,000) for each attendance in the Company's Committee 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, 2017 and 2016 in the absence of resolution from the BOD. There are no other special arrangements pursuant to which any director will be compensated.

11. **Other Noncurrent Liabilities**

This account consists of:

	2017	2016
	(In Thousands)	
LTIP payable (see Note 14)	**₱380,235**	₱197,818
Interest payable [(a)] (see Note 8)	**78,750**	133,791
Subscription payable [(b)] (see Notes 6, 8 and 22)	–	43,235
	₱458,985	₱374,844

a. Interest payable pertains to the noncurrent portion of the present value of the interest due on the Exchangeable Bond.

b. Subscription payable included amount due to AFPI which shall be settled upon equity call from the investee. The Company expects to settle the remaining liability amounting to ₱35.7 million in 2018, and hence, amount reclassified as current liability (see Note 8).

12. **Equity**

Details of authorized and issued capital stock follow:

	2017		2016	
	No. of Shares	**Amount**	No. of Shares	Amount
		(In Thousands except for share amounts)		
Authorized common shares - ₱1.00 par value	**38,500,000,000**	**₱38,500,000**	38,500,000,000	₱38,500,000
Authorized preferred shares:				
Class A - ₱0.01 par value	**20,000,000,000**	**200,000**	20,000,000,000	200,000
Class B - ₱1.00 par value	**1,350,000,000**	**1,350,000**	1,350,000,000	1,350,000
Balance at December 31	**59,850,000,000**	**₱40,050,000**	59,850,000,000	₱40,050,000
Issued and Outstanding - common shares:				
Balance at beginning of year	**31,527,848,752**	**₱31,527,849**	27,885,373,752	₱27,885,374
Issuance of shares	–	–	3,600,000,000	3,600,000
Exercise of stock option plan	**6,700,000**	**6,700**	42,475,000	42,475
Issued - common shares	**31,534,548,752**	**31,534,549**	31,527,848,752	31,527,849
Less: Treasury Shares	**(23,970,000)**	**(23,970)**	(23,970,000)	(23,970)
Balance at end of the period	**31,510,578,752**	**₱31,510,579**	31,503,878,752	₱31,503,879
Treasury shares - common shares:				
Balance at beginning of year	**23,970,000**	**₱167,363**	–	₱–
Share buy-back	–	–	23,970,000	167,363
Balance at end of the period	**23,970,000**	**₱167,363**	23,970,000	₱167,363
Issued - preferred shares - Class A:				
Balance at beginning of year	**9,128,105,319**	**₱91,281**	5,000,000,000	₱50,000
Issuance of shares	–	–	4,128,105,319	41,281
Balance at end of the period	**9,128,105,319**	**₱91,281**	9,128,105,319	₱91,281
Total number of stockholders	**1,300**	–	1,313	–

At the regular meeting of the Company's BOD held on May 12, 2015, the BOD approved the following:

- The reclassification of a total of 150 million Class B preferred shares with par value of ₱1.00 per share into 15 billion Class A preferred shares with par value of ₱0.01 per share, thereby decreasing the number of Class B preferred shares from 1.5 billion to 1.35 billion and correspondingly increasing the number of Class A preferred shares from 5 billion to 20 billion.
- The increase of the authorized capital stock from ₱30.05 billion up to ₱40.05 billion divided into 38.5 billion common shares with a par value of ₱1.00 per share and 20 billion Class A preferred shares with a par value of ₱0.01 per share and 1.35 billion Class B preferred shares with a par value of ₱1.00 per share.

During the annual general meeting of the stockholders of MPIC held on May 29, 2015, the foregoing matters were approved and ratified by the stockholders of MPIC.

The increase in authorized capital stock is for the purpose of enabling the Company to carry out equity fund raising in a timely manner for Company's investments. The purpose of the reclassification is to broadly maintain the historical ratio of preference shares relative to each class and the common shares of the Company following recent capital raising exercises, as well as to reduce the number of outstanding preferred shares that are convertible to the common shares.

The Amended Articles of Incorporation of the Company reflecting the reclassification of portion of the Class B preferred shares to Class A preferred shares was approved by the Philippine SEC on October 26, 2015.

In 2016, MPIC applied for an increase in authorized common shares from 28.5 billion to 38.5 billion shares. The SEC approved the increase in authorized capital stock on August 5, 2016.

Common Shares

The increase in common shares for the years ended 2017 and 2016 resulted from the following transactions:

- At various dates in 2017 and 2016, a total of 6.7 million and 42.5 million common shares, respectively, were issued in connection with the Company's ESOP (see Note 17).
- Pursuant to the approval of the BOD in its meeting held on May 27, 2016, MPIC entered into a Share Subscription Agreement with GTCHI on May 27, 2016, wherein MPIC agreed to issue in favour of GTCHI, and GTCHI agreed to subscribe to 3.6 billion new common shares of MPIC (the "Subscription Shares") from the increase in authorized capital stock of MPIC, which application for increase was approved by the SEC on August 5, 2016. The Subscription Shares was issued at a subscription price of ₱6.10 per share or a total of ₱21.96 billion. On the same date, GTCHI also acquired a further 1.3 billion common shares of MPIC from MPHI. Following this transaction, GTCHI and MPHI approximately owned 15.55% and 41.97% of MPIC's issued common shares, respectively.

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.

On May 27, 2016, MPIC also entered into a Share Subscription Agreement with MPHI for the subscription by MPHI of 4.1 billion newly issued Class A Preferred Shares at par value for a total consideration of ₱41.3 million.

Following the GTCHI's subscription and acquisition of common shares and MPHI's subscription of Class A Preferred Shares, MPHI's combined voting interest as a result of all of its shareholdings is estimated at 55.0%.

There are no undeclared dividends as at December 31, 2017.

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

There were no Class B Preferred Shares issued in 2017 and 2016.

Treasury Shares
On September 1, 2016, MPIC acquired 23,970,000 MPIC common shares, at ₱6.9822 per share from the open market. The treasury shares was acquired pursuant to the share buy-back that shall partially cover the up to approximately 27.4 million shares to be granted to the directors and key officers of the Company under the Company's LTIP program, which includes the RSUP (see Note 17).

The RSUP and the implementation thereof which included the share buy-back, was approved by MPIC's Compensation Committee on July 14, 2016, pursuant to the authority granted to it by the MPIC's BOD on March 1, 2016.

Record of Registration of Securities with the Philippine 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,	
				2017	2016
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*	**1,300**	1,313
			Subscription warrants of 170,636,298	–	–

**Covered the 2006 registered shares only*

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

Dividends
Dividends declared and paid are as follows:

	2017	2016
	(In Thousands)	
Declared and paid:		
Final dividend in respect of the previous financial year approved and paid during the following year:		
Common shareholders (₱0.068 and ₱0.061 per share in 2017 and 2016, respectively)	**₱2,142,284**	₱1,701,615
Class A preferred shareholders	**4,564**	2,500
Interim dividend declared and paid during the interim period:		
Common shareholders (₱0.0345 and ₱0.032 per share in 2017 and 2016, respectively)	**1,087,097**	1,008,826
Class A preferred shareholders	**4,564**	2,850
	₱3,238,509	₱2,715,791
Final dividend*:		
Common shareholders (₱0.076 and ₱0.068 per share in 2017 and 2016, respectively)	**₱2,394,956**	₱2,142,284
Class A preferred shareholders	**4,564**	4,564
	₱2,399,520	₱2,146,848

**Final dividends on both common and Class A preferred shares were declared after December 31 and as such, are not recognized as a liability as at year-end.*

On March 1, 2018, the BOD approved the declaration of the cash dividends of ₱0.076 per common share in favor of the Company's shareholders of record as of the record date at March 28, 2018 with payment date of April 26, 2018. On the same date, the BOD also approved the declaration of cash

dividends amounting to a total of ₱4.6 million in favor of MPHI as the sole holder of Class A Preferred shares.

Equity Reserves
This account is used to recognize the value of equity-settled share-based payments consisting of ESOP and RSUP that are provided to certain employees, including key management personnel and directors, as part of their remuneration. As at December 31, 2017 and 2016, equity reserve from ESOP amounted to ₱59.8 million and ₱64.0 million, respectively. The equity reserve from RSUP amounted to ₱133.5 million and ₱66.9 million as at December 31, 2017 and 2016, respectively (see Note 17).

13. **Operating Expenses**

This account consists of:

	2017	2016
	(In Thousands)	
Personnel costs	**₱807,763**	₱676,506
Professional fees	**232,338**	128,148
Public relation	**63,978**	51,735
Outside services	**52,036**	45,501
Transportation	**30,192**	20,201
Depreciation and amortization (see Note 7)	**24,324**	34,995
Taxes and licenses	**24,260**	19,179
Rent	**13,002**	17,210
Supplies	**9,970**	12,727
Seminars and conferences	**8,991**	5,608
Communication, light and water	**7,198**	7,304
Donations	**6,690**	30,500
Insurance	**6,226**	6,167
Directors' fee (see Note 10)	**6,141**	3,541
Membership dues	**2,747**	2,276
Repairs and maintenance	**2,724**	935
Others	**54,116**	56,107
	₱1,352,696	₱1,118,640

Personnel costs for the years ended December 31, 2017 and 2016 consist of:

	2017	2016
	(In Thousands)	
Salaries and wages	**₱414,438**	₱314,060
LTIP expense (see Note 14)	**182,417**	167,149
RSUP expense (see Note 17)	**66,672**	66,855
Fringe benefit tax	**55,793**	54,351
Retirement cost (see Note 14)	**20,317**	21,444
Others	**68,126**	52,647
	₱807,763	₱676,506

14. **Employee Benefits**

Long-term Incentive Plan (LTIP)
Certain of the Company's employees are eligible for long-term employee benefits under a long-term incentive plan. The liability recognized on the LTIP comprises the present value of the defined benefit obligation and was determined using the projected unit credit method. Each LTIP performance cycle generally covers 3 years (e.g., 2016 to 2018) 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.

On July 14, 2016, the Compensation Committee of MPIC, acting pursuant to the authority granted to it by MPIC's BOD on March 1, 2016, approved MPIC's LTIP covering cycle 2016 to 2018. Beginning 2016, MPIC's LTIP comprises of cash incentives and share award (see Note 17).

The total cost of the LTIP for 2017 and 2016 amounted to ₱182.4 million and ₱167.1 million, respectively, presented under "Personnel costs" in the parent company statements of comprehensive income (see Note 13). The details of LTIP payable as at December 31are as follows:

	2017	2016
	(In Thousands)	
Beginning balance	**₱197,818**	₱562,954
Payout	–	(532,285)
Current provision	**171,323**	166,944
Interest	**8,481**	2,327
Actuarial loss (gain)	**2,613**	(2,122)
LTIP payable (see Note 11)	**₱380,235**	₱197,818

To fund the LTIP programs for each cycle, MPIC enters into Investment Management Agreement (IMA) with a Trustee Bank. The LTIP fund will continue to accumulate until the LTIP target payout. The investment portfolio of IMA is limited to the following: securities issued, directly or indirectly, or guaranteed by the government; and time deposit and money market placements issued by any of the top 10 banks in the Philippines. As at December 31, 2017 and 2016, the LTIP fund balance included under 'Other noncurrent assets' amounted to ₱227.9 million and ₱46.4 million, respectively.

Pension
Regulatory Environment. RA 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 RA 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 RA 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 RA 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 Company's Compensation Committee reviews compliance with RA 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 RA 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.

	2017	2016
	(In Thousands)	
Current service cost	**₱20,343**	₱21,996
Net interest cost	**(26)**	(552)
Total retirement cost (see Note 13)	**₱20,317**	₱21,444

Remeasurement effects recognized in OCI are as follows:

	2017	2016
	(In Thousands)	
Actuarial gain	**₱17,394**	₱12,462
Loss on return on plan assets excluding amount included in net interest cost	**(3,652)**	(8,278)
	13,742	4,184
Deferred tax (see Note 16)	**(4,123)**	(1,255)
Actuarial gain, net of deferred tax	**₱9,619**	₱2,929

The funded status and amounts recognized in the parent company statements of financial position for pension assets (recorded under "Other noncurrent assets") are as follows:

	2017	2016
	(In Thousands)	
Present value of obligation	**(₱104,762)**	(₱147,011)
Fair value of plan assets	**107,686**	147,485
Pension assets	**₱2,924**	₱474

Movements in the present value of obligation are as follows:

	2017	2016
	(In Thousands)	
Present value of obligation at the beginning of the year	**₱147,011**	₱140,020
Current service cost	**20,343**	21,996
Interest cost	**6,080**	7,183
Benefits paid	**(51,278)**	(7,184)
Actuarial gain due to:		
Experience adjustments	**(17,394)**	(11,907)
Changes in financial assumptions	**–**	(554)
Transferred obligation	**–**	(2,543)
Present value of obligation at the end of the year	**₱104,762**	₱147,011

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

	2017	2016
	(In Thousands)	
Fair value of plan assets at beginning of the year	**₱147,485**	₱150,782
Interest income included in net interest cost	**6,106**	7,735
Actual gain/(loss) return excluding amount included in net interest cost	**(3,652)**	(8,278)
Actual contributions	**9,025**	6,973
Benefits paid	**(51,278)**	(7,184)
Transferred obligation	**–**	(2,543)
Fair value of plan assets at end of the year	**₱107,686**	₱147,485
Actual return on plan assets	**(₱2,454)**	(₱543)

The allocations of the fair value of the trust fund as at December 31, 2017 and 2016 are as follows:

	2017	2016
	(In %)	
Investments in:		
Corporate equities and Government securities	**64**	70
Unit trust funds	**31**	15
Cash and cash equivalents	**3**	14
Receivables and others	**2**	1
	100	100

As at December 31, 2017 and 2016, the trust fund consists of the following:

- Investments in government and corporate securities included fixed-rate treasury notes and retail treasury bonds and debt securities that bear interest ranging from 2.03% to 6.25% (2017) and 2.34% to 6.25% (2016) per annum and have maturities of up to 2032 as at 2017 and 2016.
  - 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 2.40% to 5.50% per annum as at 2017 and 1.50% to 5.50% per annum as at 2016, respectively.

- 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 Company contributes to the fund from time to time, based on the recommendations of the actuary 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:

	2017	2016
Discount rate	**5.74%**	5.39%
Salary increase rate	**4.00%**	5.00%

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 2017 Philippine Inter-Company Mortality Study (for 2017) and 1994 Group Annuity Mortality Table developed by the U.S. Society of Actuaries (for 2016), which provides separate rates for males and females.

The weighted average duration of the expected benefit payments is approximately 17.69 years and 16.25 years in 2017 and 2016, respectively.

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

	2017	2016
	(In Thousands)	
Less than one year	**₱14,261**	₱70,705
More than one year to five years	**62,103**	50,492
More than five years to 10 years	**54,690**	35,640
More than 10 years to 15 years	**93,082**	73,028
More than 15 years to 20 years	**182,611**	123,657
More than 20 years	**306,373**	249,085

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)	**2017**	2016
Discount rate	+1%	**₱–**	(₱61)
	-1%	–	65
Salary increase rate	+1%	–	109
	-1%	–	(103)

As at December 31, 2017, the defined contribution accumulation is higher than the legal minimum benefit. As the Company has no deficiency to meet legal obligation, the defined benefit obligation is not sensitive to reasonably possible changes (+/-100 basis points) in the significant assumptions.

The Company currently expects to make approximately ₱20.0 million of cash contributions to its retirement fund in 2018.

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

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

	2017	2016
	(In Thousands)	
Interest income:		
Cash and cash equivalents (see Note 5)	**₱175,279**	₱90,428
LTIP deposit	**2,838**	1,858
	₱178,117	₱92,286
Interest expense:		
Long-term debt (see Note 9)	**₱2,400,433**	₱2,020,264
Accretion on financial liabilities (see Notes 6, 8 and 11)	**578,136**	413,816
Amortization of debt issue cost (see Note 9)	**19,537**	14,519
	₱2,998,106	₱2,448,599
Other income (expenses) - net:		
Impairment of assets (Notes 6 and 19)	**(₱690,000)**	(₱1,248,386)
Gain on sale of shares (see Note 6)	**654,224**	–
Management fees (see Note 10)	**13,723**	39,661
Others	**2,827**	153,558
	(₱19,226)	(₱1,055,167)

In 2016, the Company sold certain properties for ₱22.4 million (exclusive of VAT) which resulted in a gain of ₱5.5 million.

16. **Income Taxes**

Current Tax

The provision for current income tax represents MCIT. MCIT is imposed where the regular corporate income tax (RCIT) at 30% is less than 2% MCIT on gross income.

Deferred Tax

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

	2017	2016
	(In Thousands)	
Deferred tax liabilities:		
Gain on dilution of interest in a subsidiary (see Note 6)	**₱725,008**	₱483,334
Pension assets (see Note 14)	**8,607**	4,484
	₱733,615	₱487,818

	2017	2016
	(In Thousands)	
Net movement recognized in:		
Profit or loss	**₱241,674**	₱–
Equity (OCI and Equity reserve)	**4,123**	1,255
	₱245,797	₱1,255

The deferred tax liability relating to the gain on dilution of interest in a subsidiary pertains to the applicable tax on the expected gain on the future conversion of the Exchangeable Bond (see Note 6). The increase in the deferred tax liability resulted from the impact of RA No. 10963 or the Tax Reform for Acceleration and Inclusion Act (TRAIN) which was signed into law on December 19, 2017 and took effect January 1, 2018, making the new tax law enacted as of the reporting date. The TRAIN increased the capital gains tax on sale of shares not traded in the local stock exchange from 10% to a flat rate of 15%.

b. The details of the carryforward benefits of NOLCO, MCIT and other deductible temporary difference for which deferred tax assets were not recognized as at December 31, 2017 and 2016 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:

	2017	2016
	(In Thousands)	
Items recognized in profit and loss:		
NOLCO	**₱8,091,003**	₱6,148,069
Nondeductible expenses	**1,750,622**	1,788,818
MCIT	**1,315**	3,253
	9,842,940	7,940,140

The carryforward benefits of excess MCIT amounting to ₱1.3 million and ₱3.3 million as at December 31, 2017 and 2016, respectively, can be claimed as tax credit against future income taxes payable as follows:

Year Incurred	Balance as at December 31, 2016	Additions	Expired	Balance as at December 31, 2017	Expiry Year
		(In Thousands)			
2017	₱–	₱334	₱–	₱334	2020
2016	923	–	–	923	2019
2015	58	–	–	58	2018
2014	2,272	–	(2,272)	–	2017
	₱3,253	₱334	(₱2,272)	₱1,315	

As at December 31, 2017 and 2016, unutilized NOLCO amounting to ₱8,091.0 million and ₱6,148.1 million, respectively, can be carried forward and claimed as deduction from regular taxable income as follows:

Year Incurred	Balance as at December 31, 2016	Additions	Expired	Balance as at December 31, 2017	Expiry Year
		(In Thousands)			
2017	₱–	₱3,273,307	₱–	₱3,273,307	2020
2016	2,980,816		–	2,980,816	2019
2015	1,836,880	–	–	1,836,880	2018
2014	1,330,373	–	(1,330,373)	–	2017
	₱6,148,069	₱3,273,307	(₱1,330,373)	₱8,091,003	

The Company has no taxable income subject to RCIT for the years ended December 31, 2017 and 2016. The reconciliation between the Company's statutory income tax and the effective income tax on net income (current and deferred income tax) for the years ended December 31, 2017 and 2016 follows:

	2017	2016
	(In Thousands)	
Income before income tax at 30% RCIT	**₱1,275,934**	₱2,002,057
Adjustments for:		
Dividend income exempted from final tax	**(2,533,507)**	(3,361,093)
Additional NOLCO	**981,992**	894,245
Nondeductible expenses	**525,187**	536,646
Change in capital gains tax rate	**241,674**	–
Additional MCIT	**334**	923
Nontaxable income	**(196,268)**	–
Income already subjected to final tax	**(53,338)**	(27,686)
Reversal of accrual and provisions	–	(44,169)
Current and deferred income tax	**₱242,008**	₱923

17. **Share-based Payment**

Executive Stock Option Plan (ESOP)
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.

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, as well as, members of the senior management of certain MPIC subsidiaries. The grant was approved by the Philippine SEC on March 4, 2014. For the years ended December 31, 2017 and 2016, the weighted average remaining term to expiry for the share options outstanding is 0.8 year and 1.8 years, respectively.

For the years ended December 31, 2017 and 2016, the weighted average share price of MPIC's common share is ₱6.64 and ₱6.41 per share, respectively. The carrying value of ESOP, recognized under "Equity reserves" in the equity section of the parent company statements of financial position, amounted to ₱59.8 million and ₱64.0 million as at December 31, 2017 and 2016, respectively (see Note 12).

The Company's ESOP has fully vested in 2015. The ESOP charged to Equity reserves amounted to ₱4.2 million and ₱26.8 million for the years ended December 31, 2017 and 2016, respectively.

The following table illustrates the number of, exercise prices of, and movements in share options in 2017 and 2016:

	Fourth Grant			
	Tranche A		Tranche B	
	Number of shares	Exercise Price	Number of shares	Exercise Price
Outstanding at December 31, 2015	55,000,000	₱4.60	56,000,000	₱4.60
Exercised during the year (see Note 12)	42,475,000	4.60	–	–
Outstanding at December 31, 2016	12,525,000	₱4.60	56,000,000	₱4.60
Exercised during the year (see Note 12)	6,700,000	4.60	–	–
Outstanding at December 31, 2017	**5,825,000**	**₱4.60**	**56,000,000**	**₱4.60**
Exercisable at:				
December 31, 2016	12,525,000	4.60	56,000,000	4.60
December 31, 2017	**5,825,000**	**4.60**	**56,000,000**	**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:

	Fourth Grant	
	Tranche A	Tranche B
	50.0% vesting on October 14, 2014	50.0% vesting on October 14, 2015
Spot Price	₱4.59	₱4.59
Exercise price	₱4.60	₱4.60
Risk-free rate	0.66%	2.40%
Expected volatility*	35.23%	33.07%
Term to vesting in days	365	730
Call price	₱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.*

Restricted Stock Unit Plan (RSUP)
On July 14, 2016, the Compensation Committee of MPIC approved the RSUP as part of MPIC's LTIP. The RSUP, which has a validity period of ten (10) years, replaced the Parent Company's ESOP, which will expire in 2018.

The RSUP is designed, among others, to reward the Directors and certain key officers of MPIC who contribute to its growth to stay with MPIC for the long term. Under the RSUP, which shall have a cycle of three (3) years starting 2016, MPIC, at its cost will reacquire MPIC common shares to be held as treasury shares and reserved to be transferred to the Directors and key officers determined by the Committee to be eligible to participate under the RSUP. Vested shares will be transferred in the name of the eligible participants on full vesting date, at no cost as provided under the RSUP.

The RSUP also limits the aggregate number of shares that may be subject to award to no more than three percent (3%) of the outstanding common shares of MPIC. For the first 3-year cycle (i.e., 2016 to 2018), MPIC will acquire up to 27.4 million common shares at such time and under such terms and conditions as the Committee may determine.

A total of 27,400,000 shares (Share Award) under the RSUP were granted for the LTIP cycle 2016 to 2018. Fair value of the Share Award was determined using the market closing price of ₱7.15 per share on date of grant. One third (or 33.33%) of the share award vests every 31st of December beginning 2016 until fully vested by December 31, 2018.

On September 2016, a total of 23,970,000 MPIC common shares were reacquired from market at ₱6.98 per share and held as treasury shares (see Note 14).

Total RSUP expense for the year ended December 31, 2017 and 2016 amounted to ₱66.7 million and ₱66.9 million, respectively included in "Personnel costs" under "Operating expenses" account in the parent company statements of comprehensive income (see Note 13).

18. **Earnings Per Share**

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

		2017	2016
		(In Thousands, Except for Per Share Amounts)	
Net income		**₱3,977,442**	₱6,654,804
Effect of dividends on preference equity holders of the Company		**(9,128)**	(7,408)
	(a)	**3,968,314**	6,647,396
Outstanding common shares at the beginning of the year		**31,503,879**	27,885,374
Effect of issuance of common shares during the year		**3,619**	2,171,066
Effect of share buy-back (see Note 12)		**–**	(7,925)
Weighted average number of common shares for basic earnings per share	(b)	**31,507,498**	30,048,515
Effects of potential dilution from ESOP		**21,029**	27,606
Effect of share buy-back (see Note 12)		**7,725**	7,011
Weighted average number of common shares adjusted for the effects of potential dilution	(c)	**31,536,252**	30,083,132
Basic earnings per share	(a/b)	**₱0.126**	₱0.221
Diluted earnings per share	(a/c)	**₱0.126**	₱0.221

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 2017 and 2016, the ESOP and RSUP are considered in the computation of the diluted earnings and certain grants were considered dilutive.

19. **Other Matters**

Integrated Solid Waste Management Facility Project (ISWM Project). In March 2017, the consortium consisting of MPIC, Covanta Energy, LLC and Macquarie Group, Ltd. has been granted Original Proponent Status (OPS) by The Quezon City Government to design, construct, finance, and operate an ISWM Project. The ISWM facility will be capable of processing and converting up to 3,000 metric tons per day of Quezon City's municipal solid waste into 42MWe of renewable energy, enough to power between 60,000 to 90,000 homes. The ISWM Project will be undertaken through a Joint Venture between QC LGU and the consortium in accordance with QC LGU Ordinance: No. SP-2336, s. 2014 (QC PPP Code).

As the original proponent of the ISWM Project, the consortium will have the exclusive rights to enter into detailed negotiations with the QC LGU. Upon successful completion of negotiations, the ISWM Project will be subjected to a competitive challenge consistent with government regulations. If and when the consortium is awarded the ISWM Project, development and construction would take approximately three (3) to four (4 years). It is expected that this project will be funded through a combination of debt and equity.

Project for the Rehabilitation, Operations and Maintenance of the Metro Rail Transit 3 (MRT-3 Project). In September 2017, MPIC was granted the original proponent status for the rehabilitation, operations and maintenance of the MRT-3. The proposal consists of the full and comprehensive rehabilitation of MRT-3 and its operation and maintenance under a 30-year concession. The rehabilitation plan, for which the capital expenditure is estimated at ₱12.5 billion, includes rail replacement, rehabilitation of signaling equipment, station upgrades, and the overhaul and eventual new replacement of existing LRVs. MPIC has also offered to purchase the Government's stake held by Land Bank of the Philippines and Development Bank of the Philippines in Metro Rail Transit Corporation. As original proponent of the Project, MPIC will have exclusive rights to enter negotiations with the Government in relation to the proposal. Upon successful completion of negotiations, the MRT-3 Project will be subjected to a swiss challenge consistent with the requirements of the Build-Operate-Transfer Law and its implementing rules.

Project for the Rehabilitation, Operation, and Maintenance of the Ninoy Aquino International Airport ("NAIA"). On December 21, 2017, MPIC agreed to form a consortium with Aboitiz InfraCapital Inc., AC Infrastructure Holdings Corporation, Alliance Global Group Inc., AEDC, Filinvest Development Corporation and JG Summit Holdings Inc. for the rehabilitation, operation, and maintenance of the NAIA through an unsolicited proposal which was submitted to the Department of Transportation on February 12, 2018.

The project is estimated to cost up to ₱350 billion over the life of its concession. The project is divided into two phases – Phase 1 includes improvements and expansion of terminals in the current NAIA land area, while Phase 2 involves the development of an additional runway, taxiways, passenger terminals and associated support infrastructure.

Tariff Setting at the Company's Investees. The Company's results of operations are highly dependent on the ability of the subsidiaries, associates, and joint ventures to pay dividends. In turn, the investees' ability to declare dividends is highly dependent on the result of operations – their ability to set and collect adequate tariff.

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 Water 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 Maynilad's results of operations and financial condition.

Rate Rebasing: 2013-2017

- *2013-2017 Rate Rebasing - Domestic Arbitration.* Metropolitan Waterworks and Sewerage (MWSS) released Board of Trustees Resolution No. 2013-100-RO dated September 12, 2013 and Regulatory Office (RO) Resolution No. 13-010-CA dated September 10, 2013 on the rate rebasing adjustment for the rate rebasing period 2013 to 2017 (Fourth Rate Rebasing Period) 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 cu.m. over the next five years.

  On October 4, 2013, Maynilad filed its Dispute Notice before the Appeals Panel. This Dispute Notice is a referral to the Appeals Panel for Major Disputes of the dispute between Maynilad, on the one hand, and MWSS and the RO, on the other. The Dispute relates to the

determination by the RO, in accordance with Section 9.4.2 of the Concession Agreement, of the Rebasing Adjustment as embodied in Resolution No. 13-010-CA.

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 Adjustments (FCDA) for any and all its scheduled adjustments until such time that the Appeals Panel has issued its arbitral award.

On January 5, 2015, Maynilad officially received the Appeals Panel's award dated December 29, 2014 upholding Maynilad's alternative Rebasing Adjustment for the Fourth Rate Rebasing Period of 13.41% or its equivalent of ₱4.06 per cu.m. (the "First Award"). This increase has effectively been reduced to ₱3.06 per cu.m., following the integration of the ₱1.00 Currency Exchange Rate Adjustment (CERA) into the basic water charge. To mitigate the impact of the tariff increase on its customers, Maynilad offered to stagger its implementation over a three-year period.

The First Award, being final and binding on the parties, Maynilad asked the MWSS to cause its Board of Trustees to approve the 2015 Tariffs Table so that the same can be published and implemented 15 days after its publication.

However, the MWSS and the RO have chosen, over Maynilad's repeated objections, to defer the implementation of the First Award despite it being final and binding on the parties. In its letter dated February 9, 2015, the MWSS and RO, who received their copy of the First 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, before making any official pronouncements on the applicable resulting water rates for the two concessionaires.

- *2013-2017 Rate Rebasing - International Arbitratio*n.

  On February 20, 2015, Maynilad wrote the Philippine Government, through the Department of Finance (DOF), to call on the Undertaking which the Republic of the Philippines (ROP) issued in favor of Maynilad on July 31, 1997 and March 17, 2010. On March 9, 2015, Maynilad again wrote the ROP, through the DOF, to reiterate its demand against the Undertaking. The letters dated February 20 and March 9, 2015 are collectively referred to as the "Demand Letters".

  Maynilad demanded that it be paid, immediately and without further delay, the ₱3.4 billion in revenue losses that it had sustained as a direct result of the MWSS's and the RO's refusal to implement its correct Rebasing Adjustment from January 1, 2013 (the commencement of the Fourth Rate Rebasing Period) to February 28, 2015.

  On March 27, 2015, Maynilad served a Notice of Arbitration and Statement of Claim upon the ROP, through the DOF. Maynilad gave notice and demanded that the ROP's failure or refusal to pay the amounts required under the Demand Letters be, pursuant to the terms of the Undertaking, referred to arbitration before a three-member panel appointed and conduct proceedings in Singapore in accordance with the 1976 United Nations Commission on International Trade Law (UNCITRAL) Arbitration Rules.

  On April 21, 2015, the MWSS Board of Trustees in its Resolution No. 2015-004-CA dated March 25, 2015 approved to partially implement the First Award of a tariff adjustment of ₱0.64 per cu.m. which, net of the ₱1.00 CERA, actually translates to a tariff adjustment of negative ₱0.36 per cu.m. as opposed to the First Award of ₱3.06 per cu.m. tariff adjustment,

net of CERA. For being contrary to the First Award as well as the provisions of the Concession Agreement, Maynilad did not implement this tariff adjustment.

On May 14, 2015, the MWSS Board of Trustees in its Resolution No. 2015-060-RO approved a 7.52% increase in the prevailing average basic charge of ₱31.25 per cu.m. or an upward adjustment of ₱2.35 per cu.m. as Consumer Price Index adjustment. With the discontinuance of CERA, the net adjustment in average water charge is 4.32% or ₱1.35 per cu.m.

In the fourth quarter of 2015, the Arbitral Tribunal was constituted. On February 17, 2016, Maynilad again wrote the ROP, through the DOF, to reiterate its demand against the Undertaking and to update its claim. Evidentiary hearings were completed in December 2016.

On July 24, 2017, the Arbitral Tribunal unanimously upheld the validity of Maynilad's claim against the Undertaking Letter issued by the ROP, through the DOF, to compensate Maynilad for the delayed implementation of its relevant tariffs for the Fourth Rate Rebasing Period ("Second Award"). The Tribunal ordered the ROP to reimburse Maynilad the amount of ₱3.4 billion for losses from March 11, 2015 to August 31, 2016, without prejudice to any rights that Maynilad may have to seek recourse against MWSS for losses incurred from January 1, 2013 to March 10, 2015. Further, the Tribunal ruled that Maynilad is entitled to recover from the Republic its losses from September 1, 2016 onwards. In case a disagreement on the amount of such losses arises, Maynilad may revert to the Tribunal for further determination.

Subsequently, Maynilad agreed with the corrected computation by the ROP of Maynilad's revenue losses from March 11, 2015 to August 31, 2016 in the amount of ₱3.18 billion (with cost of money as of August 31, 2016). As at December 31, 2017 and 2016, Maynilad's accumulated revenue losses due to the delayed implementation of the First Award are estimated at ₱11.4 billion and ₱8.2 billion, respectively.

Starting April 22, 2017, adjusted water rates which included increase in the FCDA, as well as an adjustment to cover the 1.9% Consumer Price Index were implemented.

On February 13, 2018, Maynilad received an email from the ROP's Singapore counsel advising that the Republic has filed an application with the High Court of Singapore to set aside the Second Award dated July 24, 2017 (the "Setting Aside Application").

An electronic copy of the Setting-Aside Application was served on Maynilad's Singapore counsel on February 15, 2018.

Maynilad filed its Reply Affidavits in respect of SUM 749 (Republic's interlocutory application for sealing) on March 1, 2018. The Republic submitted its Joint Reply/Responsive Affidavit to Maynilad's Reply Affidavits on March 14, 2018.

For OS 188 (Setting-aside Application), Maynilad filed its Reply Affidavit on March 26, 2018, while the Republic will file its Responsive Affidavit on April 23.

- *2013-2017 Rate Rebasing - Domestic Court Actions*. In a decision dated August 30, 2017, the Regional Trial Court, Branch 93 of Quezon City ("RTC") granted the Petition for Confirmation and Enforcement of the First Award which petitioner, Maynilad, filed in July 2015 (the "Decision") following the refusal of MWSS and the MWSS Regulatory Office to

implement the First Award. As mentioned above, the First Award upheld the 13.41% Rebasing Adjustment that Maynilad proposed for the Fourth Rate Rebasing Period.

The MWSS filed a Motion for Reconsideration of the Decision ("MR"). The RTC denied the MR in an Order dated November 23, 2017. Subsequently, MWSS filed a Petition for Review with the Court of Appeals ("CA") on December 27, 2017 asking for a reversal of the RTC's Decision. Maynilad filed our Comment to the Petition for Review and in that Comment, Maynilad prayed for the dismissal of the Petition for Review and for the immediate enforcement of the Decision and the First Award.

As a consequence of the issuance of the Decision, Maynilad filed, on October 18, 2017, a Motion for Execution of the First Award ("MotEx"). However, the RTC, on February 6, 2018, denied the MotEx.

As at March 1, 2018, the management cannot determine with reasonable certainty the probable outcome of the discussions with the Government with respect to the implementation of the Second Award. As such, the consolidated financial statements do not include any adjustments that might result from arbitration proceeding.

Rate Rebasing: 2018-2022. On March 31, 2017, Maynilad submitted a five-year business plan to the RO for the new rate rebasing covering the years 2018 to 2022. As at March 1, 2018, Maynilad is in constructive and collaborative dialogue with the RO.

NLEX Corp and CIC

NLEX Corp 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.

Toll Rate Adjustments - NLEX Corp. NLEX Corp, as petitioner-applicant, filed the following petitions for the approval of Periodic Toll Rate Adjustment (PTRA) with the TRB praying for the adjustments of the toll rates:

- In June 2012, for the NLEX PTRA effective January 1, 2013 (2012 Petition);
- In September 2014, for NLEX PTRA effective January 1, 2015 (2014 Petition); and
- In September 2016, for the PTRA for the NLEX and SCTEX effective January 1, 2017 (2016 Petition).

In August 2015, NLEX Corp wrote the ROP, acting by and through the TRB, a Final Demand for Compensation based on overdue toll rate adjustments that should have been effective January 1, 2013 and January 1, 2015 (Final Demand). However, the ROP/TRB failed to heed on the Final Demand and as such, NLEX Corp sent a Notice of Dispute to the ROP/TRB dated September 11, 2015 invoking STOA Clause 19 (Settlement of Disputes). STOA Clause 19.1 states that the parties shall endeavor to amicably settle the dispute within sixty (60) calendar days. The TRB sent several letters to NLEX Corp requesting the extension of the amicable settlement period. However, NLEX Corp has not received any feasible settlement offer from the ROP/TRB.

Accordingly, on April 4, 2016, NLEX Corp was compelled to issue a Notice of Arbitration and Statement of Claim (Notice of Arbitration) to the ROP, acting by and through the TRB, consistent with STOA Clause 19 in order to preserve its rights under the STOA.

In May 2016, TRB through Office of the Solicitor General (OSG) nominated their arbitrator for NLEX and their preferred venue for arbitration. In a letter dated June 1, 2016, NLEX Corp proposed that the arbitration be held in Singapore which is the seat of arbitration that the ROP has

chosen for its various PPP projects, and proposed the Singapore International Arbitration Center as the Appointing Authority. In a letter dated July 13, 2016, the ROP, acting by and through the OSG, stated that it accepts Singapore as the venue of arbitration, but reiterated its previous proposal that a Philippine-based institution/person be the Appointing Authority.

On June 27, 2017, the initial case management conference was held in Singapore. As of December 31, 2017, total amount of compensation for TRB's inaction on lawful toll rate adjustments for NLEX and SCTEX, are approximately at ₱6.4 billion (VAT exclusive; net of Government share at ₱6.0 billion) and ₱1.9 billion (VAT exclusive; net of Government share at ₱1.0 billion), respectively.

NLEX is in constructive discussions with Government to resolve these tariff matters.

On October 18, 2017, The TRB provisionally approved the Php0.25/km Petition for Add-on Toll rate adjustment for the NLEX Closed System in relation with NLEX Corp's investment on the NLEX Lane Widening Project. NLEX Corp started collecting the add-on toll rate adjustment on November 6, 2017.

Toll Rate Adjustments - CIC. CIC filed the following petitions for the approval of the PTRA with the TRB:

- On the R-1 Expressway:
  - In September 2011, for the PTRA effective January 1, 2012 (2011 Petition);
  - In September 2014, for the PTRA with an Application for Provisional Relief with toll rates effective January 1, 2015 (2014 Petition); and
  - In November 2016, for the PTRA effective January 1, 2017 (2016 Petition).
- On R-1 Extension:
  - In September 2013, for the PTRA effective January 1, 2014 (2013 Petition);
  - In September 2016, for the PTRA effective January 1, 2017 (2016 Petition).

In August 2015, for failure to implement toll rate adjustments, CIC filed notices with the TRB demanding settlement of the past due tariff increases amounting to ₱719.0 million based on the overdue toll rate adjustments as at July 31, 2015 for the CAVITEX.

In April 2016, CIC issued a Notice of Arbitration and Statement of Claim to the ROP, acting by and through the TRB, consistent with the dispute resolution procedures under its Toll Operation Agreement (TOA) to obtain compensation in the amount of ₱877 Million (as of March 27, 2016) for TRB's inaction on lawful toll rate adjustments which were due January 1, 2012, January 1, 2014, and January 1, 2015. Singapore shall be the venue of arbitration. In February 2017, CIC received notice from the Permanent Court of Arbitration that the authority who will appoint the chairperson of the Arbitration Panel has been designated.

As at March 1, 2018, CIC has yet to receive regulatory approval for all the petitions filed on the PTRA. CIC, however, is in constructive discussions with Government to resolve this.

As of December 31, 2017, total amount of compensation for TRB's inaction on lawful toll rate adjustments which were due since January 1, 2012 for both R1 and R1-Extension is approximately at ₱1.3 billion (VAT-exclusive and net of PRA share).

LRMC

LRMC derives substantially all of its revenues from farebox collections from the users of the LRT Line 1 rail system. LRMC can apply with the DOTr for a fare increase every two years, up to a maximum fare increase of 10%. This translates to 5% per annum, which is meant to track inflation. If the approved fare is different from the formula specified on the concession agreement, both the Philippine Government and LRMC are obligated to substantially keep the other party whole, depending if the actual fares represent a deficit or a surplus.

MERALCO

4th Regulatory Period Reset Application. 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 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.

MERALCO's 3rd RP ended on June 30, 2015. The 4th RP for Group "A" entrants commenced on July 1, 2015 and shall end on June 30, 2019. To initiate the reset process, the ERC posted in its website on April 12, 2016, the following draft issuance for comments, to wit:

- Draft "Rules for Setting Distribution Wheeling Rates for Privately Owned Distribution Utilities Operating under Performance Based Regulation, First Entry Group: Fourth Regulatory Period";

- Draft "Position Paper: Regulatory Reset for the July 1, 2015 to June 30, 2019 Fourth Regulatory Period for the First Entry Group of Privately Owned Distribution Utilities subject to Performance Based Regulation"; and

- Draft "Commission Resolution on the Issues on the Implementation of PBR for Privately Owned DUs under the RDWR".

Under ERC Resolution No. 25, Series of 2016 dated July 12, 2016, the ERC promulgated a Resolution modifying the Rules for Setting Distribution Rates ("RDWR") for Privately-Owned Distribution Utilities Entering Performance Based Regulation ("PBR").

An initial hearing was originally set by the ERC for January 9, 2017 and all interested parties were to file their comments on the Petition by December 26, 2016.

Subsequently, however, the ERC reset the hearing to January 23, 2017 and deadline for filing comments was January 23, 2017. MERALCO filed its Comment to the Petition on January 9, 2017. Hearings were scheduled on May 15 and June 21, 2017. The *ERC* Order for the date of the next public consultation is pending.

In a Notice dated November 16, 2016, the ERC approved the draft "Regulatory Asset Base ("RAB") Roll Forward Handbook for Privately Owned Electricity Distribution Utilities (DUs)" (RAB Handbook) for posting in its website. All interested parties were given until December 19, 2016 to submit their respective comments to the draft RAB Handbook. Thereafter, during the public consultation on January 9, 2017, the parties were given until February 9, 2017

to file their comments to the draft RAB Handbook. In an Omnibus Motion filed on February 9, 2017, MERALCO submitted its initial comments to the draft RAB Handbook but moved for the deferment of the proceedings until the consumer group Petition has been resolved. As at March 1, 2018, the ERC has yet to resolve MERALCO's Omnibus Motion.

MERALCO also files with the ERC its applications for over/under-recoveries of pass-through costs. These consist mainly of differential generation, transmission and system loss charges technically referred to as over/under-recoveries, which are refundable/recoverable from the customers, as allowed by law.

Interim Average Rate for RY 2016. On June 11, 2015, MERALCO filed its application for the approval of a proposed Interim Average Rate of ₱1.3939 per kWh and translation thereof into rate tariffs by customer category. On July 10, 2015, the ERC provisionally approved an Interim Average Rate of ₱1.3810 per kWh and the rate translation per customer class, which was reflected in the customer bills starting July 2015. MERALCO has completed the presentation of its evidence and is set to file its Formal Offer of Evidence (FOE) after the ERC rules on pending motions. As at March 1, 2018, the *ERC*'s ruling on these motions is pending.

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

On December 19, 2013, several party-list representatives of the House of Representatives filed a Petition against MERALCO, ERC and the DOE before the SC, questioning the ERC clearance granted to MERALCO to charge the resulting price increase, alleging the lack of hearing and due process. It also sought for the declaration of the unconstitutionality of the Electric Power Industry Reform Act (EPIRA), which essentially declared the generation and supply sectors competitive and open, and not considered public utilities. A similar petition was filed by a consumer group and several private homeowners associations challenging also the legality of the Automatic Generation Rate Adjustment (AGRA) that the ERC had promulgated. Both petitions prayed for the issuance of TRO, and a Writ of Preliminary Injunction.

On December 23, 2013, the SC consolidated the two (2) Petitions and granted the application for TRO effective immediately and for a period of 60 days, which effectively enjoined the ERC and MERALCO from implementing the price increase. The SC also ordered MERALCO, ERC and DOE to file their respective comments to the Petitions. Oral Arguments were conducted on January 21, 2014, February 4, 2014 and February 11, 2014. Thereafter, the SC ordered all the Parties to the consolidated Petitions to file their respective Memorandum on or before February 26, 2014 after which the Petitions will be deemed submitted for resolution of the SC. MERALCO complied with said directive and filed its Memorandum on said date.

On February 18, 2014, acting on the motion filed by the Petitioners, the SC extended for another 60 days or until April 22, 2014, the TRO that it originally issued against MERALCO and ERC

last December 23, 2013. The TRO was also similarly applied to certain generating companies, the NGCP, and the Philippine Electricity Market Corporation (PEMC; the administrator of WESM and market operator) who were all enjoined from collecting from MERALCO the deferred amounts representing the ₱4.15 per kWh price increase for the November 2013 supply month.

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

On March 3, 2014, the ERC issued an Order voiding the Luzon WESM prices during the November and December 2013 supply months on the basis of the preliminary findings of its Investigating Unit that these are not reasonable, rational and competitive, and imposing the use of regulated rates for the said period. PEMC was given seven (7) days upon receipt of the Order to calculate these regulated prices and implement the same in the revised WESM bills of the concerned DUs in Luzon. PEMC's recalculated power bills for the supply month of December 2013 resulted in a net reduction of the December 2013 supply month bill of the WESM by ₱9.3 billion. Due to the pendency of the TRO, no adjustment was made to the WESM bill of MERALCO for the November 2013 supply month. The timing of amounts to be credited to MERALCO is dependent on the reimbursement of PEMC from associated generator companies. However, several generating companies have filed motions for reconsideration questioning the Order dated March 3, 2014. MERALCO has filed a consolidated comment to these motions for reconsideration. In an Order dated October 15, 2014, the ERC denied the motions for reconsideration. The generating companies have appealed the Orders with the CA where the petitions are pending. MERALCO has filed a motion to intervene and a comment in intervention in the petition filed by a generating company and shall file similar pleadings in the cases filed by the other generators.

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

On April 22, 2014, the SC extended indefinitely the TRO issued on December 23, 2013 and February 18, 2014 and directed generating companies, NGCP and PEMC not to collect from MERALCO. As at March 1, 2018, the SC has yet to resolve the various petitions filed against MERALCO, ERC, and DOE.

20. Financial Risk Management Objectives and Policies

The Company's principal financial instruments consist mainly of borrowings from 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, restricted cash, 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.

Liquidity Risk

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

The Company monitors its cash position using a cash forecasting system. All expected collections, check disbursements and other cash payments are determined on a daily basis to arrive at the projected cash position to cover its obligations and ensuring that obligations are met as they fall due. The Company monitors its cash flow position particularly the collections from receivables, receipts of dividends and the funding requirements of operations to ensure an adequate balance of inflows and outflows. The Company also has an online facility with its depository banks wherein bank balances are monitored daily to determine the actual Company cash balances at any time. The Company has cash and cash equivalents and short-term deposits amounting to ₱14,545.3 million and ₱4,162.0 million as at December 31, 2017 and 2016, 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, 2017, the Company has positive working capital.

As at December 31, 2017, the Company has undrawn facility amounting to ₱10.0 billion. The amount of ₱5.0 billion is available until May 31, 2018 and the remaining amount is available until December 19, 2018.

As of March 1, 2018, the Company has entered into a syndicated term loan facility for an additional available loan of ₱10.0 billion (see Note 23).

The table below summarizes the maturity profile of the Company’s financial assets and financial liabilities as at December 31, 2017 and 2016 based on undiscounted contractual payments and include forecast interest payment for long-term debt.

	2017						
	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*	₱49,410	₱9,023,009	₱–	₱–	₱–	₱–	₱9,072,419
Short-term deposits - UITF	–	5,472,868	–	–	–	–	5,472,868
Restricted cash	–	181,345	–	–	–	–	181,345
Receivables:							
Advances to employees	–	9,694	–	–	–	–	9,694
Interest receivable	–	16,286	–	–	–	–	16,286
Accounts receivable	–	13	–	–	–	–	13
Other receivables	–	75,998	–	–	–	–	75,998
Due from related parties	–	11,825	–	–	–	–	11,825
AFS financial assets	–	–	–	–	–	42,000	42,000
Other noncurrent assets	–	–	227,936	–	–	359,804	587,740
Total	49,410	14,791,038	227,936	–	–	401,804	15,470,188
Financial Liabilities							
Accrued expenses and other current liabilities:							
Accrued expenses	–	630,308		–	–	–	630,308
Subscription payable	–	35,735		–	–	–	35,735
Accounts payable	–	21,308		–	–	–	21,308
Other payables**	–	29,096		–	–	–	29,096
Due to related parties	–	4,830,303	4,451,341	5,645,977	2,450,000	–	17,377,621
Long-term debt:							
Principal	–	995,900	1,549,000	2,836,000	3,961,000	37,651,500	46,993,400
Interest	–	2,795,344	2,728,247	2,619,120	2,394,166	6,485,498	17,022,375
Financial liability	–	44,577	55,219	–	–	–	99,796
	–	9,382,571	8,783,807	11,101,097	8,805,166	44,136,998	82,209,639
Liquidity gap	₱49,410	₱5,408,467	(₱8,555,871)	(₱11,101,097)	(₱8,805,166)	(₱43,735,194)	(₱66,739,451)

** Excluding cash on hand amounting to ₱0.06 million as at December 31, 2017.*
*** Excluding statutory payables.*

	2016						
	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*	₱37,903	₱4,124,022	₱–	₱–	₱–	₱–	₱4,161,925
Restricted cash	–	183,018	–	–	–	–	183,018
Receivables:							
Advances to employees	–	9,825	–	–	–	–	9,825
Interest receivable	–	6,414	–	–	–	–	6,414
Accounts receivable	–	210	–	–	–	–	210
Other receivables	–	59,961	–	–	–	–	59,961
Due from related parties	–	62,494	–	–	–	–	62,494
AFS financial assets**	–	–	–	–	–	20,660,765	20,660,765
Other noncurrent assets	–	–	–	46,414	–	359,804	406,218
Total	37,903	4,445,944	–	46,414	–	21,020,569	25,550,830
Financial Liabilities							
Accrued expenses and other current liabilities:							
Accrued expenses	–	464,364	–	–	–	–	464,364
Accounts payable	–	15,672	–	–	–	–	15,672
Other payables***	–	6,995	–	–	–	–	6,995
Due to related parties	377,646	2,378,987	2,001,341	2,001,341	3,195,977	–	9,955,292
Long-term debt:							
Principal	–	374,800	828,400	1,444,000	2,731,000	31,500,000	36,878,200
Interest	–	2,189,066	2,166,735	2,092,807	1,988,437	5,884,872	14,321,917
Financial liability	–	35,702	44,577	55,219	–	–	135,498
Other noncurrent liabilities	–	–	43,235	–	–	–	43,235
	377,646	5,465,586	5,084,288	5,593,367	7,915,414	37,384,872	61,821,163
Liquidity gap	(₱339,743)	(₱1,019,642)	(₱5,084,288)	(₱5,546,953)	(₱7,915,414)	(₱16,364,303)	(₱36,270,333)

** Excluding cash on hand amounting to ₱0.06 million as at December 31, 2016.*
*** Including investment in preferred shares of Beacon amounting to ₱20,622.3 million as at December 31, 2016.*
**** 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.

		2017	
	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*	**₱9,072,419**	**₱3,418**	**₱9,069,001**
Short-term deposits - UITF	**5,472,868**	**–**	**5,472,868**
Restricted cash	**181,345**	**–**	**181,345**
Receivables:			
Advances to employees	**9,694**	**–**	**9,694**
Interest receivables	**16,286**	**–**	**16,286**
Accounts receivable	**13**	**–**	**13**
Other receivables	**75,998**	**–**	**75,998**
Due from related parties	**11,825**	**678**	**11,147**
Other noncurrent assets	**629,740**	**–**	**629,740**
	₱15,470,188	**₱4,096**	**₱15,466,092**

** Excludes cash on hand amounting to ₱0.06 million as at December 31, 2017.*

		2016	
	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*	₱4,161,925	₱4,350	₱4,157,575
Restricted cash	183,018	–	183,018
Receivables:			
Advances to employees	9,825	–	9,825
Interest receivables	6,414	–	6,414
Accounts receivable	210	–	210
Other receivables	59,961	–	59,961
Due from related parties	62,494	84	62,410
Other noncurrent assets	444,718	–	444,718
	₱4,928,565	₱4,434	₱4,924,131

** Excludes cash on hand amounting to ₱0.06 million as at December 31, 2016.*

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. 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 financial assets, including those past due but not impaired, is as follows:

	2017					
	Neither Past Due nor Impaired	**Past Due but not Impaired**				
		<30 Days	**30–120 Days**	**>120 Days**	**Impaired**	**Total**
				(In Thousands)		
Loans and receivables:						
Cash and cash equivalents[(a)]	**₱9,072,419**	**₱–**	**₱–**	**₱–**	**₱–**	**₱9,072,419**
Restricted cash	**181,345**	–	–	–	–	**181,345**
Receivables:						
Advances to employees	**9,694**	–	–	–	–	**9,694**
Interest receivable	**16,286**	–	–	–	–	**16,286**
Accounts receivable	**13**	–	–	–	–	**13**
Other receivables	**75,998**	–	–	–	**21,440**	**97,438**
Due from related parties	**11,825**	–	–	–	–	**11,825**
Other noncurrent assets	**587,740**	–	–	–	–	**587,740**
AFS financial assets:						
Short-term deposits - UITF	**5,472,868**	–	–	–	–	**5,472,868**
Other noncurrent assets	**42,000**	–	–	–	–	**42,000**
	₱15,470,188	**₱–**	**₱–**	**₱–**	**₱21,440**	**₱15,491,628**

[(a)] Excludes cash on hand amounting to ₱0.06 million as at December 31, 2017.

	2016					
	Neither Past Due nor Impaired	Past Due but not Impaired				
		<30 Days	30–120 Days	>120 Days	Impaired	Total
				(In Thousands)		
Loans and receivables:						
Cash and cash equivalents[(a)]	₱4,161,925	₱–	₱–	₱–	₱–	₱4,161,925
Restricted cash	183,018	–	–	–	–	183,018
Receivables:						
Advances to employees	9,825	–	–	–	–	9,825
Interest receivable	6,414	–	–	–	–	6,414
Accounts receivable	210	–	–	–	–	210
Other receivables	59,961	–	–	–	21,440	81,401
Due from related parties	62,494	–	–	–	–	62,494
Other noncurrent assets	406,218	–	–	–	–	406,218
AFS financial assets	38,500	–	–	–	–	38,500
	₱4,928,565	₱–	₱–	₱–	₱21,440	₱4,928,565

[(a)] Excludes cash on hand amounting to ₱0.06 million as at December 31, 2016.

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 BOD.

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.

	2017			
	High Grade	**Standard Grade**	**Sub-standard Grade**	**Total**
		(In Thousands)		
Loans and receivables:				
Cash and cash equivalents[(a)]	**₱9,072,419**	**₱–**	**₱–**	**₱9,072,419**
Restricted cash	**181,345**	**–**	**–**	**181,345**
Receivables:				
Advances to employees	**9,694**	**–**	**–**	**9,694**
Interest receivable	**16,286**	**–**	**–**	**16,286**
Accounts receivable	**13**	**–**	**–**	**13**
Other receivables	**75,998**	**–**	**–**	**75,998**
Due from related parties	**11,825**	**–**	**–**	**11,825**
Other noncurrent assets	**587,740**	**–**	**–**	**587,740**
AFS financial assets:				
Short-term deposits - UITF	**5,472,868**	**–**	**–**	**5,472,868**
Other noncurrent assets	**42,000**	**–**	**–**	**42,000**
	₱15,470,188	**₱–**	**₱–**	**₱15,470,188**

[(a)] Excluding cash on hand amounting to ₱0.06 million as at December 31, 2017.

	2016			
	High Grade	Standard Grade	Sub-standard Grade	Total
		(In Thousands)		
Loans and receivables:				
Cash and cash equivalents[(a)]	₱4,161,925	₱–	₱–	₱4,161,925
Restricted cash	183,018	–	–	183,018
Receivables:				
Advances to employees	9,825	–	–	9,825
Interest receivable	6,414	–	–	6,414
Accounts receivable	210	–	–	210
Other receivables	59,961	–	–	59,961
Due from related parties	62,494	–	–	62,494
Other noncurrent assets	406,218			406,218
AFS financial assets	38,500			38,500
	₱4,928,565	₱–	₱–	₱4,928,565

[(a)] Excluding cash on hand amounting to ₱0.06 million as at December 31, 2016.

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.

MPIC's loan agreements require achievement of certain financial ratios (see Note 9). Moreover, under the loan agreements, MPIC needs to achieve a DSCR to be able to declare dividends. As at December 31, 2017 and 2016, MPIC is in compliance with the required financial ratios and other loan covenants.

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

advances from shareholders, return capital to shareholders, issue new shares or new debt or redeem existing debt. No changes were made in the objectives, policies or processes during the years ended December 31, 2017 and 2016.

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 2017, the Company's strategy, which was unchanged from 2016, was to maintain a sustainable debt-to-equity ratio. The debt-to-equity ratios on December 31, 2017 and 2016 are as follows:

	2017	2016
	(In Thousands)	
Long-term debt	**₱46,821,291**	₱36,739,054
Equity	**124,134,489**	123,264,650
Debt-to-equity ratio	**1:2.7**	1:3.4

21. Financial Assets and Financial Liabilities

Categories of Financial Instruments

Categories of the Company's financial assets and financial liabilities as at December 31, 2017 and 2016 are as follows:

	2017				
	Financial Assets			**Financial Liabilities**	
	FVPL	**Loans and Receivables**	**AFS Financial Assets**	**Other Financial Liabilities**	**Total**
			(In Thousands)		
ASSETS					
Cash and cash equivalents[(a)]	**₱–**	**₱9,072,419**	**₱–**	**₱–**	**₱9,072,419**
Restricted cash	**–**	**181,345**	**–**	**–**	**181,345**
Receivables:					
Advances to employees	**–**	**9,694**	**–**	**–**	**9,694**
Interest receivables	**–**	**16,286**	**–**	**–**	**16,286**
Accounts receivable	**–**	**13**	**–**	**–**	**13**
Other receivables	**–**	**75,998**	**–**	**–**	**75,998**
Due from related parties	**–**	**11,825**	**–**	**–**	**11,825**
AFS financial assets [(b)]	**–**	**–**	**5,472,868**	**–**	**5,472,868**
Other noncurrent assets	**–**	**587,740**	**42,000**	**–**	**629,740**
	₱–	**₱9,955,320**	**₱5,514,868**	**₱–**	**₱15,470,188**
LIABILITIES					
Accrued expenses and other current liabilities[(c)]	**₱–**	**₱–**	**₱–**	**₱1,173,075**	**₱1,173,075**
Due to related parties	**–**	**–**	**–**	**15,931,712**	**15,931,712**
Long-term debt	**–**	**–**	**–**	**46,821,291**	**46,821,291**
Other noncurrent liabilities	**–**	**–**	**–**	**78,750**	**78,750**
	₱–	**₱–**	**₱–**	**₱64,004,828**	**₱64,004,828**

[(a)] *Excludes cash on hand to ₱0.06 million as at December 31, 2017.*
[(b)] *Pertains to the Company's investment in UITF classified as AFS financial assets.*
[(c)] *Excludes statutory payables.*

	2016				
	Financial Assets			Financial Liabilities	
	FVPL	Loans and Receivables	AFS Financial Assets	Other Financial Liabilities	Total
			(In Thousands)		
ASSETS					
Cash and cash equivalents[(a)]	₱–	₱4,161,925	₱–	₱–	₱4,161,925
Restricted cash		183,018			183,018
Receivables:					
Advances to employees	–	9,825	–	–	9,825
Interest receivables	–	6,414	–	–	6,414
Accounts receivable	–	210	–	–	210
Other receivables	–	59,961	–	–	59,961
Due from related parties	–	62,494	–	–	62,494
Other noncurrent assets [(b)]	–	1,017,975	20,660,765	–	21,678,740
	₱–	₱5,501,822	₱20,660,765	₱–	₱26,162,587
LIABILITIES					
Accrued expenses and other current liabilities[(c)]	₱–	₱–	₱–	₱817,073	₱817,073
Due to related parties	–	–	–	8,730,204	8,730,204
Long-term debt	–	–	–	36,739,054	36,739,054
Other noncurrent liabilities	–	–	–	177,026	177,026
	₱–	₱–	₱–	₱46,463,357	₱46,463,357

[(a)] *Excludes cash on hand to ₱0.06 million as at December 31, 2016.*
[(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, 2017 and 2016 are as follows:

	2017		2016	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
		(In Thousands)		
Financial Liability				
Long-term debt	**₱46,821,291**	**₱46,109,540**	₱36,739,054	₱36,828,607
Due to related parties	**15,931,712**	**15,407,817**	8,730,204	8,670,919

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

Due to Related Parties
Estimated fair value is based on the present value of future cash flows discounted using the prevailing PDST-R2 rates that are specific to the tenor of the instruments' cash flows at the end of each reporting period with credit spread adjustment.

Long-term Debt
Estimated fair value is based on the discounted present value of future cash flows using the prevailing interest rates ranging from 4.53% to 7.14% and 1.89% to 4.63% in 2017 and 2016, respectively.

AFS Financial Assets
AFS financial assets as at December 31, 2017 included UITFs. UITFs are ready-made investments that allow the pooling of funds from different investors with similar investment objectives. These UITFs are managed by professional fund managers and may be invested in various financial instruments such as money market securities, bonds and equities, which are normally available to large investors only. A UITF uses the mark-to-market method in valuing the fund's securities.

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 which is included under "Other noncurrent assets" on the Company's statements of financial position.

		2017		
		(In Thousands)		
	Total	**Level 1**	**Level 2**	**Level 3**
Financial Asset -				
AFS financial assets	**₱5,489,868**	**₱17,000**	**₱5,472,868**	**₱–**

		2016		
		(In Thousands)		
	Total	Level 1	Level 2	Level 3
Financial Asset -				
AFS financial assets	₱13,500	₱13,500	₱–	₱–

During 2017 and 2016, 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.

22. Supplemental Cash Flow Information

Non–cash investing activities
The following table shows the Company's significant non–cash investing activities and corresponding transaction amounts:

	2017	2016
	(In Thousands)	
Non-cash investing and financing activities:		
Acquisition from PCEV of 25% economic interest in Beacon Electric (see Notes 6 and 10)	**₱8,859,466**	₱8,352,558
Offsetting of share on common and preferred share dividends from Beacon Electric against the acquisition of MERALCO shares (see Notes 6 and 12)	**1,417,720**	4,243,410

Non-cash financing activities:
The following table shows significant changes in liabilities arising from financing activities, including changes arising from cash flows and non-cash changes:

	Long-term debt (see Note 11)	Due to related parties (see Note 10)
	(In Thousands)	
Balance as at December 31, 2016	₱36,739,054	₱8,730,204
Cash flow (see statements of cash flows)		
Proceeds	10,500,000	–
Payments	(384,800)	(14,020,516)
Transaction cost	(52,500)	–
	46,801,754	(5,290,312)
Non-cash:		
Acquisition of investments on a deferred payment basis	–	20,629,455
Interest accretion	–	572,078
Amortization of debt issue costs	19,537	–
Others	–	20,491
	19,537	21,222,024
Balance as at December 31, 2017	₱46,821,291	₱15,931,712

23. Events after the Reporting Period

Aside from MPIC's dividend declaration on March 1, 2018 (see Note 12), events occurring after the reporting period includes:

Loan Facility Signing. On January 11, 2018 and January 12, 2018, MPIC signed a ₱8.0 billion 10-year and 15-year and ₱2.0 billion 15-year syndicated term loan facility, respectively. Proceeds of which will be used by MPIC to partially finance the redemption of the outstanding debt obligations of

Beacon Electric and for other general corporate purposes. MPIC engaged a local commercial bank as arranger and bookrunner.

Additional subscription to MPTC. On January 23, 2018, the Company entered into a subscription agreement with MPTC to subscribe for an aggregate of 833,334 new common shares to be issued out of the unissued portion of the existing ACS of MPTC, at a subscription price of ₱2,100 per share, or a total subscription price of ₱1,750.0 million.

MPTC's Dividend Declaration. On February 15, 2018, the MPTC's BOD declared cash dividends of ₱14.92 per share or total amount of ₱896.8 million to common stockholders of record as at March 2, 2018 payable on or before March 28, 2018.

MERALCO's Dividend Declaration. On February 26, 2018, the BOD of MERALCO approved the declaration of cash dividends of ₱8.065 a share to all shareholders of record as at March 28, 2018, payable on April 25, 2018. This consists of a final regular cash dividend of ₱4.478 per share and a special cash dividend of ₱3.587 per share.

Maynilad's Dividend Declaration. On February 26, 2018, the BOD of Maynilad approved the declaration of cash dividends amounting to ₱3,000.0 million in favor of its common stockholders of record as at February 28, 2018 with payment date on March 12, 2018.

MWHC's Dividend Declaration. On March 1, 2018, the BOD of MWHC approved the declaration of cash dividends amounting to ₱2,790.0 million to all shareholders of record as at March 1, 2018 with payment date on March 15, 2018.

24. Future Changes in Accounting Policies

Pronouncements issued but not yet effective are disclosed below. Unless otherwise indicated, the Company does not expect that the future adoption of the said pronouncements will have a significant impact on its financial statements. The Company intends to adopt the following pronouncements when they become effective.

Effective beginning on or after January 1, 2018

- Amendments to PFRS 2, *Share-based Payment*, *Classification and Measurement of Share-based Payment Transactions*

  The amendments to PFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

- PFRS 9, *Financial Instruments*

  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. Retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Company plans to adopt the new standard on the mandatory effective date and will not restate comparative information.

In 2017, the Company performed its initial impact assessment of all three phases of PFRS 9 and based on assessment, adoption is not expected to have a significant impact on the financial statements but 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.

- Amendments to PFRS 4, *Insurance Contracts*, *Applying PFRS 9, Financial Instruments, with PFRS 4*

  The amendments address concerns arising from implementing PFRS 9, the new financial instruments standard before implementing the new insurance contracts standard. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying PFRS 9 and an overlay approach. The temporary exemption is first applied for reporting periods beginning on or after January 1, 2018. An entity may elect the overlay approach when it first applies PFRS 9 and apply that approach retrospectively to financial assets designated on transition to PFRS 9. The entity restates comparative information reflecting the overlay approach if, and only if, the entity restates comparative information when applying PFRS 9.
  The amendments are not applicable to the Company since none of the entities within the Company have activities that are predominantly connected with insurance or issue insurance contracts.

- PFRS 15, *Revenue from Contracts with Customers*

  PFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under PFRS 15, revenue is recognized 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 PFRS 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 PFRSs. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after January 1, 2018. Early adoption is permitted. The Company plans to adopt the new standard on the required effective date using the full retrospective method.

  Based on its initial assessment, the requirements of PFRS 15 will not have a material impact on the Company's financial position and performance.

- Amendments to PAS 28, *Measuring an Associate or Joint Venture at Fair Value* (Part of *Annual Improvements to PFRSs* 2014 - 2016 Cycle)

  The amendments clarify that an entity that is a venture capital organization, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss (FVPL). They also clarify that if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made

separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognized; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent.

The amendments shall be applied retrospectively. The amendment is not applicable as the Company is not a venture capital organization or any of the qualifying entities that can elect to measure investments in associates and joint ventures at FVPL.

- Amendments to PAS 40, *Investment Property*, *Transfers of Investment Property*

  The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments should be applied prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. Retrospective application is only permitted if this is possible without the use of hindsight.

  Since the Company's current practice is in line with the clarifications issued, the Company does not expect any effect on its consolidated financial statements upon adoption of these amendments.

- Philippine Interpretation IFRIC-22, *Foreign Currency Transactions and Advance Consideration*

  The interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the nonmonetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. Entities may apply the amendments on a fully retrospective basis. Alternatively, an entity may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognized on or after the beginning of the reporting period in which the entity first applies the interpretation or the beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

  Since the Company's current practice is in line with the clarifications issued, the Company does not expect any effect on its consolidated financial statements upon adoption of this interpretation.

Effective beginning on or after January 1, 2019

- Amendments to PFRS 9, *Prepayment Features with Negative Compensation*

  The amendments to PFRS 9 allow debt instruments with negative compensation prepayment features to be measured at amortized cost or fair value through other comprehensive income.

- PFRS 16, *Leases*

  PFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under PAS 17, *Leases*. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

  Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

  Lessor accounting under PFRS 16 is substantially unchanged from today's accounting under PAS 17. Lessors will continue to classify all leases using the same classification principle as in PAS 17 and distinguish between two types of leases: operating and finance leases.

  PFRS 16 also requires lessees and lessors to make more extensive disclosures than under PAS 17.

  A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

  The Company is currently assessing the impact of adopting PFRS 16.

- Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*

  The amendments to PAS 28 clarify that entities should account for long-term interests in an associate or joint venture to which the equity method is not applied using PFRS 9.

- Philippine Interpretation IFRIC-23, *Uncertainty over Income Tax Treatments*

  The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12 and does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

  The interpretation specifically addresses the following:

  - Whether an entity considers uncertain tax treatments separately
  - The assumptions an entity makes about the examination of tax treatments by taxation authorities
  - How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
  - How an entity considers changes in facts and circumstances

  An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed.

The Company is currently assessing the impact of adopting this interpretation.

Deferred effectivity

- Amendments to PFRS 10 and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

  The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

  On January 13, 2016, the Financial Reporting Standards Council deferred the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board (IASB) completes its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.