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SECURITIES AND EXCHANGE COMMISSION

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Company Information

SEC Registration No.	CS200604494
Company Name	METRO PACIFIC INVESTMENTS CORPORATION
Industry Classification	Financial Holding Company Activities
Company Type	Stock Corporation

Document Information

Document ID	111132018000832
Document Type	17-Q (FORM 11-Q:QUARTERLY REPORT/FS)
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Remarks	

COVER SHEET
for
SEC FORM 17-Q

SEC Registration Number

C	S	2	0	0	6	0	4	4	9	4

COMPANY NAME

METRO PACIFIC INVESTMENTS CORPORATION AND SUBSIDIARIES

PRINCIPAL OFFICE *(No. / Street / Barangay / City / Town / Province)*

10th Floor, MGO Building, Legaspi corner Dela Rosa Streets, Legaspi Village, Makati City

Form Type	Department requiring the report	Secondary License Type, If Applicable
17-Q		

COMPANY INFORMATION

Company's Email Address	Company's Telephone Number	Mobile Number
info@mpic.com.ph	+632-888-0888	–

No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
1,299 as of September 30, 2018	Last Friday of May	December 31

CONTACT PERSON INFORMATION

The designated contact person ***MUST*** be an Officer of the Corporation

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
Mr. David J. Nicol	djnicol@mpic.com.ph	+632-888-0888	–

CONTACT PERSON's ADDRESS

10/F MGO Building, Legaspi corner Dela Rosa Streets
Legaspi Village, Makati 0721 Philippines

NOTE 1 : *In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.*

2 : *All Boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt of Notice of Deficiencies shall not excuse the corporation from liability for its deficiencies.*

SEC Number CS200604494
File Number_______

Metro Pacific Investments Corporation
(Company's Full Name)

10/F MGO Bldg., Legaspi cor. Dela Rosa Sts.
Legaspi Village, 0721 Makati City
(Company's Address)

(632) 888-0888
Telephone Number

______N/A_______
(Fiscal Year Ending)
(month & day)

Form 17-Q
Form Type

_________N/A__________
Designation (If applicable)

30 September 2018
Period Date Ended

____________N/A____________
(Secondary License Type and File Number)

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES REGULATION CODE AND SRC RULE 17(2)(b) THEREUNDER

1. For the quarterly period ended **September 30, 2018**

2. SEC identification number **CS200604494**

3. BIR Tax Identification No. **244-520-457-000**

4. Exact name of issuer as specified in its charter
METRO PACIFIC INVESTMENTS CORPORATION

5. Province, country or other jurisdiction of incorporation or organization
Makati City, Philippines

6. Industry Classification Code: (SEC Use Only)

7. Address of issuer's principal office Postal Code
10/F MGO Bldg., Legaspi cor. Dela Rosa Sts., Legaspi Village, 0721 Makati City

8. Issuer's telephone number, including area code
(632) 888 0888

9. Former name, former address and former fiscal year, if changed since last report
N/A

10. Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 4 and 8 of the RSA

Title of each Class	Number of shares of common stock outstanding
Common Shares	31,517,578,752

*Reported by the stock transfer agent as at October 31, 2018 and excluded the shares held by the Company

11. Are any or all of the securities listed on a Stock Exchange?

Yes [X] No [ ]

If yes, state the name of such Stock Exchange and the class/es of securities listed therein:
The common shares are listed on the Philippines Stock Exchange.

12. Indicate by check mark whether the registrant:

(a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Sections 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding twelve (12) months (or for such shorter period the registrant was required to file such reports)

Yes [x] No [ ]

(b) has been subject to such filing requirements for the past ninety (90) days.

Yes [x] No [ ]

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SIGNATURES

Pursuant to the requirements of the Securities Regulation Code, the issuer has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Registrant	:	Metro Pacific Investments Corporation By
Signature	:	Jose Ma. K. Lim
Title	:	President and Chief Executive Officer
Signature	:	David J. Nicol
Title	:	Executive Vice President and Chief Financial Officer
Date	:	12 November 2018

Item 1

FINANCIAL STATEMENTS

Exhibit I

METRO PACIFIC INVESTMENTS CORPORATION AND SUBSIDIARIES

INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

(Amounts in Millions except Per Share Amounts)

	Nine Months ended September 30		Three Months ended September 30	
	2018	2017	**2018**	2017
OPERATING REVENUES				
Power and coal sales (Notes 3 and 4)	**₱20,245**	₱6,475	**₱6,957**	₱6,475
Water and sewerage services revenue	**16,918**	15,690	**5,763**	5,376
Toll fees	**11,251**	9,605	**3,862**	3,145
Hospital revenue	**9,252**	7,872	**3,452**	2,838
Rail revenue	**2,440**	2,327	**846**	799
Logistics and other revenue	**1,242**	1,124	**400**	364
	61,348	43,093	**21,280**	18,997
COST OF SALES AND SERVICES (Note 18)	**(31,061)**	(19,025)	**(10,867)**	(9,083)
GROSS PROFIT	**30,287**	24,068	**10,413**	9,914
General and administrative expenses (Note 19)	**(10,201)**	(8,443)	**(4,131)**	(3,442)
Interest expense (Note 20)	**(7,530)**	(5,249)	**(2,911)**	(2,517)
Share in net earnings of equity method investees (Note 8)	**8,691**	5,993	**2,481**	2,569
Dividend income (Note 8)	**138**	2,630	**72**	89
Interest income (Note 20)	**898**	352	**370**	178
Construction revenue	**18,352**	13,749	**7,309**	5,753
Construction costs	**(18,349)**	(13,749)	**(7,306)**	(5,753)
Others (Note 20)	**1,770**	299	**1,147**	85
INCOME BEFORE INCOME TAX	**24,056**	19,650	**7,444**	6,876
PROVISION FOR INCOME TAX				
Current	**4,713**	3,720	**1,610**	1,548
Deferred	**327**	532	**77**	113
	5,040	4,252	**1,687**	1,661
NET INCOME	**19,016**	15,398	**5,757**	5,215
OTHER COMPREHENSIVE INCOME (LOSS) – NET (Note 17)				
To be reclassified to profit or loss in subsequent periods	**562**	296	**(234)**	84
Not being reclassified to profit or loss in subsequent periods	**(714)**	(77)	**1**	11
	(152)	219	**(233)**	95
TOTAL COMPREHENSIVE INCOME	**₱18,864**	₱15,617	**₱5,524**	₱5,310
Net Income Attributable to:				
Owners of the Parent Company	**₱12,488**	₱11,128	**₱3,547**	₱3,307
Non-controlling interest	**6,528**	4,270	**2,210**	1,908
	₱19,016	₱15,398	**₱5,757**	₱5,215
Total Comprehensive Income Attributable to:				
Owners of the Parent Company	**₱12,350**	₱11,345	**₱3,320**	₱3,400
Non-controlling interest	**6,514**	4,272	**2,204**	1,910
	₱18,864	₱15,617	**₱5,524**	₱5,310
EARNINGS PER SHARE (Note 21)				
Basic Earnings Per Common Share, Attributable to Owners of the Parent Company *(In Centavos)*	**₱39.61**	₱35.30	**₱11.25**	₱10.49
Diluted Earnings Per Common Share, Attributable to Owners of the Parent Company *(In Centavos)*	**₱39.56**	₱35.26	**₱11.25**	₱10.48

See accompanying notes to the Unaudited Interim Condensed Consolidated Financial Statements and Management Discussion and Analysis

METRO PACIFIC INVESTMENTS CORPORATION AND SUBSIDIARIES

INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Amounts in Millions)

	Unaudited September 30, 2018	Audited December 31, 2017
ASSETS		
Current Assets		
Cash and cash equivalents and short-term deposits (Note 5)	**₱45,509**	₱49,317
Restricted cash (Note 5)	**4,545**	4,047
Receivables (Note 6)	**13,073**	10,899
Other current assets (Note 7)	**12,385**	10,432
	75,512	74,695
Assets held for sale (Note 24)	**1,247**	250
Total Current Assets	**76,759**	74,945
Noncurrent Assets		
Investments and advances (Note 8)	**149,230**	150,971
Service concession assets (Note 9)	**195,069**	168,783
Property, plant and equipment (Note 4)	**72,048**	67,606
Goodwill (Note 10)	**30,160**	25,384
Intangible assets (Note 10)	**4,434**	4,637
Deferred tax assets	**1,384**	1,045
Other noncurrent assets (Note 7)	**14,464**	10,380
Total Noncurrent Assets	**466,789**	428,806
	₱543,548	₱503,751

See accompanying notes to the Unaudited Interim Condensed Consolidated Financial Statements and Management Discussion and Analysis

(Forward)

METRO PACIFIC INVESTMENTS CORPORATION AND SUBSIDIARIES

INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Amounts in Millions)

	Unaudited September 30, 2018	Audited December 31, 2017
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and other current liabilities (Note 11)	**₱30,132**	₱27,142
Income tax payable	**1,633**	1,415
Due to related parties (Note 15)	**4,412**	3,879
Current portion of:		
Provisions (Note 12)	**5,963**	5,997
Long-term debt (Note 13)	**11,345**	15,573
Service concession fees payable (Note 14)	**571**	871
Total Current Liabilities	**54,056**	54,877
Noncurrent Liabilities		
Noncurrent portion of:		
Provisions (Note 12)	**2,384**	2,106
Service concession fees payable (Note 14)	**30,193**	28,873
Long-term debt (Note 13)	**196,531**	173,510
Due to related parties (Note 15)	**7,296**	11,767
Deferred tax liabilities	**8,481**	6,836
Other long-term liabilities (Note 11)	**9,482**	10,103
Total Noncurrent Liabilities	**254,367**	233,195
Total Liabilities	**308,423**	288,072
Equity		
Owners of the Parent Company (Note 16):		
Capital stock	**31,631**	31,626
Additional paid-in capital	**68,487**	68,465
Treasury shares	**(167)**	(167)
Equity reserves	**5,700**	5,742
Retained earnings	**62,891**	53,894
Other comprehensive income reserve	**1,546**	1,684
Total equity attributable to owners of the Parent Company	**170,088**	161,244
Non-controlling interest	**65,037**	54,435
Total Equity	**235,125**	215,679
	₱543,548	₱503,751

See accompanying notes to the Unaudited Interim Condensed Consolidated Financial Statements and Management Discussion and Analysis

METRO PACIFIC INVESTMENTS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(Amounts in Millions)

	Nine Months Ended September 30	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱24,056**	₱19,650
Adjustments for:		
Interest expense (Note 20)	**7,530**	5,249
Amortization of service concession assets (Notes 9 and 18)	**3,278**	2,818
Depreciation and amortization (Notes 18 and 19)	**3,665**	1,953
Unrealized foreign exchange loss (gain) – net	**2,341**	(19)
Share in net earnings of equity method investees (Note 8)	**(8,691)**	(5,993)
Dividend income (Note 8)	**(138)**	(2,630)
Interest income (Note 20)	**(898)**	(352)
Others	**(1,200)**	(32)
Operating income before working capital changes	**29,943**	20,644
Decrease (increase) in:		
Restricted cash	**(248)**	(458)
Receivables	**(1,208)**	(1,051)
Due from related parties and other current assets	**(1,430)**	(1,179)
Increase (decrease) in:		
Accounts payable and other current liabilities	**2,664**	3,241
Accrued retirement cost and provisions	**504**	735
Net cash generated from operations	**30,225**	21,932
Income tax paid	**(4,746)**	(3,475)
Interest received	**941**	356
Net cash provided by operating activities	**26,420**	18,813
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease (increase) in:		
Short-term deposits (Note 5)	**1,803**	781
Other noncurrent assets	**2,140**	(7,064)
Dividends received from:		
Equity method investees and AFS financial assets	**7,649**	7,047
Beacon Electric’s preferred shares	**–**	2,541
Proceeds from:		
Sale of investment in associate net of transaction cost	–	12,403
Redemption of Beacon Electric’s preferred shares	–	3,500
Acquisition of subsidiary, net of cash acquired (Note 4)	**(2,288)**	(6,093)
Acquisition of/Additions to:		
Service concession assets (Notes 9 and 14)	**(19,564)**	(13,246)
Property, plant and equipment	**(4,336)**	(2,056)
Investments in equity method investees (Note 8)	**(4,385)**	(537)
Net cash used in investing activities	**(18,981)**	(2,724)

(Forward)

METRO PACIFIC INVESTMENTS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(Amounts in Millions)

	Nine Months Ended September 30	
	2018	2017
CASH FLOWS FROM FINANCING ACTIVITIES		
Receipt or proceeds from:		
Long-term debt (Note 13)	**55,135**	19,410
Issuance of shares (Note 16)	**24**	26
Contributions from non-controlling stockholders	**1,354**	30
Payments of/for:		
Interest and other financing charges	**(6,587)**	(4,212)
Long-term debt (Note 13)	**(40,340)**	(7,814)
Due to related party	**(4,458)**	(2,001)
Service concession fees payable (Note 14)	**(996)**	(997)
Acquisition of treasury shares	**–**	(168)
Acquisition of non-controlling interest	**(737)**	–
Transaction costs on long-term debt (Note 13)	**(423)**	(131)
Dividends paid to owners of the Parent Company	**(3,491)**	(3,239)
Dividends paid to non-controlling stockholders	**(4,675)**	(1,970)
Net cash used in financing activities	**(5,194)**	(1,066)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**2,245**	15,023
CASH AND CASH EQUIVALENTS AT JANUARY 1	**40,835**	15,455
CASH AND CASH EQUIVALENTS AT SEPTEMBER 30 (Note 5)	**₱43,080**	₱30,478

See accompanying notes to the Unaudited Interim Condensed Consolidated Financial Statements and Management Discussion and Analysis

METRO PACIFIC INVESTMENTS CORPORATION AND SUBSIDIARIES

INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (UNAUDITED)

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017

(Amounts in Millions)

	Nine Months Ended September 30, 2018								
	Attributable to Owners of the Parent Company								
	Capital Stock	**Additional Paid-in Capital**	**Treasury Shares**	**Equity Reserves**	**Retained Earnings**	**Other Comprehensive Income Reserve** (Note 17)	**Total**	**Non-controlling Interest (NCI)**	**Total Equity**
At January 1, 2018	**₱31,626**	**₱68,465**	**(₱167)**	**₱5,742**	**₱53,894**	**₱1,684**	**₱161,244**	**₱54,435**	**₱215,679**
Total comprehensive income for the year:									
Net income	**–**	**–**	**–**	**–**	**12,488**	**–**	**12,488**	**6,528**	**19,016**
Other comprehensive income	**–**	**–**	**–**	**–**	**–**	**(138)**	**(138)**	**(14)**	**(152)**
Executive Stock Option Plan (ESOP) (Note 22)	**5**	**22**	**–**	**(3)**	**–**	**–**	**24**	**–**	**24**
Restricted Stock Unit Plan (RSUP) (Note 22)	**–**	**–**	**–**	**50**	**–**	**–**	**50**	**–**	**50**
Cash dividends declared (Note 16)	**–**	**–**	**–**	**–**	**(3,491)**	**–**	**(3,491)**	**–**	**(3,491)**
Business combination and others (Notes 4 and 27)	**–**	**–**	**–**	**(89)**	**–**	**–**	**(89)**	**6,285**	**6,196**
Dividends declared to non-controlling stockholders	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(2,197)**	**(2,197)**
At September 30, 2018	**₱31,631**	**₱68,487**	**(₱167)**	**₱5,700**	**₱62,891**	**₱1,546**	**₱170,088**	**₱65,037**	**₱235,125**

	Nine Months Ended September 30, 2017								
	Attributable to Owners of the Parent Company								
	Capital Stock	Additional Paid-in Capital	Treasury Shares	Equity Reserves	Retained Earnings	Other Comprehensive Income Reserve (Note 17)	Total	NCI	Total Equity
At January 1, 2017	₱31,619	₱68,438	(₱167)	₱6,282	₱43,889	₱1,971	₱152,032	₱36,049	₱188,081
Total comprehensive income for the year:									
Net income	–	–	–	–	11,128	–	11,128	4,270	15,398
Other comprehensive income	–	–	–	–	–	217	217	2	219
ESOP (Note 22)	6	25	–	(5)	–	–	26	–	26
RSUP (Note 22)	–	–	–	50	–	–	50	–	50
Cash dividends declared (Note 16)	–	–	–	–	(3,239)	–	(3,239)	–	(3,239)
Business combinations and others (Note 4)	–	–	–	(325)	93	–	(232)	20,546	20,314
Dividends declared to non-controlling stockholders	–	–	–	–	–	–	–	(1,973)	(1,973)
At September 30, 2017	₱31,625	₱68,463	(₱167)	₱6,002	₱51,871	₱2,188	₱159,982	₱58,894	₱218,876

See accompanying notes to the Unaudited Interim Condensed Consolidated Financial Statements and Management Discussion and Analysis

METRO PACIFIC INVESTMENTS CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

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

The principal activities of the Parent Company's subsidiaries and equity method investees are described in Notes 28 and 8, respectively.

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 September 30, 2018 and December 31, 2017. 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 September 30, 2018 and December 31, 2017.

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

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

The accompanying unaudited interim condensed consolidated financial statements as at September 30, 2018 and for the nine months ended September 30, 2018 and 2017 were approved and authorized for issuance by the Board of Directors (BOD) on November 7, 2018.

2. Summary of Significant Accounting Policies

Basis of Preparation

The interim condensed consolidated financial statements have been prepared in accordance with Philippine Accounting Standard (PAS) 34, *Interim Financial Reporting*. The interim condensed consolidated financial statements are presented in Philippine Peso, which is MPIC's functional and presentation currency, and all values are rounded to the nearest million peso (₱000,000), except when otherwise indicated.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Company's annual consolidated financial statements as at and for the year ended December 31, 2017.

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, 2017, except for the following adoption of new and amended Philippine Financial Reporting Standards (PFRS) effective January 1, 2018.

The Company applied the following PFRS and amendments to existing standards effective January 1, 2018. Except for additional disclosure requirements, adoption of the following standards did not have any material impact on the Company's financial position or performance:

- PFRS 15, *Revenue from Contracts with Customers*

  PFRS 15 establishes a new five-step model that applies 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.

  PFRS 15 supersedes PAS 11, *Construction Contracts*, PAS 18, *Revenue* and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for 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 standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. The Company adopted PFRS 15 using the modified retrospective method of adoption.

  Under PFRS 15, entities must disaggregate revenue from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. The Company has determined that a disaggregation of revenue using existing segments and the timing of the transfer of goods or services (at a point in time vs over time) is adequate for its circumstances. The Company's revenue substantially comprises of services which revenue recognition is over time.

  Adoption of the standard did not have a significant impact on the consolidated financial statements.

- PFRS 9, *Financial Instruments*

  PFRS 9 replaces the provisions of PAS 39, *Financial Instruments: Recognition and Measurement*, that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

  The adoption of PFRS 9 from January 1, 2018 resulted in changes in accounting policies but did not have a material impact on the consolidated financial statements (see Note 25). In accordance with the transitional provisions of PFRS 9, comparative figures have not been restated.

- 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.

- Amendments to PFRS 4, *Insurance Contracts, Applying PFRS 9, Financial Instruments, with PFRS 4* – The amendments address concerns arising from implementing the new financial instruments standard, PFRS 9, before implementing PFRS 17, *Insurance Contracts*, which replaces PFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying PFRS 9 and an overlay approach. These amendments are not relevant to the Company.

- Amendments to PAS 28, *Investments in Associates and Joint Ventures - Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice* – 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. 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.

- Amendments to PAS 40, *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 Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

<u>Basis of Consolidation</u>
The interim condensed consolidated financial statements include the accounts of the Parent Company and its subsidiaries as at September 30, 2018 (see Note 28).

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3. **Operating Segment Information**

<u>Operating Segment</u>
For management purposes, the Company is organized into the following segments based on services and products:

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; consolidated beginning June 27, 2017) while the investment in GBPC is 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), 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; a subsidiary beginning July 2018) (see Notes 4 and 8). Certain toll projects are either under pre-construction or on-going construction as at September 30, 2018 (see Note 9).

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 subsidiaries. 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.

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

The Company's chief operating decision maker continues to be comprised of the BOD.

Seasonality

Power. For MERALCO, electricity sales exhibit a degree of quarterly seasonality with the first quarter having lower than the average electricity sales as this period is characterized by cooler temperature and softer consumer demand following heightened consumer spending in the last quarter of the year. The second quarter is marked by higher than average electricity sales. The fourth quarter performance is about the average of the year.

For GBPC, electricity sales exhibit a degree of quarterly seasonality with the first quarter having lower than the average electricity sales. This period is characterized by cooler temperature, resulting to softer consumer demand. Higher than average electricity consumption is marked during the second quarter as temperature rises during the summer months. This increase in demand, however, is coupled with higher generation from solar plants in Negros thereby tempering market prices. The fourth quarter sees an increase in electric power consumption due to heightened consumer spending during the holiday season.

Toll Operations. The Company's toll road operations are a seasonal business. Based on historical traffic on the North Luzon Expressway (NLEX), Subic-Clark-Tarlac Expressway (SCTEX) and Manila - Cavite Expressway (CAVITEX), the month of January is slightly below the normal average due to the end of the Christmas holidays. From February to May, traffic is above the normal average due to the summer holiday, which is traditionally a peak season for travel. The months of June to August remain to have the lowest seasonal factors due to the rainy season. Traffic is expected to improve from September until November, while the month of December has the highest seasonal factor due to the Christmas holidays.

For PT Nusantara, based on historical traffic for sections Pondok Ranji – Pondok Aren (BSD), Tallo – Hasanuddin Airport (JTSE) and Soekarno Hatta Port-Pettarani (BMN), the months January and February are usually below the normal average traffic due to end of holidays and peak of rainy season. Traffic is then expected to increase in the months March to April due to the summer season. For the months May to July, traffic is likely to decrease as a result of the long holidays (Ramadan, Lebaran holidays) but is expected to stabilize in the months August to November. Traffic will improve again in December due to the Christmas season.

Water. The Company's water utilities business is also seasonal, with comparatively lower revenues during the rainy season in the Philippines.

Rail. The Company's rail business is seasonal, with lower ridership during the second quarter of the year due to summer holiday in schools. In addition to this, LRT-1 is also closed from Holy Thursday to Easter Sunday, and this typically occurs in April or March.

Segment Performance

Segment performance continues to be evaluated based on: consolidated net income for the period; earnings before interest, taxes and depreciation and amortization (EBITDA), or Core EBITDA; Core EBITDA margin; and core income. Net income for the period is measured consistent with consolidated net income in the consolidated financial statements.

There are no revenue transactions with a single customer that accounted for 10% or more of the Company's consolidated revenues and no material inter-segment revenue transactions for the nine-month periods ended September 30, 2018 and 2017. The Company's revenue substantially comprises of services which revenue recognition is over time.

The following table shows the reconciliations of the Company's consolidated core income to consolidated net income for the nine-month periods ended September 30, 2018 and 2017.

	Nine Months Ended September 30	
	2018	2017
	(Unaudited) *(In Millions)*	
Consolidated core income attributable to owners of Parent Company	**₱12,191**	₱11,330
Non-recurring income (expenses) - net	**297**	(202)
Consolidated net income attributable to owners of Parent Company	**12,488**	11,128
Consolidated net income attributable to Non-controlling interest	**6,528**	4,270
Consolidated net income	**₱19,016**	₱15,398

By Principal Business Activity

The following table presents revenue and profit information on operating segments for the nine-month periods ended September 30, 2018 and 2017:

September 30, 2018 (Unaudited; in Millions)

	Power	**Toll Operations**	**Water**	**Healthcare**	**Rail**	**Others**	**Consolidated**
Total revenue from external sales	**₱20,245**	**₱11,251**	**₱17,162**	**₱9,252**	**₱2,440**	**₱998**	**₱61,348**
Core EBITDA	**7,209**	**7,634**	**11,728**	**2,206**	**697**	**(923)**	**28,551**
Core EBITDA Margin	**36%**	**68%**	**68%**	**24%**	**29%**	**–**	**47%**
Core income (loss) attributable to MPIC	**8,503**	**3,256**	**3,047**	**586**	**299**	**(3,500)**	**12,191**
Non-recurring income (expense)	**702**	**33**	**(226)**	**177**	**2**	**(391)**	**297**
Reported net income (loss) attributable to MPIC	**₱9,205**	**₱3,289**	**₱2,821**	**₱763**	**₱301**	**(₱3,891)**	**₱12,488**

September 30, 2017 (Unaudited; in Millions)

	Power	Toll Operations	Water	Healthcare	Rail	Others	Consolidated
Total revenue from external sales	₱6,475	₱9,605	₱15,978	₱7,872	₱2,327	₱836	₱43,093
Core EBITDA	5,273	6,229	10,865	1,986	590	(851)	24,092
Core EBITDA Margin	81%	65%	68%	25%	25%	–	56%
Core income (loss) attributable to MPIC	7,573	2,996	2,801	518	210	(2,768)	11,330
Non-recurring income (expense)	330	1,113	(302)	3	(4)	(1,342)	(202)
Reported net income (loss) attributable to MPIC	₱7,903	₱4,109	₱2,499	₱521	₱206	(₱4,110)	₱11,128

The following table presents segment assets and segment liabilities of the Company's operating segments (amounts in millions):

	Power	**Toll Operations**	**Water**	**Healthcare**	**Rail**	**Others**	**Adjustments/ Eliminations**	**Consolidated**
Segment assets	**₱87,849**	**₱102,233**	**₱121,440**	**₱19,077**	**₱19,489**	**₱12,686**	**₱31,544**	**₱394,318**
Investments and Advances	**128,509**	**12,756**	**3,113**	**2,709**	**–**	**2,143**	**–**	**149,230**
Consolidated Total Assets as at September 30, 2018 (Unaudited)	**₱216,358**	**₱114,989**	**₱124,553**	**₱21,786**	**₱19,489**	**₱14,829**	**₱31,544**	**₱543,548**
Segment assets	₱88,066	₱80,251	₱109,110	₱15,229	₱13,988	₱19,707	₱26,429	₱352,780
Investments and Advances	127,458	17,948	399	3,381	–	1,785	–	150,971
Consolidated Total Assets as at December 31, 2017 (Audited)	₱215,524	₱98,199	₱109,509	₱18,610	₱13,988	₱21,492	₱26,429	₱503,751
Segment liabilities:								
As at September 30, 2018 (Unaudited)	**₱79,084**	**₱78,275**	**₱59,313**	**₱6,743**	**₱10,512**	**₱66,015**	**₱8,481**	**₱308,423**
As at December 31, 2017 (Audited)	₱96,495	₱69,871	₱50,461	₱5,580	₱8,564	₱50,265	₱6,836	₱288,072

By Geographical Market

While the Company's geographic focus is still predominantly the Philippines, MPIC has started increasing its presence in Southeast Asia with its investments in Indonesia (PT Nusantara; see Note 4), Thailand (DMT; see Note 8) and Vietnam (CII B&R, Tuan Loc Water Resources Investment Joint Stock Company and BOO Phu Ninh Water Treatment Plant Joint Stock Company; see Note 8).

	Nine Months Ended September 30	
	2018	2017
	(Unaudited)	
	(In Millions)	
Revenue:		
Philippines	**₱60,817**	₱43,093
Indonesia	**531**	–
	₱61,348	₱43,093
Share in net earnings of equity method investees (see Note 8):		
Philippines	**8,836**	5,550
Indonesia	**(558)**	–
Thailand	**442**	394
Vietnam	**(29)**	49
	₱8,691	₱5,993

	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
	(In Millions)	
Non-current assets (other than financial instruments and deferred tax assets):		
Philippines	**430,599**	406,333
Indonesia	**18,190**	7,777
Thailand	**7,483**	7,038
Vietnam	**5,951**	3,133
	₱462,223	₱424,281

4. Business Combinations and Transactions with Non-controlling Stockholders

Transactions during the nine-month period ended September 30, 2018

Step acquisition of PT Nusantara. On November 3, 2017, MPTC, through its Indonesian subsidiary, PT Metro Pacific Tollways Indonesia (PT MPTI), acquired a total of 6,600,000,000 shares of PT Nusantara at a consideration of ₱1.05 (Indonesian Rupiah; IDR 270) per share. The acquired shares represented 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 held a total of 48.3% of the total issued capital stock of PT Nusantara on a fully-diluted basis. The transaction was executed by way of a cross sale on the Indonesian Stock Exchange pursuant to definitive transaction documents entered into with PT Matahari and other related parties. This initial investment in PT Nusantara was accounted for as an investment in an associate (see Note 8).

On July 2, 2018, PT MPTI acquired an additional 760,000,000 PT Nusantara shares, representing 4.99% of the issued share capital of the company, for an aggregate consideration of IDR160.36 billion (equivalent to approximately ₱597.3 million), which is IDR211 (equivalent to approximately ₱0.79) per share. These shares were acquired by way of a cross sale on the Indonesia Stock Exchange. PT MPTI fully paid the consideration for the acquisition in cash on completion of this transaction. Immediately following this acquisition, PT MPTI held 8,114,495,300 PT Nusantara shares, representing 53.26% of the issued share capital of PT Nusantara. As a result, PT MPTI was required to make a mandatory tender offer (MTO) to purchase all of the PT Nusantara shares which it did not already own. A total of 3,760,231,769 PT Nusantara shares, equivalent to 24.68% of the issued capital of PT Nusantara, were tendered at an approved price of IDR 211 per share. The total cost is IDR 794,543 million, equivalent to ₱ 2.9 billion. PT MPTI after the MTO owns a total of 77.94%, issued capital stock of PT Nusantara (79.96% on the basis of issued and outstanding shares). The Settlement Date for the mandatory tender offer was on September 10, 2018.

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, ports, energy and water although approximately 80% of its core income is attributable to the toll roads.

With MPTC acquiring control over PT Nusantara, this transaction was accounted for using the acquisition method under PFRS 3, *Business Combinations*. In accordance with PFRS 3:

- remeasurement gain of ₱635 million was recognized in "Others" account in the interim consolidated statement of comprehensive income in relation with the previously held interest in PT Nusantara (see Note 20); and

- PT Nusantara and its subsidiaries were fully consolidated from July 2, 2018.

The provisional fair values of the identifiable assets and liabilities as at the date of acquisition:

	Provisional Values
	(In Millions)
Assets	
Cash and cash equivalents	₱2,418
Receivables	549
Other current assets	509
Property, plant and equipment	779
Service concession assets	9,110
Investment in associates	814
Other noncurrent assets	2,002
	16,181
Liabilities	
Accounts payable and other current liabilities	₱486
Long-term debt (current and noncurrent portions)	3,315
Deferred tax liability	989
Other noncurrent liabilities	176
	4,966
Noncontrolling interest at PT Nusantara level	₱2,545
Total identifiable net assets at fair value	₱8,670
Noncontrolling interest (20.04%)	(1,734)
Fair value of previously held interest	(7,390)
Goodwill arising on acquisition	3,932
Cash transferred	₱3,478

The non-controlling interest representing the minority shareholders who did not participate in the tender offer, was measured at the corresponding proportionate share in PT Nusantara's net asset measured as at acquisition date. Cash transferred represents the sum of the purchase price of the shares acquired on July 2, 2018 and settlement price of the shares acquired as a result of the mandatory tender offer.

Net cash outflow on acquisition is as follows:

Cash acquired with the subsidiary[(a)]	₱2,418
Total cash paid	(3,478)
Net cash outflow	(₱1,060)

(a) Cash acquired with the subsidiary shall be included in cash flows from investing activities for the next reporting period.

The fair value and gross amount of the receivables amounted to ₱549 million. Based on current assessment, none of the receivables have been impaired and it is expected that the full contractual amounts can be collected.

The provisional goodwill of ₱3,932 million is attributable to the synergies and other benefits from combining the assets and activities of PT Nusantara to the Company. None of the goodwill recognized is expected to be deductible for income tax purposes.

If the acquisition had taken place at the beginning of the year, revenue contribution would have been ₱1,973 million for the nine-month period ended September 30, 2018. Since this is a step acquisition, the incremental contribution to the net income attributable to MPIC (pertaining to the additional 30.44% effective ownership interest in PT Nusantara) for the nine-month period ended September 30, 2018 amounted to ₱51 million from date of acquisition and ₱177 million had the transaction taken place at the beginning of the year.

Acquisition of PT Rezeki Perkasa Sejahtera Lestari (RPSL). On August 16, 2018, PT Energi Infranusantara, a wholly-owned subsidiary of PT Nusantara, acquired a total of 84,000,000 shares of RPSL, a biomass power plant company, representing 80% of RPSL's capital stock for a total consideration of IDR 115.0 billion (equivalent to ₱420 million). The acquisition was accounted for using the acquisition method.

The provisional fair values of the identifiable assets and liabilities as at the date of acquisition:

	Provisional Values
	(In Millions)
Assets	
Cash and cash equivalents	₱5
Receivables	38
Other current assets	21
Property, plant and equipment	864
Deferred tax asset	17
	945
Liabilities	
Accounts payable and other current liabilities	₱150
Other noncurrent liabilities	401
	551
Total identifiable net assets at fair value	394
Noncontrolling interest	(79)
Goodwill arising on acquisition	105
Cash transferred	₱420

Net cash outflow on acquisition is as follows:

Cash acquired with the subsidiary[(a)]	₱5
Total cash paid on acquisition	(420)
Net cash outflow	(₱415)

(a) Cash acquired with the subsidiary shall be included in cash flows from investing activities for the next reporting period.

The fair values of the property, plant and equipment are provisional pending receipt of final valuation of those assets. The fair value and gross amount of the receivables amounted to ₱38 million.

The provisional goodwill arising from the acquisition is attributable to synergies and other benefits from combining the assets and activities of RPSL to the Company. None of the goodwill recognized is expected to be deductible for income tax purposes.

Step acquisition of Davao Doctors Hospital Inc. (DDH). On August 1, 2018, MPHHI made an offer to purchase up to a maximum of 133,000 shares of DDH, representing an additional 14.75% of DDH's capital stock which will bring MPHHI's ownership to 49.91% of DDH's capital stock (the "Voluntary Tender Offer" or "VTO"). MPHHI only intended to acquire up to a maximum of 133,000 shares, thus any shares tendered after the earlier of 133,000 shares and October 30, 2018 will no longer be considered. As at September 30, 2018, MPHHI has completed the purchase of 125,029 shares of DDH for ₱629 million which increased its ownership from 35.16% to 49.03%.

Under PFRS 10, *Consolidated Financial Statements*, an investor is required to reassess whether it controls an investee if facts and circumstances indicate a change to one or more of the three elements of control: (i) power over the investee; (ii) exposure, or rights, to variable returns from its involvement with the investee; and (iii) the ability to use its power over the investee to affect the amount of the investor's returns. Hence, while the VTO ends on October 30, 2018, control reassessment has been made for MPHHI's investment in DDH for purposes of MPIC's financial statements as at September 30, 2018.

Based on the Company's assessment, MPHHI considers that it controls DDH even though it owns less than 50% of the voting rights. This is because MPHHI is the single largest shareholder of DDH with a 49.03% equity interest. The remaining 50.974% of the equity shares in DDH are widely held by many other shareholders, none of which individually hold more than 1% of the equity shares (except for 1 shareholder owning 1.825% of the equity shares). MPHHI is also unaware of any formal arrangements or agreements among the other shareholders to consult and make collective decisions.

With MPHHI acquiring control over DDH, the acquisition of additional shares through the VTO is accounted for using the acquisition method under PFRS 3. In accordance with PFRS 3:

- remeasurement gain amounting to ₱294 million was recognized in "Others" account in the interim consolidated statement of comprehensive income in relation with the previously held interest in DDH (see Note 20).

- DDH and its subsidiary were consolidated starting September 2018.

DDH also concluded that the acquisition of the remaining 7,971 shares to complete VTO is part of the business combination and therefore a financial liability. The financial liability is currently estimated at ₱40 million based on the tender offer price of ₱5,030 per share.

The provisional fair values of the identifiable assets and liabilities as at the date of acquisition:

	Provisional Values
	(In Millions)
Assets	
Cash and cash equivalents	₱104
Receivables	361
Other current assets	155
Property, plant and equipment	2,363
Other noncurrent assets	82
	3,065

	Provisional Values
	(In Millions)
Liabilities	
Accounts payable and other current liabilities	₱453
Long-term debt (current and noncurrent portions)	74
Deferred tax liability	211
Other noncurrent liabilities	63
	801
Total identifiable net assets at fair value	2,264
Noncontrolling interest	(1,134)
Fair value of previously held interest	(1,230)
Financial liability	(40)
Goodwill arising on acquisition	769
Cash transferred (settled through VTO up to September 30, 2018)	₱629

Net cash outflow on acquisition is as follows:

Cash acquired with the subsidiary[(a)]	₱104
Total cash paid on acquisition	(629)
Net cash outflow	(₱525)

(a) Cash acquired with the subsidiary shall be included in cash flows from investing activities for the next reporting period.

The fair value and gross amount of the receivables amounted to ₱361 million. Based on current assessment, none of the receivables have been impaired and it is expected that the full contractual amounts can be collected.

The provisional goodwill of ₱769 million is attributable to the synergies and other benefits from combining the assets and activities of DDH to the Company. None of the goodwill recognized is expected to be deductible for income tax purposes.

The non-controlling interest will be recognized at the end of the offer period for the minority shareholders who did not participate in the offer. The non-controlling interest will be measured at the corresponding proportionate share in DDH's net asset measured as at acquisition date. The remaining financial liability will be derecognized with any difference between the non-controlling interest and derecognized financial liability, adjusted to goodwill.

If the acquisition had taken place at the beginning of the year, gross revenue contribution would have been ₱1,665 million for the nine-month period ended September 30, 2018. Since this is a step acquisition, the incremental contribution to the net income attributable to MPHHI (pertaining to the additional 13.87% effective ownership interest in DDH) for the nine-month period ended September 30, 2018 amounted to ₱4 million from date of acquisition and ₱26 million had the transaction taken place at the beginning of the year.

Subscription to common shares of Western Mindanao Medical Center, Inc. (WMMCI). In 2015, Metro Pacific Zamboanga Hospital Corp. (MPZHC), a wholly-owned subsidiary of MPHHI, signed a long-term lease of the land, buildings and equipment of WMMCI. The lease agreement qualified as business combination where the identifiable assets consist of property use rights for the use of existing land and building over the term of the lease of twenty (20) years.

On March 11, 2018, MPHHI subscribed to 393,641 Class B common shares representing 63.94% of the outstanding voting capital stock of WMMCI. Total subscription price per share is approximately ₱435 per share or an aggregate value of ₱171 million. The assets and liabilities of WMMCI as at date of subscription (and prior to the proceeds of the subscription) included property plant and equipment (₱494 million), accounts payable and accrued expenses (₱247 million) and long-term debt (₱126 million).

The abovementioned subscription was accounted for as an equity transaction. The net premium represents the difference between the carrying value of the interest acquired and the total consideration paid and the derecognition of the carrying values of the property use rights (see Note 10) and lease liability (see Note 11) arising from the 2015 lease agreement:

	(In Millions)
Total subscription price	₱171
Carrying value of derecognized property use rights (see Note 10)	25
Less: MPHHI's share in the net assets of WMMCI	(170)
Carrying value of derecognized lease liability	(32)
Difference recognized in equity reserves	(₱6)

Acquisition of NCI in MMI. On February 28, 2018, MLCI, MMI and Yellowbear Holdings, Inc. (YHI) entered into a Memorandum of Agreement for MLCI's acquisition of the 24% shareholding of YHI in MMI. Total acquisition cost amounted to ₱739 million. The increase in effective ownership in MMI is accounted for as an equity transaction with the difference between the carrying value of the additional interest acquired and the total consideration recognized in equity:

	(In Millions)
Cash consideration paid to NCI	₱739
MMI's net assets acquired (24%)	(644)
Difference recognized in equity reserves	₱95

The abovementioned transaction also involved the net settlement of MMI's various claims against YHI amounting to ₱217 million (net of indirect taxes of ₱22 million) recognized in the Company's statement of comprehensive income (see Note 20).

Transactions during the nine-month period ended September 30, 2017

Step acquisition of Beacon Electric. On June 27, 2017, MPIC entered into a Deed of Absolute Sale of Shares with PLDT Communications and Energy Ventures, Inc. (PCEV) to acquire the latter's remaining 25% interest in Beacon Electric's common and preferred shares for an aggregate purchase price of ₱21.8 billion.

The purchase consideration was settled as to ₱12.0 billion in cash while the balance of ₱9.8 billion shall be settled in four (4) equal annual installments amounting to ₱2.45 billion per year, payable starting June 2018 (see Note 15).

In order to fund the investment, MPIC completed an overnight placing of 4.5% of its directly held MERALCO shares for an aggregate consideration of ₱12.7 billion (see Notes 8 and 20).

After the completion of the abovementioned transactions, MPIC owned a direct 10.5% interest in MERALCO and, through its 100% interest in Beacon Electric, a further 35.0%, thereby increasing its effective ownership interest in MERALCO from 41.2% to 45.5% and in GBPC to 56% directly and 6.4% indirectly (through MERALCO).

With MPIC acquiring control over Beacon Electric, this transaction was accounted for using the acquisition method under PFRS 3. In accordance with PFRS 3:

- remeasurement loss of ₱1,618 million was recognized in "Others" account in the December 31, 2017 consolidated statement of comprehensive income in relation with the 75% previously held interest in Beacon Electric. Preliminary remeasurement loss of ₱1,127 million was recognized pending finalization of the purchase price allocation at the time the September 30, 2017 interim consolidated financial statements were released (see Note 20); and

- Beacon Electric and GBPC were fully consolidated from June 27, 2017 while MERALCO continues to be accounted for under the equity method of accounting (see Note 8).

The final fair values of the identifiable assets and liabilities as at the date of acquisition:

	Final Values
	(In Millions)
Assets	
Cash	₱17,156
Receivables	4,176
Investment in MERALCO	96,946
Property, plant and equipment	56,949
Intangible asset (see Note 10)	3,410
Other noncurrent assets	4,905
	183,542
Liabilities	
Accounts payable and other current liabilities	5,674
Loans payable	65,357
Deferred tax liability	1,949
Other noncurrent liabilities	5,731
	78,711
Total identifiable net assets at fair value	₱104,831
Fair value of previously held interest	(66,714)
Fair value of non-controlling interest in GBPC	(17,488)
Consideration transferred	₱20,629

Consideration transferred included the ₱12.0 billion paid in cash on transaction date and ₱8.6 billion representing the present value of the ₱9.8 billion payable on a deferred basis (see Note 15).

Net cash inflow on acquisition is as follows:

Cash acquired with the subsidiary[(a)]	₱17,156
Total cash paid on transaction date	(12,000)
Net cash inflow on transaction date	₱5,156

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

The fair value and gross amount of Beacon Electric's trade receivables amounted to ₱4,176 million and ₱4,473 million, respectively.

From the date of acquisition, Beacon Electric (including GBPC) contributed ₱13,042 million to the consolidated revenues for the year ended December 31, 2017. If the consolidation had taken place at the beginning of the year, contribution to the consolidated revenues would have been ₱23,794 million for the year ended December 31, 2017. Since this is a step-up acquisition, the incremental contribution to the net income attributable to MPIC (pertaining to the additional 25% ownership interest in Beacon Electric) for the year December 31, 2017 amounted to ₱769 million from date of acquisition and ₱1,466 million had the transaction taken place at the beginning of the year.

Step acquisition of TMC. TMC is responsible for the operation & maintenance ("O&M") of the NLEX, Segment 7 and SCTEX. TMC oversees the day-to-day operations of the NLEX and SCTEX, including securing toll collection, depositing of funds to NLEX Corp's accounts, facilitating smooth and uninterrupted flow of traffic, carrying out routine maintenance, ensuring effective and safe responses to emergency situations. As at December 31, 2016, the Company had a 60% equity interest in TMC and was accounted for as an investment in an associate as another significant shareholder held veto rights related to changes in operations and dividend policies that affect investors' returns.

On April 4, 2017, Metro Pacific Tollways North Corporation (MPT North; a wholly-owned subsidiary of MPTC; see Note 28) completed the acquisition of 26,600 common shares of TMC representing 7% of total issued and outstanding stock of TMC for a total purchase price of ₱442 million.

With the increase in MPT North's effective ownership in TMC from 60% to 67%, the veto rights previously held by the other investors ceased. With MPT North acquiring control over TMC, the transaction was accounted for using the acquisition method under PFRS 3. In accordance with PFRS 3:

- gain of ₱1,391 million was recognized under the "Others" account in the December 31, 2017 consolidated statements of comprehensive income as a result of the remeasurement of the 60% previously held interest in TMC (see Note 20); and

- the intercompany relationship under the O&M Agreement between NLEX Corp and TMC is effectively settled with no gain or loss recognized as the intercompany accounts were settled at recorded amounts.

The final fair values of the identifiable assets and liabilities of TMC as at the date of acquisition is shown below:

	Final Values
	(In Millions)
Assets	
Cash and cash equivalents	₱154
Receivables	300
Other current assets	67
Property, plant and equipment	71
Other noncurrent assets	31
	623
Liabilities	
Accounts payable and other current liabilities	₱441
Income tax payable	76
Provisions	175
Other noncurrent liabilities	26
	718
Total identifiable net liabilities at fair value	(95)
Non-controlling interest	(44)
Fair value of previously held interest	(2,757)
Goodwill arising on acquisition	3,110
Consideration transferred	214
Intercompany accounts settled	228
Total cash paid on acquisition	₱442

Net cash outflow on acquisition is as follows:

Cash acquired with the subsidiary[(a)]	₱154
Total cash paid on acquisition	(442)
Net cash outflow	(₱288)

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

The fair value and gross amount of the receivables amounted to ₱300 million. None of the receivables have been impaired and it is expected that the full contractual amounts can be collected.

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

Goodwill of ₱3,110 million is attributable to the synergies and other benefits from combining the assets and activities of TMC to the Company. None of the goodwill recognized is expected to be deductible for income tax purposes.

TMC's revenues relate mainly to its services to NLEX Corp and are therefore eliminated at consolidated level. As this is a step-up acquisition, the incremental contribution to net income attributable to shareholders of MPIC for the year ended December 31, 2017 (pertaining to the additional 7% ownership interest) amounted to ₱12 million from date of acquisition and would have been ₱27 million had the transaction taken place at beginning of the year.

On April 27, 2017, Egis Road Operation S.A. (EROSA) and Egis Investment Partners Philippines, Inc. (EIPPI), entered into an SPA for EIPPI's acquisition of TMC shares, representing 13.0% of the issued and outstanding shares of TMC, held by EROSA for a total consideration of ₱822 million. The TMC shares purchase price will be paid by EIPPI to EROSA through the receipt of dividends from TMC (pre-merger) and NLEX Corp (from and after merger).

EIPPI is jointly controlled by Egis Projects S.A. and MPT North with effective ownership of 54% and 46%, respectively. The above transaction increased MPT North's effective ownership in TMC from 67.0% to 72.98% (representing an increase of 5.98%) and was accounted for as an equity transaction with the net premium of ₱388 million recognized in equity.

The premium represents the difference between the carrying value of the additional interest acquired and the total consideration paid.

MPT North's share in the total purchase price	₱378
Less: Carrying value of the additional interest acquired in TMC	(10)
Difference recognized in "Equity reserves" account	₱388

Acquisition of Hospital. On January 31, 2017, MPHHI completed agreement to infuse approximately ₱133 million of cash into Delgado Clinic Inc. (DCI), owner and operator of the Dr. Jesus C. Delgado Memorial Hospital (JDMH) via a subscription to preferred shares representing approximately 65% of the total expanded capital stock of DCI. The cash infusion from MPHHI will enable JDMH to upgrade its equipment and facilities, and expand its capacity.

MPHHI acquired DCI as part of its strategy to grow its portfolio and increase the Company's total bed capacity and to be the largest private hospital group in the Philippines. The acquisition was accounted for using the acquisition method.

The final fair value of the identifiable assets and liabilities of the acquired hospitals as at the date of acquisition were:

	Final Values
	(In Millions)
Assets	
Cash and cash equivalents	₱138
Receivables	19
Inventories and other current assets	6
Property, plant and equipment	139
Other noncurrent assets	3
	305
Liabilities	
Accounts payable and other current liabilities	60
Loans payable	2
Deferred tax liability	30
Other noncurrent liabilities	8
	100

	Final Values
	(In Millions)
Total identifiable net assets at fair value	205
Non-controlling interest (at MPHHI level)	(72)
Consideration transferred	₱133

Net cash inflow on acquisition is as follows:

Cash acquired with the subsidiary[(a)]	₱138
Total cash paid on acquisition	(133)
Net cash inflow	₱5

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

The net assets recognized in the December 31, 2017 consolidated financial statements were based on a provisional assessment of fair value while MPHHI sought an independent valuation for the assets of the acquired businesses. The valuation had not been completed by the date the 2017 consolidated financial statements were approved for issue by the BOD.

In 2018, the valuation was completed. Based on the final valuation, the fair values of the total assets increased from ₱296 million to ₱305 million while total liabilities increased from ₱91 million to ₱100 million. Fair value of net assets remained the same at ₱205 million.

The fair value and gross amount of DCI's trade receivables amounted to ₱19 million and ₱29 million, respectively. The difference between the fair value and the gross amount of the receivables represents the portion expected to be uncollectible.

The non-controlling interest was recognized as a proportion of net assets acquired.

From the date of acquisition, DCI contributed ₱142 million to the consolidated revenue and ₱3 million to the consolidated net income for the year ended December 31, 2017. If the combination had taken place at the beginning of the year, contributions to the consolidated revenue and consolidated net income would have been ₱153 million of revenue and ₱4 million of net loss for DCI for the year ended December 31, 2017. Total transaction cost amounting to ₱1 million, has been expensed and is included in the "General and administrative expenses" in the consolidated statement of comprehensive income and is part of operating cash flows for the year ended December 31, 2017.

PremierLogistic's (Premier) acquisition of group of assets. On April 4, 2017, 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 million.

Of the purchase price, ₱190 million was settled on closing, of which ₱30 million was withheld by Premier and applied towards the payment of the subscription price with respect to Ace's 10% interest in Premier after the closing of the transaction. The balance of ₱90 million shall be paid by way of installments.

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. Premier intends to use the assets purchased to expand the list of logistics services it offers and to widen its client base.

The acquisition of the assets has been accounted for using the acquisition method. The final fair values of the assets acquired as at the date of acquisition:

	Final Values
	(In Millions)
Property, plant and equipment	₱28
Total identifiable net assets at fair value	28
Goodwill (at Premier level)	239
Consideration transferred	267
Impact of discounting	13
Purchase price (nominal)	₱280

The net assets recognized in the December 31, 2017 consolidated financial statements were based on a provisional assessment of fair value while Premier sought an independent valuation for the assets of the acquired businesses. The valuation had not been completed by the date the 2017 consolidated financial statements were approved for issue by the BOD.

In 2018, the valuation was completed. Based on the final valuation, the fair values of the property, plant and equipment increased from ₱17 million to ₱28 million thereby decreasing goodwill from ₱263 million to ₱239 million.

The goodwill comprises the value of expected synergies arising from the acquisition and a customer list, which is not separately recognized. Based on assessment, the customer list is not separable and therefore, it does not meet the criteria for recognition as an intangible asset under PAS 38, *Intangible Assets*. None of the goodwill recognized is expected to be deductible for income tax purposes.

Providing pro-forma information on the revenue and net income (as if the acquisition date was as at January 1, 2017) was deemed impracticable considering that a group of assets was purchased and is immaterial.

Total transaction costs, included as “General and administrative expenses” amounted to ₱15 million in the consolidated statements of comprehensive income.

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

	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
	(In Millions)	
Cash and cash equivalents	**₱43,080**	₱40,835
Short-term deposits	**2,429**	8,482
	₱45,509	₱49,317

For the purpose of the interim consolidated statements of cash flows for the nine months ended September 30, 2018 and 2017, details of cash and cash equivalents are as follows:

	September 30, 2018 (Unaudited)	September 30, 2017
	(In Millions)	
Cash on hand and in banks	**₱7,669**	₱5,422
Short-term deposits that qualify as cash equivalents	**35,411**	25,056
	₱43,080	₱30,478

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

In April 2014, NLEX Corp signed a target cost construction contract with Leighton Contractors (Asia) Ltd. (LCAL) for the construction of NLEX Segment 10. Pursuant to the contract, NLEX Corp placed a reserve amount in an escrow account on July 28, 2014 to cover payment default leading to suspension of works. The balance of the reserve account as at September 30, 2018 and December 31, 2017 amounted to ₱321 million. As at September 30, 2018, construction of Segment 10 is expected to be completed by year-end 2018 and as such, release of the reserve amount is expected within the same period.

6. Receivables

	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
	(In Millions)	
Trade receivables		
Power	**₱5,242**	₱4,391
Water	**3,353**	3,115
Healthcare	**1,731**	1,592
Others	**1,559**	1,202
Concession financial receivable [(a)]	**316**	–
Dividends receivable	**–**	41
Notes receivable [(b)]	**150**	150
Nontrade [(c)]	**2,308**	1,366
	14,659	11,857
Less allowance for doubtful accounts [(b)]	**1,187**	958
	13,472	10,899
Less current portion	**13,073**	10,899
Noncurrent portion	**₱399**	₱–

a. On April 24, 2012, PT Dain Celicani Cemerlang (DCC), a subsidiary of PT Nusantara (see Note 4) entered into a Cooperation Agreement for the supply of treated water to PT Kawasan Industri Medan (Persero) (KIM) for a period of 20 years (excluding construction phase). The concession financial receivable pertains to the guaranteed minimum payment that will be received by DCC from KIM under the water supply agreement. Finance income amounting to ₱4 million was recognized in the statement of comprehensive income (see Note 20).

b. Notes receivable aggregating ₱150 million comprising of defaulted loans are fully provided with allowance as at September 30, 2018 and December 31, 2017.

c. Included in the nontrade receivables are advances to Department of Public Works and Highways (DPWH) amounting to ₱219 million and ₱180 million as at September 30, 2018 and December 31, 2017, respectively. Advances made to DPWH is pursuant to the Reimbursement Agreement entered into by NLEX Corp with DPWH in 2013 where DPWH requested these advances in order to fast track the acquisition of right-of-way for the construction of Segments 9 and 10 and portions of Phase II of NLEX.

7. Other Current Assets

	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
	(In Millions)	
Inventories - at cost		
Power plant spare parts and consumables	**₱1,507**	₱1,375
Power plant coal and fuel	**1,181**	1,146
Hospital supplies	**659**	653
Rail engineering supplies	**379**	441
Others	**235**	243
Input value-added tax (VAT) [a]	**3,362**	2,759
Advances to contractors and consultants [b]	**2,800**	2,189
Creditable withholding taxes [c]	**896**	697
Prepaid expenses	**595**	554
Deposits for LTIP (see Note 11)	**318**	–
Due from related parties (see Note 15)	**23**	25
Miscellaneous deposits and others	**758**	696
	12,713	10,778
Less allowance for decline in value	**328**	346
	₱12,385	₱10,432

a. Input VAT pertains to VAT imposed on purchases of goods and services. These are expected to be offset against output VAT (see Note 11) arising from the Company's revenue/income subject to VAT in the future. Noncurrent portion as at September 30, 2018 and December 31, 2017 amounted to ₱238 million and ₱439 million, respectively, and is included under "Other noncurrent assets". The noncurrent portion pertains to input VAT that can be offset against output VAT beyond one year and those that can be claimed as tax credits.

b. Advances to contractors and consultants mainly represent the advance payments for mobilization of the contractors and consultants for various contracts. These are progressively reduced upon receipt of the equivalent amount of services rendered by the contractors and consultants. Noncurrent portion included under "Other noncurrent assets" as at September 30, 2018 and December 31, 2017 amounted to ₱6,091 million and ₱3,381 million, respectively.

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

8. Investments and Advances

Material Associates. The Company's investments in material associates substantially comprise of investments in:

	Principal Place of Business	Principal Activities	Ownership Interest in % September 30, 2018	December 31, 2017
Associates:				
MERALCO – Direct	Philippines	Power	**10.5**	10.5
MERALCO – Indirect [a]	Philippines	Power	**35.0**	35.0
Alsons Thermal Energy Corporation (ATEC)	Philippines	Power	**50.0**	50.0
DMT	Thailand	Tollways	**29.4**	29.4
CII B&R	Vietnam	Tollways	**44.9**	44.9
PT Nusantara [b]	Indonesia	Tollways	**−**	48.3

(a) Held through Beacon Electric.

(b) Interest in PT Nusantara as at December 31, 2017 of 48.3% is based on total issued shares. If based on shares outstanding, interest at 49.5%. PT Nusantara is consolidated as a subsidiary beginning July 2018. See Note 4.

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

	Principal Place of Business	Principal Activities	Ownership Interest in % September 30, 2018	December 31, 2017
Associates:				
Manila Water Consortium Inc.	Philippines	Investment holding/ Water	**39.0**	39.0
EquiPacific HoldCo Inc.	Philippines	Investment holding/ Water	**30.0**	30.0
Watergy Business Solutions, Inc.	Philippines	Investment holding/ Water	**49.0**	49.0
Karayan Diliman Management, Inc.	Philippines	Engineering consultancy	**40.0**	40.0
Davao Doctors Hospital, Inc.	Philippines	Hospital operations	**−**	35.2
Medical Doctors Inc.	Philippines	Hospital operations	**33.3**	32.9
Manila Medical Services, Inc.	Philippines	Hospital operations	**20.0**	20.0
Medi Linx Laboratory Inc.	Philippines	Clinical laboratory services	**40.0**	40.0
Davao Doctors Oncology Center Inc.	Philippines	Radiation and oncology center	**30.0**	−
AF Payments Inc.	Philippines	Operator of contactless payment system	**20.0**	20.0
Indra Philippines, Inc.	Philippines	Management and IT consultancy	**25.0**	25.0
First Gen Northern Energy Corp.	Philippines	Under liquidation (corporate life ended December 31, 2016)	**33.3**	33.3
Costa De Madera	Philippines	Real estate	**62.0**	62.0
Metro Pacific Land Holdings, Inc. (MPLHI)	Philippines	Real estate; Under liquidation (corporate life ended July 31, 2019)	**49.0**	49.0
BOO Phu Ninh Water Treatment Plant Joint Stock Company (PNW)	Vietnam	Water	**45.0**	−
Tuan Loc Water Resources Investment Joint Stock Company (TLW)	Vietnam	Water	**49.0**	−
PT Jakarta Lingkar Baratsatu (JLB)	Indonesia	Tollways	**35.0**	−
PT Intisentosa Alam Bahtera (IAB)	Indonesia	Port services	**39.0**	−
PT Tirta Kencana Cahaya Mandiri (TKC)	Indonesia	Water installation	**28.0**	−
Joint Ventures:				
Land Pacific Corporation (Landco)	Philippines	Real estate	**38.1**	38.1
Metro Sanitas Corporation	Philippines	Clinical management	**50.0**	50.0
Lipa Medix Cancer Center Corporation	Philippines	Oncology treatment center	**50.0**	50.0

The account “Investments and advances” consists of the following components:

	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
	(In Millions)	
Equity method investees:		
Associates		
Material		
MERALCO	**₱124,047**	₱123,161
DMT	**7,483**	7,038
PT Nusantara (see Note 4)	**–**	7,777
CII B&R	**3,322**	3,133
ATEC	**2,583**	2,418
Others	**8,654**	4,612
Joint ventures	**168**	124
	146,257	148,263
Preferred share of an associate	**60**	–
Advances to equity method investees	**2,913**	2,708
	₱149,230	₱150,971

For the purpose of the interim consolidated statements of comprehensive income and cash flows for the nine months ended September 30, 2018 and 2017, movements in the “Equity method investees” are as follows:

	September 30, 2018	September 30, 2017
	(Unaudited)	
Acquisition costs		
Balance at beginning of year	**₱147,060**	₱100,852
Additions during the period:		
Acquisitions	**2,652**	–
Equity infusion into existing investees	**1,503**	347
Through step acquisitions (see Note 4):		
MERALCO (through consolidation of Beacon)	**–**	83,144
Associates through PT Nusantara	**814**	–
Step acquisitions (see Note 4):		
PT Nusantara	**(7,626)**	–
DDH	**(521)**	–
Beacon Electric	**–**	(45,506)
TMC	**–**	(1,584)
Disposal:		
MERALCO (direct interest)	**–**	(11,748)
Balance at end of the period	**143,882**	125,505
Accumulated equity in net earnings		
Balance at beginning of year	**426**	2,828
Share in net earnings for the period:		
MERALCO	**8,368**	3,409
DMT	**442**	394
ATEC	**204**	–
CII B&R	**(7)**	49
PT Nusantara [(a)]	**(621)**	–
Beacon Electric [(b)]	**–**	1,928
TMC [(c)]	**–**	50
Others	**305**	163

(Forward)

	September 30, 2018	September 30, 2017
Dividends:		
MERALCO	**(6,853)**	(6,146)
DMT	**(500)**	(449)
ATEC	**(188)**	−
TMC [c]	**−**	(40)
CII B&R	**−**	(184)
PT Nusantara [a]	**(150)**	−
Others	**(48)**	(59)
Step acquisitions (see Note 4)	**348**	(3,745)
Disposal of MERALCO	**−**	170
Balance at end of the period	**1,726**	(1,632)
Accumulated share in the investees' OCI		
Balance at beginning of year	**2,100**	2,018
Share in investees' OCI during the period	**(237)**	491
Step acquisition	**109**	388
Disposal	**−**	(107)
Total	**1,972**	2,790
Less allowance for impairment loss		
Balance at beginning of year	**1,323**	884
Provision	**−**	−
Total	**1,323**	884
	₱146,257	₱125,779

[a] *Consolidated beginning July 2, 2018.*
[b] *Consolidated beginning June 27, 2017.*
[c] *Consolidated beginning April 4, 2017.*

MERALCO

MERALCO is a Philippine corporation with its shares listed in the PSE. It is the largest distributor of electricity in the Philippines with its franchise valid until June 2028. The fair value of the Company's effective investment in MERALCO at 45.5% amounted to ₱174 billion and ₱168 billion as at September 30, 2018 and December 31, 2017 based on the quoted price of MERALCO as at those dates. A pledge on Beacon Electric's investments in MERALCO shares secures Beacon Electric's loan facilities with a syndicate of various financial institutions (see Note 13).

Acquisitions during the nine-month period ended September 30, 2018

- *PNW.* On May 14, 2018, MPW completed the acquisition of 45% of the outstanding capital stock of PNW. The transaction was completed through the acquisition of 9,900,000 shares from an existing shareholder of PNW for 272 billion Vietnamese Dong (VND) (equivalent to ₱622 million), subject to price adjustment through an escrow mechanism depending on the fulfillment of certain conditions. The amounts in escrow while currently forms part of the investment cost, shall be released in tranches upon the satisfaction of certain conditions, the deadline of which was extended from September 30, 2018 to December 31, 2018. Of the VND 90.8 billion held in escrow, VND 22.7 billion (equivalent to ₱52 million) has been released as at November 7, 2018.

  Pursuant to a 50-year Build-Own-Operate contract with the Chu Lai Open Economic Zone Authority, PNW is licensed to develop a water supply system that will meet clean water demand in the Chu Lai Open Economic Zone, and urban areas, industrial zones and adjacent rural areas in Quang Nam province. PNW is close to completing the construction and commissioning of a water treatment plant with capacity of 25 MLD, and has potential to increase its capacity to 300 MLD.

- *TLW.* On June 11, 2018, MPW completed the acquisition of 49% of the outstanding capital stock of TLW. The transaction was completed through the acquisition of 37,926,000 shares from an existing shareholder of TLW for VND866 billion (equivalent to ₱2 billion). TLW is one of the largest water companies in Vietnam, with 310 MLD of installed capacity and a billed volume of approximately 103 MLD for the nine-month period ended September 30, 2018.

- *Associates through step acquisition of PT Nusantara.* The following associates were effectively acquired through the step acquisition of PT Nusantara (see Note 4):
  - *JLB.* JLB operates a 9.7 km length toll road that connects Kebon Jeruk (West Jakarta) with Penjaringan (Soekarno- Hatta International Airport area, Cengkareng).
  - *IAB.* IAB is mainly engaged in the port services, warehousing, loading and unloading services, and storage tank rental services with its operations located in Lampung.
  - *TKC.* TKC owns a Water Treatment Plant at Cikokol, Tangerang, Banten, which operates at 1,275 liter per second capacity bulk water supplying clean water to PDAM Tirta Kerta Raharja (TKR) Tangerang.

- *Acquisition of additional 10% interest in JLB.* On August 29, 2018, PT Margautama Nusantara (MUN), a subsidiary of PT Nusantara, acquired 94,800 shares of PT Jalan Lingkar Barat (JLB), representing 10% of the total capital of JLB, from PT Jasa Marga (Persero) Tbk amounting to IDR338.3 billion (₱1.2 billion). The transaction led the ownership of MUN in JLB to increase from 25% to 35%.

Investment in Beacon Electric's preferred shares
MPIC started consolidating Beacon Electric in June 2017 resulting to the accounting elimination of the investment in Beacon Electric's preferred shares. Prior to consolidation, MPIC recognized dividend income from preferred shares amounting to ₱2,541 million and received proceeds amounting to ₱3,500 million from the redemption of preferred shares.

9. Service Concession Assets

This account consists of the following:

	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
	(In Millions)	
Water:		
Maynilad	**₱96,813**	₱90,156
PHI	**588**	591
Metro Iloilo Bulk Water Supply Corp. (MIBWS)	**825**	775
PT Nusantara	**945**	–
	99,171	91,522
Toll Operations:		
NLEX Corp	**36,745**	34,744
CIC	**9,755**	9,036
(Forward)		
MPCALA Holdings, Inc. (MPCALA)	**26,429**	23,865
Cebu Cordova Link Expressway Corporation (CCLEC)	**437**	364
PT Nusantara	**8,034**	–
	81,400	68,009
Rail:		
LRMC (LRT-1)	**14,498**	9,252
	₱195,069	₱168,783

The movements in the service concession assets follow:

	As at September 30, 2018 (Unaudited)			
	Water	Toll operations	Rail	Total
		(In Millions)		
Cost:				
Balances at January 1, 2018	**₱113,931**	**₱74,707**	**₱9,252**	**₱197,890**
Additions	**8,743**	**4,972**	**4,774**	**18,489**
Additions through step acquisition	**953**	**8,157**	**–**	**9,110**
Capitalized borrowing cost	**280**	**1,366**	**553**	**2,199**
Exchange differences	**(25)**	**(211)**	**–**	**(236)**
Balances at September 30, 2018	**123,882**	**88,991**	**14,579**	**227,452**
Accumulated amortization:				
Balances at January 1, 2018	**22,409**	**6,698**	–	**29,107**
Additions	**2,302**	**976**	**–**	**3,278**
Exchange differences	**–**	**(2)**	**–**	**(2)**
Balances at September 30, 2018	**24,711**	**7,672**	**–**	**32,383**
	₱99,171	**₱81,319**	**₱14,579**	**₱195,069**

Additions through step acquisition. As a result of a step acquisition (see Note 4), the Company started consolidating PT Nusantara beginning July 2, 2018. PT Nusantara's concession assets comprise of toll roads and water concession rights. Toll road concession rights cover the following toll road sections: (a) Tallo-Hasudin Airport; (b) Soekarno Hatta Port – Pettarani; (c) Pondok Ranji and Pondok Aren. The water concession rights pertain to right to treat and distribute clean water in the Serang District, Banten in Indonesia.

Aside from the additions through acquisitions as mentioned above, below are the additions to service concession assets for the nine-month period ended September 30, 2018:

Service Concession Assets – Water. Additions substantially attributable to the cost of rehabilitation works and additional construction. Additions also included Maynilad's additional concession fee drawdown for Angat Water Transmission Improvement Project (AWTIP) amounting to ₱138 million.

Service Concession Assets – Toll Operations. Additions to the service concession assets substantially pertain to the ongoing construction of CALAEX (₱2,022 million, inclusive of interest accretion); NLEX Corp's Segment 10 project (₱2,163 million); NLEX interchange expanesion and toll plaza enhancement (₱64 million); and the ongoing pavement rehabilitation and toll plaza enhancements of the SCTEX (₱174 million); CIC's CAVITEX R1 Enhancement (₱368 million) and C5 South Link (₱467 million). Remaining additions pertain to pre-construction costs on various toll road projects.

Service Concession Assets – Rail. Additions substantially pertain to the on-going rehabilitation of the LRT-1 existing line and the pre-construction activities for the Cavite Extension.

10. Goodwill and Intangible Assets

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

	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
	(In Millions)	
Power:		
RPSL (see Note 4)	**₱104**	₱–
Toll Operations:		
MPTC/TMC	**8,859**	8,859
CIC	**4,966**	4,966
PT Nusantara (see Note 4)	**3,926**	–
Easytrip Services Corporation (ESC)	**388**	388
Water:		
MWHC/Maynilad	**6,803**	6,803
ESTII	**1,227**	1,227
PHI	**288**	288
Healthcare:		
Marikina Valley Medical Center, Inc.	**662**	662
Colinas Verdes Hospital Managers Corp. (CVHMC)	**234**	234
Asian Hospital Inc.	**192**	192
Riverside Medical Center, Inc.	**69**	69
Saint Elizabeth Hospital Inc.	**60**	60
De Los Santos Medical Center Inc. (DLSMC)	**7**	7
DDH (see Note 4)	**769**	–
Logistics:		
MMI	**1,606**	1,629
	₱30,160	₱25,384

Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired. During the interim period, no indicators of impairment were noted that would trigger an impairment review.

Intangible Assets. Movements in the intangible assets follow:

	As at September 30, 2018 (Unaudited)			
	Customer Contracts	**Property Use Rights**	**Others**	**Total**
	(In Millions)			
Cost:				
Balance at January 1, 2018	₱3,840	₱777	₱795	₱5,412
Adjustment	–	(29)	–	(29)
Additions	–	–	53	53
Balance at September 30, 2018	3,840	748	848	5,436
Accumulated amortization:				
Balance at January 1, 2018	159	265	351	775
Adjustment	(16)	(4)	–	(20)
Additions (see Note 18)	155	31	61	247
Balance at September 30, 2018	298	292	412	1,002
	₱3,542	₱456	₱436	₱4,434

Property use rights. Certain subsidiaries entered into lease agreements for the operation and management of hospitals. The lease agreements qualified as business combinations where the identifiable assets consist of property use rights for the use of existing land and building over the term of the lease.

As discussed in Note 4, MPHHI acquired 63.94% of the outstanding voting capital stock of WMMCI. The transaction resulted to the derecognition of the property use rights and the related accumulated amortization (reflected as "Adjustment" in the above table).

11. Accounts Payable and Other Current Liabilities

	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
	(In Millions)	
Trade and accounts payable	**₱6,641**	₱8,225
Accrued construction costs	**9,039**	5,484
Output taxes payable	**2,342**	2,182
Accrued expenses	**2,116**	2,647
Retention payable	**2,327**	766
Interest and other financing charges	**2,204**	1,688
Accrued personnel costs	**2,140**	1,646
LTIP payable [(a)]	**1,185**	459
Accrued PNCC and BCDA	**571**	163
Withholding taxes payable	**418**	483
Dividends payable	**29**	2,509
Lease payable - current portion [(b)]	**56**	136
Others	**1,064**	754
	₱30,132	₱27,142

a. Certain of the Company's employees are eligible for long-term employee benefits under a long-term incentive plan (LTIP). 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 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. The current portion of the LTIP as at December 31, 2017 relates to MPTC's LTIP cycle ending 2017 which payout was made in March 2018.

   The noncurrent portion of the LTIP as at December 31, 2017 amounting to ₱946 million, included in the "Other long-term liabilities" pertains to MPIC, Maynilad, MPW and MPHHI's LTIP cycle ending 2018. As the payout is scheduled in March 2019, the noncurrent portion was reclassified to current portion as at September 30, 2018.

b. Lease payable represents present value of future minimum lease payments relating to the lease agreements entered into by certain subsidiaries involved in hospital management, which lease agreements qualify as business combinations. The lease payable was initially determined at acquisition date and subsequently adjusted for payments and accretion. As discussed in Note 4, MPHHI acquired 63.94% of the outstanding voting shares of WMMCI which resulted to the derecognition of the lease liability. Amount taken out of the lease payable account as a result of this transaction amounted to ₱3 million (current portion) and ₱29 million (noncurrent portion).

The noncurrent portion of the lease payable amounting to ₱975 million and ₱1,044 million as at September 30, 2018 and December 31, 2017, respectively, is included in the "Other long-term liabilities".

12. **Provisions**

Movements in this account are as follow:

	September 30, 2018 (Unaudited)			
	Heavy Maintenance	**Decommissioning Liability**	**Other Provisions**	**Total**
		(In Millions)		
Balance at January 1, 2018	**₱402**	**₱536**	**₱7,165**	**₱8,103**
Additions through step acquisition (see Note 4)	**27**	**–**	**–**	**27**
Additions and accretion	**204**	**12**	**437**	**653**
Exchange differences	**1**	**–**	**–**	**1**
Payments	**(171)**	**–**	**(266)**	**(437)**
	463	**548**	**7,336**	**8,347**
Less current portion	**148**	**–**	**5,815**	**5,963**
	₱315	**₱548**	**₱1,521**	**₱2,384**

Decommissioning liability pertains to GBPC's estimated liability to decommission or dismantle the power plants at the end of their useful lives.

Other provisions consist of estimated liabilities for losses on claims by third parties. The information usually required by PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, is not disclosed as it may prejudice the Company's negotiation with third parties.

13. **Long-term Debt**

This account consists of:

	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
	(In Millions)	
Current portions	**₱11,345**	₱15,573
Noncurrent portions	**196,531**	173,510
	₱207,876	₱189,083

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

	September 30, 2018 (Unaudited)			December 31, 2017 (Audited)
	Loans	**Long-term Bonds**	**Total**	Total
		(In Millions)		
MPIC	**₱61,620**	**₱–**	**₱61,620**	₱46,993
Power	**54,589**	**–**	**54,589**	66,705
Toll Operations	**44,029**	**6,957**	**50,986**	42,733
Water	**33,096**	**–**	**33,096**	27,241
Rail	**6,451**	**–**	**6,451**	4,651
Logistics	**1,131**	–	**1,131**	760
Healthcare	**981**	–	**981**	542
	201,897	**6,957**	**208,854**	189,625
Less unamortized debt issue cost	**939**	**39**	**978**	542
	₱200,958	**₱6,918**	**₱207,786**	₱189,083

Loans acquired through step acquisition

A total of IDR1,094.8 billion (₱4.0 billion) of loans was added to the Company's consolidated long-term debt as result of the step acquisition of PT Nusantara (see Note 4). These loans comprise of borrowings from banks, syndicated loans, and loans from financial and non-financial institutions. 3% of the borrowings are fixed rate loans while 97% bears floating interest rate.

Loan Drawdowns from Existing Facilities

- *MPIC.* As at September 30, 2018, MPIC made loan drawdowns amounting to a total of ₱4.0 billion from its existing loan facilities. On October 31, 2018, MPIC drew an additional ₱6.0 billion from its existing loan facilities

- *Water.*
  - In March 2018, MIBWSC drew ₱500 million from its existing facility. Proceeds of the loan was used to partially refinance the lease payment made under the Joint Venture Agreement with the Metro Iloilo Water District. The lease payment was initially funded through equity. The loan is secured by an assignment of leasehold rights and a hold-out on portion of the deposit.
  - As at September 30, 2018, Maynilad drew a total of ₱5,038 million from its existing loan facilities.

- *Rail.* As at September 30, 2018, LRMC made loan drawdowns amounting to a total of ₱1,800 million in connection with the rehabilitation of the existing LRT-1 and construction of Cavite Extension.

- *Logistics.* As at September 30, 2018, MMI made loan drawdowns amounting to a total of ₱310 million to finance expansion of the trucking business.

New Loan Facilities/Borrowings

- *MPIC.* In January and February 2018, MPIC signed an ₱8.0 billion 10-year and 15-year, ₱2.0 billion 15-year, and a ₱1.4 billion 15-year syndicated term loan facilities. As at September 30, 2018, the loan facilities have been fully drawn.

- *Toll Operations.* In March 2018, MPTC signed a ₱900 million 10-year (which was subsequently increased to ₱1.5 billion) and a ₱1.0 billion 10-year term loan facilities with local banks. As at September 30, 2018, the loan facilities have been fully drawn. The proceeds of these loans were used to finance MPTC's investments in certain off-shore infrastructure companies and for other general corporate purposes.

On March 26, 2018, CIC obtained a ₱16.2 billion loan facility, proceeds of which shall be used to prepay portion of its existing debt and partially fund construction of its toll projects. As at September 30, 2018, CIC has drawn ₱5.5 billion from the facility. The remaining undrawn portion is available up to 2021.

In April 2018, NLEX Corp availed 90-day short-term loans from local banks amounting to ₱2.8 billion. On July 17, 2018, the short-term loans were fully settled. On July 17, 2018, NLEX Corp availed a new 90-day short-term loans from local banks amounting to ₱1.0 billion. On October 15, 2018, the short-term loans were fully settled.

- *Water.* On February 22, 2018, Maynilad signed the ₱18.5 billion Fixed Corporate Notes Facility Agreement to fully prepay the 2013 peso-denominated loans and for other general corporate requirements. The tenors of the facility are 7-year, 10-year and 15-year with token amortization and bullet payment on maturity dates. The 15-year tenor is subject to re-pricing at the end of the first eight-year period. As at September 30, 2018, the facility is fully drawn.

- *Logistics.* In April 2018, MMI entered into a ₱300 million 5-year term loan and a ₱100 million 360-day loan line with a local bank to finance the Company's capital expenditure and working capital requirements, respectively. As at September 30, 2018, MMI drew ₱370 million from the loan facilities while the undrawn portion has expired.

- *Healthcare.* As at September 30, 2018, CLDH made loan drawdowns amounting to a total of ₱200 million from its loan facilities while Metro CLDH Cancer Center Corporation drew a total of ₱120 million. Short term loan availments from DLSMC, MPZHC and DDH totaling to ₱159 million were drawn in 2018.

<u>Bond Issuance</u>
Toll Operations. On July 4, 2018, NLEX Corp issued Series A and B bonds totaling ₱6.0 billion. Series A bonds are 7-year fixed-rate bonds that carry an interest of 6.6407%, while Series B bonds are 10-year fixed-rate bonds that carry an interest of 6.90%. The proceeds of the offer will be mainly used to fund capital expenditure requirements of its Segment 10: R-10 Section project and finance other general corporate purposes, which may include capital expenditures to enhance, upgrade and improve the tollway services and facilities in the NLEX and SCTEX.

<u>Loan Prepayment</u>
- *Power*. On March 15, 2018, Beacon Electric pre-terminated its 10-year, ₱11.0 billion Corporate Note Facility with outstanding carrying value of ₱7,759 million prior to prepayment.

- *Toll Operations*. On March 27, 2018, CIC prepaid its 2013 local loan in full (with outstanding carrying amount of ₱5.6 billion prior to prepayment).

  On April 19, 2018, NLEX Corp partially refinanced its maturing corporate note facility amounting to ₱4.0 billion using the short-term loans availed on April 2018.

- *Water*. As of September 30, 2018, Maynilad fully paid the following loans: (i) ₱13.537 billion balance of the Term Loan agreement dated March 22, 2013, and (ii) ₱4.85 billion balance of the Term Loan agreement dated April 30, 2013.

Unamortized debt issue cost on loans and related unamortized PFRS 3 fair value increment were derecognized on the abovementioned prepaid loans. Prepayment penalties and other related costs totaling ₱854 million was recognized in the statement of comprehensive income (see Note 20).

<u>Other relevant information</u>
- The credit agreements provide for certain restrictions with respect to, among others, availing other loans or advances to any of the Company's affiliates, subsidiaries, stockholders, directors and officers

except in compliance with formally established and existing fringe benefit program of the Company. These restrictions were complied with by the Company.

- The loan agreements contain among others, covenants regarding the maintenance of certain financial ratios such as debt-to-equity ratio, debt service coverage ratio and maintenance of debt service reserve account. As at September 30, 2018, MPIC and its subsidiaries are in compliance with their respective debt covenants.

14. Service Concession Fees Payable

The movements in the service concession fees payable follow:

	As at September 30, 2018 (Unaudited)			
	Toll Operations	**Water**	**Rail**	**Total**
	(In Millions)			
Balance at beginning of year	**₱19,645**	**₱6,925**	**₱3,174**	**₱29,744**
Interest accretion (see Note 20)	**–**	**415**	**–**	**415**
Interest accretion – capitalized	**845**	**–**	**170**	**1,015**
Foreign exchange differential	**–**	**586**	**–**	**586**
Payment	**–**	**(996)**	**–**	**(996)**
	20,490	**6,930**	**3,344**	**30,764**
Less current portion	**–**	**571**	**–**	**571**
	₱20,490	**₱6,359**	**₱3,344**	**₱30,193**

Water. Concession fees relating to Maynilad's service concession agreement are denominated in various currencies and are non-interest bearing. These are payable monthly following an amortization table up to the end of the concession period.

Toll Operations. Concession fees relate to the CALAEX and the Connector Project:

- *CALAEX.* In consideration for granting the concession, MPCALA shall pay DPWH a concession fee amounting to ₱27.3 billion, 20% or ₱5.5 billion of which was settled upon signing of the concession agreement (July 10, 2015). The balance of the concession fee (nominal amount of ₱21.8 billion) is payable in equal annual instalments beginning on the 5th year (2020) over a period of 9 years from the signing of the concession agreement.

- *Connector Project.* Under the concession agreement, NLEX Corp shall pay periodic payments to DPWH representing the consideration for granting the concession and basic right of way in the Connector Road Project. Total payments to be made to DPWH amount to ₱8.5 billion payable at ₱243.2 million per annum. The payment shall commence on the first anniversary of the construction completion deadline, as extended, until the expiry of the concession period and shall be subject to an agreed escalation every two years based on the prevailing CPI for the two-year period immediately preceding the adjustment or escalation.

Rail. Under LRMC's concession agreement for the LRT-1 Project, LRMC is required to pay the bid premium of ₱9.35 billion (inclusive of VAT) as concession fee, 20% or ₱1.87 billion of which was settled as at Effective Date in accordance with the LRT-1 Concession Agreement. The balance of the concession fee (nominal amount of ₱7.5 billion, inclusive of VAT) is payable in equal quarterly installments over the concession period with the first payment on the fifth anniversary of the Effective Date. Settlement of the concession fee is through the quarterly balancing payment mechanism reflecting netting of payments due to Grantors against receivable from Grantors.

Interest accretion on concession fees in relation to the CALAEX, Connector Project and LRT-1 are capitalized as part of the "Service concession assets" account (see Note 9).

15. Due to and from Related Parties

The Company, in the normal course of business, has transactions with related parties which consist mainly of availment of noninterest-bearing cash advances which are due and demandable anytime.

Composition of amounts due to/from related parties follows:

	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
	(In Millions)	
Due from related parties:		
Landco	**₱44**	₱44
FPC	**2**	2
Others	**8**	10
	54	56
Less allowance for impairment	**31**	31
	₱23	₱25
Due to related parties:		
PCEV	**₱11,622**	₱15,553
Smart	**71**	78
Others	**15**	15
	11,708	15,646
Less current portion	**4,412**	3,879
Noncurrent portion	**₱7,296**	₱11,767

Due to PCEV 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, MPIC acquired from PCEV 645,756,250 common shares and 458,370,086 preferred shares of Beacon Electric for the total consideration of ₱26.2 billion. Of the total consideration of ₱26.2 billion, ₱17.0 billion was settled immediately while the remaining payable to PCEV shall be paid as follows: (a) ₱2.0 billion in June 2017, (b) ₱2.0 billion in June 2018, (c) ₱2.0 billion in June 2019, and (d) ₱3.2 billion in June 2020.

- 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 for a total purchase price of ₱21.8 billion. Payable to PCEV as at December 31, 2017 amounting to ₱9.8 billion (at nominal amount) shall be settled equally over the next four years beginning June 30, 2018.

16. **Equity**

Details of authorized and issued capital stock follow:

	September 30, 2018 (Unaudited)		December 31, 2017 (Audited)	
	No. of Shares	**Amount**	No. of Shares	Amount
	(In Millions except for number of shares)			
Authorized common shares - ₱1.00 par value	**38,500,000,000**	**₱38,500**	38,500,000,000	₱38,500
Authorized preferred shares:				
Class A - ₱0.01 par value	**20,000,000,000**	**200**	20,000,000,000	200
Class B - ₱1.00 par value	**1,350,000,000**	**1,350**	1,350,000,000	1,350
Balance at end of the period	**59,850,000,000**	**₱40,050**	59,850,000,000	₱40,050
Issued and Outstanding - common shares:				
Balance at beginning of year	**31,534,548,752**	**₱31,535**	31,527,848,752	₱31,528
Issuance of shares	–	–	–	–
Exercise of stock option plan (see Note 22)	**5,250,000**	**5**	6,700,000	7
Issued - common shares	**31,539,798,752**	**31,540**	31,534,548,752	31,535
Less: Treasury Shares	**(23,970,000)**	**(24)**	(23,970,000)	(24)
Balance at end of the period	**31,515,828,752**	**₱31,516**	31,510,578,752	₱31,511
Treasury shares - common shares:	**23,970,000**	**₱167**	23,970,000	₱167
Issued - preferred shares - Class A:				
Balance at beginning of year	**9,128,105,319**	**₱91**	9,128,105,319	₱91
Issuance of shares	–	–	–	–
Balance at end of the period	**9,128,105,319**	**₱91**	9,128,105,319	₱91
Total number of stockholders	**1,299**	**–**	1,300	–

Cash Dividends

	Nine Months Ended September 30	
	2018	2017
	(Unaudited) *(In Millions)*	
Final dividend in respect of the previous financial year declared during the following interim period:		
Common shareholder (₱0.076 and ₱0.068 per share as final dividend for the calendar years 2017 and 2016, respectively)	**₱2,395.0**	₱2,142.3
Class A preferred shareholders*	**4.6**	4.6
	₱2,399.6	₱2,146.9
Interim dividend:		
Common shareholder (₱0.0345 and ₱0.0345 per share in 2018 and 2017, respectively)	**₱1,087.2**	₱1,087.1
Class A preferred shareholders*	**4.6**	4.6
	₱1,091.8	₱1,091.7

**MPHI is the sole holder of Class A preferred shares*

On March 1, 2018, the BOD approved the declaration of the cash dividends of ₱0.076 per common share in favor of the MPIC's shareholders of record as of 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.

On August 2, 2018, the BOD approved the declaration of the cash dividends of ₱0.0345 per common share in favor of the MPIC's shareholders of record as at August 31, 2018 with payment date of September 25, 2018. On the same date, the BOD approved the declaration of cash dividends amounting to ₱4.6 million in favor of MPHI as the sole holder of Class A Preferred shares.

Non-controlling Interest (NCI)

Aside from the changes in NCI arising from transactions disclosed in Note 4 (business combinations and transactions with NCI), movement in the NCI for the nine-month period ended September 30, 2018 included equity infusion of the other shareholders of LRMH and LRMC into the LRT-1 Project amounting to ₱1,354 million.

Other comprehensive income reserve

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

	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
	(In Millions)	
Share in the OCI of equity method investees (see Note 8)	**₱1,974**	₱2,103
Fair value changes on financial assets at FVOCI (see Note 25)	**367**	19
Actuarial losses	**(171)**	(174)
Cumulative translation adjustment	**(624)**	(264)
Total	**₱1,546**	₱1,684

Refer to Note 17 for the movements and analysis of the other comprehensive income.

17. Other Comprehensive Income (Loss)

	Nine Months Ended September 30		**Three Months Ended September 30**	
	2018	2017	**2018**	2017
	(Unaudited) *(In Millions)*			
Items to be reclassified to profit or loss in subsequent periods:				
Share in OCI of equity method investees from (see Note 8):				
Exchange differences on translation of foreign operation	**₱667**	₱379	**₱138**	₱137
Net gain (loss) on change in fair value of debt instruments at FVOCI	**(79)**	104	**(1)**	–
Net gain (loss) on change in fair value of debt and equity instruments at FVOCI	**265**	20	**(163)**	9
Exchange difference on translation of foreign operation	**(514)**	(288)	**(375)**	(85)
Income tax	**223**	81	**167**	23
	₱562	₱296	**(₱234)**	₱84
Items not to be reclassified to profit or loss in subsequent periods:				
Share in OCI of equity method investees from (see Note 8):				
Actuarial reserve	**(₱717)**	(₱91)	**₱1**	₱11
Actuarial reserve	**3**	19	–	–
Income tax	–	(5)	–	–
	(₱714)	(₱77)	**₱1**	₱11
	(₱152)	₱219	**(₱233)**	₱95

18. **Costs of Sales and Services**

	Nine Months Ended September 30	
	2018	2017
	(Unaudited) *(In Millions)*	
Fuel costs [(a)]	**₱8,066**	₱2,591
Personnel costs and employee benefits	**3,965**	3,151
Cost of inventories [(b)]	**3,472**	2,826
Amortization of service concession assets (see Note 9)	**3,278**	2,818
Depreciation and amortization [(a)]	**2,763**	1,190
Repairs and maintenance	**2,014**	979
Contracted services and professional fees	**1,741**	1,304
Purchased power [(a)]	**1,611**	143
Utilities	**1,393**	1,295
PNCC and BCDA fees	**1,279**	1,105
Insurance	**248**	147
Provision for heavy maintenance	**212**	121
Warehousing rental	**184**	116
Trucking costs	**41**	144
Operator's fee [(c)]	**41**	520
Others	**753**	575
	₱31,061	₱19,025

a. The Company started consolidating GBPC beginning June 27, 2017. Fuel costs relates to consumption of coal and other fuel related costs for the generation of electricity. Purchased power represents cost of replacement power from the Wholesale Electricity Spot Market (WESM).

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

c. The Company started consolidating TMC beginning April 4, 2017. Hence, the intercompany transactions under the O&M Agreement between NLEX Corp and TMC are effectively settled and eliminated in the process of consolidation (see Note 4). The operator's fee for the nine-month period ended September 30, 2018 is for the O&M contract of CIC with PEA Tollways Corporation.

19. **General and Administrative Expenses**

	Nine Months Ended September 30	
	2018	2017
	(Unaudited) *(In Millions)*	
Personnel costs	**₱3,621**	₱3,258
Taxes and licenses	**1,117**	728
Outside services	**946**	761
Depreciation and amortization	**902**	763
Professional fees	**654**	545
Repairs and maintenance	**290**	219
Advertising and promotion	**282**	206
Utilities	**249**	193

(Forward)

	Nine Months Ended September 30	
	2018	2017
	(Unaudited)	
	(In Millions)	
Rentals	**243**	218
Transportation and travel	**203**	156
Entertainment, amusement and representation	**172**	120
Collection charges	**167**	163
Administrative supplies	**149**	135
Public relation	**135**	68
Insurance	**110**	103
Miscellaneous	**961**	807
	₱10,201	₱8,443

20. Interest Income, Interest Expense and Others

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

	Nine Months Ended September 30	
	2018	2017
	(Unaudited)	
	(In Millions)	
Cash and cash equivalents, short-term deposits and restricted cash	**₱856**	₱315
Investment in bonds, treasury notes and others	**38**	37
Finance income from concession financial receivable (see Note 6)	**4**	–
	₱898	₱352

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

	Nine Months Ended September 30	
	2018	2017
	(Unaudited)	
	(In Millions)	
Long-term debt	**₱6,360**	₱4,239
Accretion on financial liabilities	**638**	488
Accretion on service concession fees payable (see Note 14)	**415**	429
Amortization of debt issue costs	**59**	54
Others	**58**	39
	₱7,530	₱5,249

"Others" recognized in the consolidated statements of comprehensive income consists of the following:

	Nine Months Ended September 30	
	2018	2017
	(Unaudited) *(In Millions)*	
Net gain on prepayment of loan (see Note 13):		
Derecognized unamortized PFRS 3 fair value increment	**₱1,059**	₱–
Penalties and other prepayment charges	**(854)**	(210)
Derecognized unamortized debt issue cost	**(186)**	(57)
Remeasurement of previously held interest (see Note 4):		
PT Nusantara	**635**	–
DDH	**294**	–
TMC	–	1,391
Beacon Electric	–	(1,127)
Gain on sale of investment	–	732
Indemnity claim (see Note 4)	**217**	–
Foreign exchange gains - net	**218**	2
Advertising income	**186**	127
Rental income	**132**	116
Provisions	**(233)**	(391)
Impairment of goodwill	–	(324)
Provision for decline in value of equity investments	**(364)**	(439)
Others	**666**	479
	₱1,770	₱299

21. **Earnings per Share**

The calculation of earnings per share follows:

		Nine Months Ended September 30	
		2018	2017
		(Unaudited) *(In Millions, except for Per Share amounts)*	
Net income attributable to equity holders of the Parent Company		**₱12,488**	₱11,128
Dividends on preference equity holders of the Parent Company		**(7)**	(7)
Net income attributable to ordinary equity holders of the Parent Company	(a)	**₱12,481**	₱11,121
Outstanding common shares at January 1		**31,511**	31,504
Effect of issuance of common shares during the period		**2**	3
Weighted average number of common shares for basic earnings per share	(b)	**31,513**	31,507
ESOP and effect of share award		**33**	31
Weighted average number of common shares adjusted for the effects of potential dilution	(c)	**31,546**	31,538
Basic earnings per share (in centavos)	(a/b)	**₱39.61**	₱35.30
Diluted earnings per share (in centavos)	(a/c)	**₱39.56**	₱35.26

22. **Share-based Payments**

As at September 30, 2018, there are no outstanding and exercisable share options for the First, Second and Third Grants.

The following table illustrates the number of, exercise prices of, and movements in share options during the period for the Fourth Grant:

	Fourth Grant			
	Tranche A		Tranche B	
	Number of shares	Exercise Price	Number of shares	Exercise Price
Outstanding at December 31, 2017	5,825,000	₱4.60	56,000,000	₱4.60
Exercised during the period	(5,250,000)	4.60	–	–
Expired during the period	–	–	–	–
Outstanding at September 30, 2018	**575,000**	**₱4.60**	56,000,000	**₱4.60**
Exercisable at:				
December 31, 2017	5,825,000	₱4.60	56,000,000	₱4.60
September 30, 2018	**575,000**	**4.60**	**56,000,000**	**4.60**

Carrying value of MPIC's ESOP included under "Equity reserves" in the equity section of the consolidated statement of financial position amounted to ₱56 million as at September 30, 2018.

On October 9, 2018, the deadline for the exercise of stock options from the Fourth Grant, originally on October 14, 2018, was extended by the Company's Compensation Committee to October 14, 2019.

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 2019.

As at September 30, 2018 and December 31, 2017, a total of 23,970,000 MPIC common shares had been acquired to partially cover up to approximately 27.4 million shares to be granted to the directors and key officers of the Company under MPIC's LTIP program, which included the RSUP. The shares acquired are presented under the "Treasury shares" account in the consolidated statements of financial position.

Total Share Award expense under the RSUP for the nine-month periods ended September 30, 2018 and 2017 amounted to ₱50 million included in "Personnel costs" under "General and administrative expenses" account in the consolidated statements of comprehensive income.

23. **Contingencies**

The information provided in this report must be read in conjunction with the 2017 audited consolidated financial statements of the Company.

Updates to the contingencies disclosed in the annual consolidated financial statements as at December 31, 2017 are provided below. The ultimate outcome of these matters cannot be presently determined.

Power

4th Regulatory Period Reset Application. MERALCO was among the first entrants to 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.

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"). The RDWR has yet to be published as MERALCO raised issues regarding the RDWR.

A consumer group also filed a Petition regarding the validity of the PBR rate-setting methodology. Hearings have been conducted and the parties are awaiting the *ERC* Order for the date of the next public consultation.

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 asked to submit their respective 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 November 7, 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.

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. MERALCO has filed a motion to intervene and a comment in intervention in the petitions which was granted by the CA. In a Decision dated November 8, 2017, the CA granted the petition and voided the ERC orders. MERALCO and several consumer groups filed motions for reconsideration which are pending before the CA.

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 November 7, 2018, the SC has yet to resolve the various petitions filed against MERALCO, ERC, and DOE.

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

<u>Toll Operations</u>

Toll Rate Adjustments - NLEX Corp. 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.

Under the SCTEX Toll Operations Agreement, toll rate adjustment petitions shall be filed with the TRB yearly. Prior to NLEX Corp's take-over of the SCTEX operations, the Bases Conversion and Development Authority (BCDA) filed petitions for toll rate adjustment that should have been effective in 2012, 2013, 2014, and 2016. Thereafter, in September 2016, NLEX Corp, as petitioner-applicant, filed a petition for toll rate adjustment effective January 1, 2017.

On June 27, 2017, the initial case management conference was held in Singapore. As of September 30, 2018, total amount of compensation for TRB's inaction on lawful toll rate adjustments for NLEX and SCTEX, are approximately at ₱7.5 billion and ₱1.4 billion (net of both VAT and Government share), respectively.

The estimated amount of compensation for NLEX covers the 2012, 2014 and 2016 toll rate petitions.

On October 18, 2017, the TRB provisionally approved the ₱0.25/km Petition for Add-on Toll rate adjustment for the NLEX Closed System in relation with the Company's investment on the NLEX Lane Widening Project. The Company started collecting the add-on toll rate adjustment on November 6, 2017.

MPTC is awaiting notice to publish what it believes will be a partial catch up in the tariff for NLEX as well as an adjustment on SCTEX.

Toll Rate Adjustments - CIC. 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 November 7, 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 September 30, 2018, 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 ₱1.8 billion (VAT-exclusive and net of Philippine Reclamation Authority's share).

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

- NLEX Corp received a Formal Letter of Demand from the BIR on March 16, 2009 requesting NLEX Corp to pay deficiency VAT plus penalties amounting to ₱1,010.5 million for taxable year 2006.
- NLEX Corp received a Final Assessment Notice from the BIR dated November 15, 2009, assessing NLEX Corp for deficiency VAT plus penalties amounting to ₱557.6 million for taxable year 2007.
- NLEX Corp received a Notice of Informal Assessment from the BIR dated October 5, 2009, assessing NLEX Corp for deficiency VAT plus penalties amounting to ₱470.9 million for taxable year 2008.
- On May 21, 2010, the BIR issued a Notice of Informal Conference assessing NLEX Corp for deficiency VAT plus penalties amounting to ₱1.0 billion for taxable year 2009.
- On June 11, 2010, NLEX Corp filed its position paper with the BIR reiterating its claim that it is not subject to VAT on toll fees.

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

Notwithstanding the foregoing, management believes, in consultation with its legal counsel, that in any event, the STOA among NLEX Corp, ROP, acting by and through the Toll Regulatory Board (TRB), and Philippine National Construction Corporation (PNCC), provides NLEX Corp with legal recourse in order to protect its lawful interests in case there is a change in existing laws, which makes the performance by NLEX Corp of its obligations materially more expensive.

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

On September 27, 2013, the Bureau of Local Government Finance of the Department of Finance (DOF–BLGF) wrote a letter to the Province of Bulacan advising it to hold in abeyance any further course of action pertaining to the alleged real property tax delinquency. On October 4, 2013, the Provincial Treasurer of Bulacan has respected the directive from the DOF–BLGF to hold the enforcement of any collection remedies in abeyance. In January 2017, the provincial treasurer of Bulacan issued a notice of realty tax delinquencies for the years 2006 to 2017 stating that it could apply the remedies provided under the law for the collection of delinquent taxes.

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

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

<u>Water</u>

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/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 Letters 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 Letters. 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 Letters, referred to arbitration before a three-member panel 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/ cu.m. which, net of the ₱1.00 CERA, actually translates to a tariff adjustment of negative ₱0.36/cu.m. as opposed to the First Award of ₱3.06/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/cu.m. or an upward adjustment of ₱2.35/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/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 Letters 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, and ordered the ROP to compensate Maynilad for the delayed implementation of its relevant tariffs for the Fourth Rate Rebasing Period (the "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 ROP's corrected computation 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).

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 ROP had filed an application with the High Court of Singapore to set aside the Second Award dated July 24, 2017 (the "Setting Aside Application").

The ROP also filed an interlocutory application for sealing which required, among others, that the proceedings be heard in-camera or otherwise than in open court, that there to be no publication of the identities of the parties to the proceedings or of any matter that would reasonably enable the public to deduce the identities of the parties

On September 4, 2018, immediately following the conclusion of the hearings before the Singapore High Court, the presiding Justice dismissed the Republic's Setting Aside Application and awarded $40,000.00 in favor of Maynilad by way of costs. The Republic did not appeal the decision to the Singapore Court of Appeal within the prescribed 30-day period and so, the dismissal of the Setting Aside Application became final on October 4, 2018.

- *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 "RTC Decision") following the refusal of MWSS and the MWSS Regulatory Office to implement the First Award. As stated 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 RTC Decision which the RTC denied in an Order dated November 23, 2017 ("RTC Order"). The MWSS filed a Petition for Review with the Court of Appeals ("CA") on December 27, 2017 asking for a reversal of the RTC Decision and Order. In its Comment to the Petition for Review, Maynilad prayed for the Petition for Review's dismissal and for the immediate enforcement of the RTC Decision and the First Award.

  As a consequence of the issuance of the RTC 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.

  In its decision dated May 30, 2018, the CA denied MWSS's Petition for Review, and affirmed the RTC Decision and Order confirming the Final Award ("CA Decision").

  On June 14, 2018, Maynilad filed with the CA a Motion for Clarification (on the CA Decision) for the CA to confirm that the RTC and CA Decisions are immediately executory, and that MWSS should therefore implement the Final Award without any further delay ("Motion for Clarification").

  In the meantime, on July 11, 2018, Maynilad received MWSS's Petition for Review on Certiorari with the SC (under Rule 19.37 of the Special Rules of Court on Alternative Dispute Resolution) with Manifestation dated July 4, 2018 (the "Petition"). MWSS prayed that the SC (i) reverse and set aside the CA Decision, and (ii) grant MWSS's counter-petition and declare MWSS as legally released or excused from implementing or enforcing the Final Award or, in the alternative, declare the Final Award as unenforceable.

  On July 30, 2018, the CA issued a Resolution noting, without action, the Motion for Clarification that Maynilad filed "in view of the pending Petition for Review" which the MWSS filed with the SC.

Rate Rebasing: 2018-2022. On September 13, 2018, the MWSS issued Resolution No. 2018-136-RO adopting RO Resolution No. 2018-09-CA dated September 7, 2018 granting Maynilad a partial rate adjustment of ₱5.73/cu.m. for the Fifth Rate Rebasing Period (2018 to 2022), to be implemented on an uneven staggered basis of (i) ₱0.90/cu.m. effective October 1, 2018; (ii) ₱1.95/cu.m. effective January 1, 2020, (iii) ₱1.95/cu.m. effective January 1, 2021, and (iv) ₱0.93/cu.m. effective January 1, 2022. The approved rate adjustment still does not include the corporate income tax ("CIT") component to which Maynilad is entitled by virtue of the First Award. In their Resolutions, the MWSS and RO stated that the inclusion of the CIT in Maynilad's tariff is subject to the SC's resolution of MWSS's Petition for Review.

To preserve its right to the CIT which has already been adjudged in its favor in the First Award, and pursuant to Article 12 of the Concession Agreement, Maynilad, on October 12, 2018, filed a Dispute Notice, signaling the start of another arbitration.

As at November 7, 2018, despite the dismissal of the Republic's Setting Aside Application, the management cannot yet determine, with reasonable certainty, whether the Republic will honor the Second Award and compensate Maynilad for its foregone revenues. As such, the consolidated financial statements have yet to reflect any adjustments.

Disputes with MWSS. In prior years, Maynilad has been contesting certain charges billed by MWSS relating to: (a) the basis of the computation of interest; (b) MWSS cost of borrowings; and (c) additional penalties. Consequently, Maynilad has not provided for these additional charges. These disputed charges were effectively reflected and recognized by Maynilad as Tranche B Concession Fees amounting to US$30.1 million by virtue of the Debt and Capital Restructuring Agreement (DCRA) entered into in 2005. Maynilad also paid US$6.8 million in 2005 as an additional amount of Tranche B Concession Fees determined by the Receiver. As at December 31, 2015 and 2014, Maynilad had recognized Tranche B Concession Fees of US$36.9 million.

Maynilad reconciled its liability to MWSS with the confirmation and billings of MWSS. The difference between the amount confirmed by MWSS and the amount recognized by the Maynilad amounted to ₱5.1 billion as at December 31, 2017 and 2016. The difference mainly pertains to disputed claims of MWSS consisting of additional Tranche B Concession Fees, borrowing cost and interest penalty under the Concession Agreement (prior to the DCRA). Maynilad's position on these charges is consistent with the Receiver's recommendation which was upheld by the Rehabilitation Court.

Following the issuance of the Rehabilitation Court's Order on December 19, 2007 disallowing the MWSS' disputed claims and the termination of Maynilad's rehabilitation proceedings, Maynilad and MWSS sought to resolve the matter in accordance with the dispute resolution requirements of the Transitional and Clarificatory Agreement (TCA).

Prior to the DCRA, Maynilad has accrued interest on its payable to MWSS based on the terms of the Concession Agreement, which was disputed by MWSS before the Rehabilitation Court. These already amounted to ₱985.3 million as at December 31, 2011 and have been charged to interest expense in prior years. Maynilad maintains that the accrued interest on its payable to MWSS has been adequately replaced by the Tranche B Concession Fees discussed above. Maynilad's position is consistent with the Receiver's recommendation which was upheld by the Rehabilitation Court. With the prescription of the TCA and in light of Maynilad's outstanding offer of US$14.0 million to fully settle the claim of MWSS, Maynilad reversed the amount of accrued interest in excess of the US$14.0 million settlement offer. The remaining balance of ₱607.2 million as at September 30, 2018 and December 31, 2017, which pertains to the disputed interest penalty under the Concession Agreement prior to DCRA, has remained in the books pending resolution of the remaining disputed claims of MWSS.

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

The supposed joint liability of the Concessionaires for real property tax, including interests, as at September 30, 2018 and December 31, 2017 amounted to ₱1.0 billion.

After the Local Board of Assessment Appeals (LBAA) ruled in favor of the Municipality of Norzagaray, Bulacan, the Concessionaires elevated the ruling of the LBAA to the Central Board of Assessment Appeals (CBAA) by filing separate appeals. As at November 7, 2018, the case is still pending.

Others. Maynilad is a party to various civil and labor cases relating to breach of contracts with damages, illegal dismissal of employees, and nonpayment of backwages, benefits and performance bonus, among others. Other disclosures required by PAS 37 were not provided as it may prejudice Maynilad's position in on–going claims, litigations and assessments.

Rail

Claims with Grantors. In accordance with Schedule 5 of the LRT-1 Concession Agreement, LRMC is entitled to claim ESR costs and LRV shortfall, fare deficit, SDR costs and Grantor's compensation payment. As at November 7, 2018, LRMC has submitted 13 letters (first to thirteenth Balancing Payments) to the DOTr representing its claims. Total claims up to the thirteenth Balancing Payment amounted to ₱4,722.5 million.

All claims are still undergoing discussion as at November 7, 2018.

Others

Donor's Tax. NOHI received on January 14, 2011 a Final Assessment Notice (FAN) demanding the payment of approximately ₱170.2 million as deficiency donor's tax (comprising of the basic tax due and 25% surcharge) on the excess of the book value over the selling price of several shares of stock in Bonifacio Land Corporation (BLC) which NOHI sold to a third party. The assessment was based on the finding of the Bureau of Internal Revenue–Large Taxpayer Service (BIR–LTS) that the transaction is subject to donor's tax as a "deemed gift" transaction under Section 100 of the 1997 National Internal Revenue Tax Code (the Tax Code).

On February 14, 2011, NOHI filed its formal protest to the FAN raising several factual and legal arguments. However, this was denied by the BIR through the letter it has delivered to NOHI stating its Final Decision on Disputed Assessment (FDDA). NOHI then filed a Petition for Review with the Second Division of the Court of Tax Appeals (CTA) to challenge the FDDA.

On May 4, 2016, the CTA En Banc promulgated its decision, which was received on May 13, 2016, denying the company's Petition for Review dated October 21, 2014 and affirming the adverse decision of the Second Division of the Court dated June 11, 2014 and Resolution of the Second Division dated September 16, 2014 which denied NOHI's Motion for Reconsideration. On October 28, 2016, NOHI received a copy of the Resolution of the CTA En Banc dated October 18, 2016 denying NOHI's Motion for Reconsideration.

On December 12, 2016, NOHI filed with the SC the required Petition for Review as appeal from the decision and resolution of the CTA En Banc. On March 14, 2017, NOHI received a copy of the Resolution dated January 23, 2017 of the Supreme Court denying NOHI's Petition for Review on the decision of the Court of Tax Appeals en banc which affirmed the decision of the CTA Second Division ordering NOHI to pay donor's tax. On March 28, 2017, NOHI filed a Motion for Reconsideration on the aforesaid Resolution of the Supreme Court. On October 3, 2017, NOHI received the Resolution dated July 26, 2017 of the SC denying the Motion for Reconsideration.

As at September 30, 2018, NOHI partially settled amount due to BIR of ₱397 million. As at November 7, 2018, NOHI is awaiting BIR's decision on the company's request for abatement of delinquency interest given that the company is no longer operating and already under going liquidation.

24. Contracts, Agreements and Commitments

The information provided in this report must be read in conjunction with the 2017 audited consolidated financial statements of the Company.

Updates to certain contracts and commitments disclosed in the annual consolidated financial statements as at December 31, 2017 and new contracts entered into as of September 2018 are provided below:

MPIC
Issuance of Exchangeable Bond to GIC Private Limited (GIC). On July 2, 2014, GIC, through Arran

Investment Private Limited, invested ₱3.7 billion for a 14.4% stake in MPHHI and paid ₱6.5 billion as consideration for an Exchangeable Bond which can be exchanged into a 25.5% stake in MPHHI in the future. The Exchangeable Bond was accounted for as an equity instrument with the interest accruing on the Exchangeable Bond recorded at its present value.

Interest payable as at September 30, 2018 and December 31, 2017 amounted to ₱119 million. Deferred tax liability with respect to the future conversion of the Exchangeable Bond to MPHHI shares, amounting to ₱725 million as at September 30, 2018 and December 31, 2017 was recognized against equity.

Project for the Rehabilitation, Operation, and Maintenance of the Ninoy Aquino International Airport ("NAIA"). In December 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 for a period of 15 years through an unsolicited proposal which was submitted to the Department of Transportation on February 12, 2018.

In September 2018, the NAIA Consortium was granted Original Proponent Status from the Department of Transportation and the Manila International Airport Authority for its unsolicited proposal. Following the grant of Original Proponent Status, the NAIA Consortium's proposal shall be subject to review and approval by the NEDA Board and to a Swiss Challenge in accordance with the requirements of Republic Act No. 7718 or the Build-Operate-Transfer Law.

Power

Transfer of transmission facilities to the National Grid Corporation of the Philippines (NGCP). In February 2017, a Deed of Sale was executed between the generating subsidiaries of GBPC, namely PEDC, TPC and CEDC, and the NGCP on the transfer of transmission facilities based on the initial list of assets as appraised by a third party appraiser. The transfer is expected to be completed upon determination of the Final Appraisal Cost from the Final Appraisal Report by the same third party appraiser within 2018. The carrying value of the assets to be transferred to NGCP was presented as "Assets held for sale" in the consolidated statement of financial position as at September 30, 2018 and December 31, 2017. Pending execution of the Amended Deed of Sale for the final list of assets, the parties executed a letter agreement providing access rights to NGCP to take over the operations and maintenance activities for the transmission assets.

Final Acceptance of PEDC 3. In 2014, GBPC's subsidiary, Panay Energy Development Corporation began the construction of PEDC 3 in its existing Panay Coal Plant Facility in Barangay Ingore, La Paz, Iloilo City. PEDC 3 is registered with the Board of Investments (BOI) under BOI Registration Number 2014-110 on July 22, 2014. PEDC declared commercial operations of its 150 MW Expansion Plant on January 26, 2017 in accordance with the terms and conditions of its Power Supply Agreements. The Plant issued the Taking Over Certificate on May 31, 2018.

Toll Operations

Merger between NLEX Corp and TMC. On October 19, 2016, the BOD of NLEX Corp approved the proposed merger beteen NLEX Corp and TMC, with NLEX Corp as the surviving corporation. On November 17, 2016, majority of the stockholders of NLEX Corp confirmed and ratified the proposed merger between NLEX Corp and TMC, with NLEX Corp as the surviving corporation. On May 18, 2018, the ROP issued a letter through the Department of Finance, withdrawing their intent to exercise their appraisal right for the shares in TMC. As the surviving corporation, NLEX Corp's corporate existence shall continue and shall: (a) acquire all respective rights, businesses, assets and other properties of TMC, and (b) assume all the debts and liabilities of TMC.

The execution of the merger shall be subject to regulatory approvals, including the Philippine Competition Commission, and shall take effect 15 days from and after the approval by the Securities and Exchange Commission of the Articles of Merger and the issuance of Filing of the Articles of Merger. On October 26, 2018, NLEX Corp has filed with the SEC, the Plan and Articles of Merger. The merger is expected to be completed in 2018.

Grant of Original Proponent Status to MPT South for Cavite Tagaytay Batangas Expressway (CTBEx) Project. On July 26, 2018, Metro Pacific Tollways South Corp. (MPT South), an indirect subsidiary of MPIC, was granted Original Proponent Status by the DPWH in relation to its unsolicited proposal for the CTBEx Project.

The CTBEx Project, a 50.42 kilometer toll facility, is intended to connect seamlessly with the CALAEX and CAVITEX of MPTC and is expected to provide congestion relief to Aguinaldo Highway and Tagaytay-Nasugbu road. It is currently configured to have 8 main interchanges and two spur roads, and is estimated to cost approximately ₱25 billion and if awarded, will be funded through a combination of internally-generated funds and debt.

The final award of the CTBEx Project to MPT South will be subject to completion of all regulatory approvals and the Swiss Challenge under existing laws. In view of these requirements, the earliest that the CTBEx Project can be awarded is during the first quarter of 2019, with construction to proceed soon thereafter.

CCLEX Project. The Notice to Proceed for Construction for the CCLEX was already issued by the Grantors (City of Cebu and Municipality of Cordova) to Cebu Cordova Link Expressway Corporation (CCLEC or the Concessionaire) on July 4, 2018.

<u>Water</u>

Pampanga Bulk Water Supply Project. On August 31, 2017, MPW officially received the Certificate of Acceptance, and the conferment of the Original Proponent Status for the Pampanga Bulk Water Supply Project from the Office of the Governor of Pampanga. MPW is currently in detailed negotiations with the Province for the Project. Upon successful completion of negotiations, the project will be subjected to competitive challenge consistent with the Code. As at November 7, 2018, negotiations are still ongoing.

Metro Iloilo Water District Water (MIWD) Concession Joint Venture Project. On December 20, 2017, MPW officially received from Metro Iloilo Water District the Notice of Award for the rehabilitation, operation, maintenance, and expansion of MIWD's existing water distribution system and construction of wastewater facilities. MPW and MIWD shall enter into a joint venture agreement (JVA) upon completion of the post award activities. A joint venture corporation shall be organized pursuant to the provisions set in the JVA. The joint venture corporation shall implement the project and will have the right to bill and collect tariff for water supply and wastewater services provided to the customers in the service area of MIWD. The project cost for the duration of the 25-year concession is estimated at ₱12.35 billion, with an initial equity investment of ₱745 million in 2018.

MIWD's service area includes Iloilo City and seven municipalities specifically Pavia, Oton, Maasin, Cabatuan, Sta. Barbara, Leganes, and San Miguel. As at November 7, 2018, the incorporation of the joint venture corporation and the completion of conditions for the execution of Project Agreements are ongoing.

Dumaguete City Water District (DCWD) Water Concession Joint Venture Project. On May 16, 2018, MPW officially received from DCWD the Notice of Award for the rehabilitation, operation, maintenance, and expansion of DCWD's existing water distribution system and development of wastewater facilities.

MPW and DCWD shall enter into a joint venture agreement upon completion of the post award activities. A joint venture corporation shall be organized pursuant to the provisions set in the JVA. The joint venture corporation shall implement the project and will have the right to bill and collect tariff for water supply and wastewater services provided to the customers in the service area of DCWD.

The project cost for the duration of the 25-year concession is estimated at ₱1.62 billion, with an initial equity investment of ₱700 million in 2019.

DCWD serves Dumaguete City and portion of the Municipalities of Valencia, Sibulan, and Bacong. As at November 7, 2018, the incorporation of the joint venture corporation and the completion of conditions for the execution of Project Agreements are ongoing.

Logistics

On June 14, 2018, MMI signed an agreement with The Property Company of Friends, Inc. (Seller) for the acquisition of parcels of land with an aggregate size of 202 thousand square meters. The property, with a total cost of ₱1.015 billion (exclusive of applicable input and withholding taxes), shall be used by MMI to develop and manage distribution centers for its existing and potential clients in the fast moving consumer goods, consumer durables, automotive and e-commerce spaces. On July 13, 2018, the parties entered into a deed of absolute sale with MMI paying ₱556 million (inclusive of VAT net of EWT) of the acquisition cost. The remaining outstanding portion shall be settled upon completion of the transfer documents.

25. Financial Instruments

Adoption of PFRS 9 - Impact

PFRS 9 replaces the provisions of PAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of PFRS 9 beginning January 1, 2018 resulted in changes in accounting policies and the categories of the financial instruments in the financial statements. The new accounting policies are set out below. In accordance with the transitional provisions in PFRS 9, comparative figures have not been restated.

Classification and measurement. On January 1, 2018 (date of initial application of PFRS 9), the Company assessed which business model apply to the financial assets held by the group and has classified its financial assets into the appropriate categories. There were no material impact on the resulting reclassification:

	To PFRS 9 Categories			
From Available-for-sale Financial Assets*	**Fair Value through Profit or Loss (FVPL)**	**Fair Value through OCI (FVOCI)**	**Equity Instruments at FVOCI**	**Total Carrying Value as at January 1, 2018**
		(In Millions)		
Shares of stock	**₱–**	**₱–**	**₱507**	**₱507**
Unit Investment Trust Fund (UITF)	**6,536**	–	–	**6,536**
Investment in bonds and treasury notes	–	**1,254**	–	**1,254**
	₱6,536	**₱1,254**	**₱507**	**₱8,297**

**Except for the UITF which was included in the "Cash and cash equivalents and short-term deposits", these financial assets were substantially included in the "Other noncurrent assets" account.*

- *Reclassification to equity investments at FVOCI.* The Company elected to retain OCI changes in the fair value of all its equity investments previously classified as AFS financial assets because these investments are held as long-term strategic investments that are not expected to be sold in the short to medium term. As a result, fair value changes were retained in other comprehensive income.

- *Reclassification to FVPL.* UITFs are ready-made investments that allow the pooling of funds from different investors with similar investment objectives. These UITFs are managed by professional fund managers and may be invested in various financial instruments such as money market securities, bonds and equities, which are normally available to large investors only. A UITF uses the mark–to–market method in valuing the fund's securities. It is a valuation method which calculates the Net Asset Value (NAV) based on the estimated fair market value of the assets of the fund based on prices supplied by independent sources. They do not meet the PFRS 9 criteria for classification at amortized cost, because their cash flows do not represent solely payments of principal and interest. Hence, these financial assets were reclassified to financial assets at FVPL.

- *AFS debt investments classified as FVOCI.* Quoted debt instruments were reclassified from available for sale to FVOCI, as the group's business model is achieved both by collecting contractual cash flows and selling of these assets. The contractual cash flows of these investments are solely principal and interest. As a result, unrealized fair value changes were reclassified from AFS financial assets reserve to the FVOCI reserve on January 1, 2018.

Impairment of financial assets. The Company has the following types of financial assets that are subject to PFRS 9's new expected credit loss model: (i) receivables and; (ii) debt investments carried at FVOCI. The Company was required to revise its impairment methodology under PFRS 9 for each of these classes of assets. No material impact of the change in impairment methodology on the Company's retained earnings and equity. While cash and cash equivalents are also subject to the impairment requirements of PFRS 9, the identified impairment loss was immaterial.

<u>Adoption of PFRS 9 – Accounting policies applied from January 1, 2018</u>

Classification. From January 1, 2018, the Company classifies its financial assets in the following measurement categories: (i) those to be measured subsequently at fair value (either through OCI, or through profit or loss), and (ii) those to be measured at amortized cost. The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Company has made an irrevocable election at the time of initial recognition to account for the equity investment at FVOCI.

The Company reclassifies debt investments when and only when its business model for managing those assets changes.

Measurement. At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

- *Debt instruments.* Subsequent measurement of debt instruments depends on the Company's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the group classifies its debt instruments: (i) amortized cost; (ii) FVOCI; and (iii) FVPL.

  The Company has debt investments at FVOCI. Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in other gains (losses). Interest income from these financial assets is included in interest income using the effective interest rate method.

Assets that do not meet the criteria for amortized cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognized in profit or loss in the period in which it arises.

- *Equity instruments.* The Company subsequently measures all equity investments at fair value. Where the Company's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognized in profit or loss as other income when the Company's right to receive payments is established. Changes in the fair value of financial assets at FVPL are recognized in other gains (losses) in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

Impairment. From January 1, 2018, the Company assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortized cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For trade receivables, the Company applies the simplified approach permitted by PFRS 9, which requires expected lifetime losses to be recognized from initial recognition of the receivables.

Categories of Financial Instruments

There are no changes in the classification of financial assets resulting from changes in the use and purpose of these assets. The categories of the Company's financial assets and financial liabilities, other than cash and cash equivalents, short-term deposits and restricted cash, as at September 30, 2018 are:

	September 30, 2018				
	Financial Assets			Financial Liabilities	
	FVPL	Loans and receivables	FVOCI	Other financial liabilities	Total
			(In Millions)		
ASSETS					
Receivables - net	**₱–**	**₱13,073**	**₱–**	**₱–**	**₱13,073**
Due from related parties	**–**	**23**	**–**	**–**	**23**
Financial assets through profit or loss:					
Investment in UITF	**2,286**	**–**	**–**	**–**	**2,286**
Financial assets through OCI:					
Investment in bonds	**–**	**–**	**1,198**	**–**	**1,198**
Investment in equity	**–**	**–**	**1,008**	**–**	**1,008**
Deposit for LTIP	**–**	**318**	**–**	**–**	**318**
Long term cash and miscellaneous deposits	**–**	**1,509**	**–**	**–**	**1,509**
	₱2,286	**₱14,923**	**₱2,206**	**₱–**	**₱19,415**
LIABILITIES					
Accounts payable and other current liabilities [(a)]	**₱–**	**₱–**	**₱–**	**₱25,956**	**₱25,956**
Due to related parties	**–**	**–**	**–**	**11,708**	**11,708**
Service concession fees payable	**–**	**–**	**–**	**30,764**	**30,764**
Long-term debt	**–**	**–**	**–**	**207,876**	**207,876**
Deferred credits and other long-term liabilities	**–**	**–**	**–**	**1,120**	**1,120**
	₱–	**₱–**	**₱–**	**₱277,424**	**₱277,424**

[(a)]Excludes statutory payables

Fair Values

The following table shows a comparison, by classes, between the carrying values and fair values of certain financial instruments of the Company as at September 30, 2018. Financial instruments with carrying amounts reasonably approximating their fair values are no longer included in the comparison.

	September 30, 2018				
	Carrying Value	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
			(In Millions)		
Assets measured at fair value					
Financial Assets through Profit or Loss					
Unit Investment Trust Fund	**₱2,286**	**₱–**	**₱2,286**	**₱–**	**₱2,286**
Financial Assets through OCI					
Shares of stock	**1,008**	**26**	**167**	**815**	**1,008**
Investment in bonds and treasury notes	**1,198**	**149**	**1,049**	**–**	**1,198**
	₱4,492	**₱175**	**₱3,502**	**₱815**	**₱4,492**
Assets for which fair values are disclosed					
Loans and Receivables					
Miscellaneous deposits	**₱1,509**	**₱–**	**₱–**	**₱1,445**	**₱1,445**
	₱1,509	**₱–**	**₱–**	**₱1,445**	**₱1,445**
Liabilities for which fair values are disclosed					
Other financial liabilities					
Service concession fees payable (current and noncurrent)	**₱30,764**	**₱–**	**₱–**	**₱28,047**	**₱28,047**
Long-term debt (current and noncurrent)	**207,876**	**–**	**–**	**194,667**	**194,667**
Customer guaranty deposit	**1,067**	**–**	**–**	**972**	**972**
Due to related parties	**11,708**	**–**	**–**	**11,277**	**11,277**
	₱251,415	**₱–**	**₱–**	**₱234,963**	**₱234,963**

During the nine-month period ended September 30, 2018, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurement. There were no change in the methods and assumptions used to measure the fair value of each class of assets and liabilities for which it is practicable to estimate such value.

Cash and Cash Equivalents. Due to the short-term nature of transactions, the fair value of cash and cash equivalents approximate the carrying amounts at the end of the reporting period.

Restricted Cash, Cash Deposits, and Accounts Payable and Other Current Liabilities. Carrying values approximate the fair values at the reporting date due to the short-term nature of the transactions.

Investments in UITF. A UITF uses the mark–to–market method in valuing the fund's securities. It is a valuation method which calculates the Net Asset Value (NAV) based on the estimated fair market value of the assets of the fund based on prices supplied by independent sources.

Investments in unquoted equity securities. Investment in an unquoted equity securities substantially represents 2.0% interest in unquoted shares of stocks of a local toll road company. To estimate the fair value of the unquoted equity securities, the Company uses a market comparison technique. The valuation model is based on market multiples derived from quoted prices of companies comparable to the investee, adjusted for the effect of the non-marketability of the equity securities, and the revenue and EBITDA of the investee. The estimate is adjusted for the net debt of the investee, if applicable. Adjusted market multiple ranges from 6 to 9 and discount for lack of marketability of up to 30%.

Due from Related Parties. Fair value of due from related parties approximates their carrying amounts as these are already to be settled within a year from the consolidated statement of financial position date.

Service Concession Fees Payable and Customers' Guaranty Deposits. Estimated fair value is based on the discounted value of future cash flows using the applicable rates for similar types of financial instruments.

Notes Receivable, Miscellaneous Deposits and Other Financial Assets. Estimated fair value is based on the present value of future cash flows discounted using the prevailing rates that are specific to the tenor of the instruments' cash flows at the end of each reporting period with credit spread adjustment.

Long-term Debt. For both fixed rate and floating rate (repriceable every six months) US dollar denominated debts and Philippine Peso-denominated fixed rate corporate notes, estimated fair value is based on the discounted value of future cash flows using the prevailing credit adjusted US risk-free rates and Philippine risk free rates that are adjusted for credit spread.

26. Supplemental Cash Flow Information

Non-cash investing activity

During the current interim period, the Company had a non-cash investing activity which was not reflected in the interim consolidated statement of cash flows. A total of ₱1,015 million and ₱957 million of interest accretion arising from service concession fee payable has been capitalized to service concession assets for the nine-month periods ended September 30, 2018 and 2017, respectively (see Note 14).

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:

	Service concession fee payable (see Note 14)	Long-term debt (see Note 13)	Due to Related Parties (see Note 15)
		(In Millions)	
Balance as at December 31, 2017 (Audited)	**₱29,744**	**₱189,083**	**₱15,646**
Cash flow (see statements of cash flows)			
Proceeds	**−**	**55,135**	**−**
Payments	**(996)**	**(40,340)**	**(4,458)**
Transaction cost	**−**	**(423)**	**−**
	(996)	**14,372**	**(4,458)**
Non-cash			
Foreign exchange movements	**586**	**2,025**	**−**
Acquisition of subsidiary	**−**	**3,516**	**−**
Derecognized unamortized PFRS 3 fair value increment	**−**	**(1,059)**	**−**
Derecognized unamortized debt issue cost	**−**	**186**	**−**
Interest accretion	**1,430**	**(306)**	**520**
Amortization of debt issue costs	**−**	**59**	**−**
	2,016	**4,421**	**520**
Balance as at September 30, 2018 (Unaudited)	**₱30,764**	**₱207,876**	**₱11,708**
Balance as at December 31, 2016 (Audited)	₱28,874	₱97,016	₱8,439
Cash flow (see statements of cash flows)			
Proceeds	−	19,410	−
Payments	(997)	(7,814)	(2,001)
Transaction cost	−	(131)	−
	(997)	11,465	(2,001)

	Service concession fee payable (see Note 14)	Long-term debt (see Note 13)	Due to Related Parties (see Note 15)
		(In Millions)	
Non-cash			
Acquisition of subsidiary	–	65,037	–
Deferred purchase	–	–	8,629
Foreign exchange movements	238	273	–
Derecognized unamortized debt issue cost	–	34	–
Interest accretion	1,386	(23)	380
Amortization of debt issue costs	–	53	–
	1,624	65,374	9,009
Balance as at September 30, 2017 (Unaudited)	₱29,501	₱173,855	₱15,447

27. Events after the Reporting Period

Aside from those disclosed in Note 8 (investments and advances), Note 13 (loan drawdowns), Note 23 (status of certain contingencies) and Note 24 (status of contracts, agreements and commitments), events occurring after the reporting period include:

Acquisition and disposal of PT Nusantara shares. On October 8, 2018, PT MPTI acquired an additional 761,783,600 shares representing 5% of the issued capital stock of PT Nusantara, from the public at an amount of IDR 249 per share or a total consideration of IDR189.7 billion (₱674.9 million). Also, on the same date, PT MPTI disposed 1,523,567,500 shares representing 10% of the issued capital of PT Nusantara to PT Indonesia Infrastructure Finance (PT IIF) at an amount of IDR 250 per share. Consideration received for the shares amounted to IDR380.9 billion (₱1.36 billion). PT MPTI after the sale owns a total of 72.94%, issued capital stock of PT Nusantara (74.83% on the basis of issued and outstanding shares).

Step Acquisition of DDH. On October 19, 2018, MPHHI completed the acquisition of 49.91% ownership interest in DDH.

28. Consolidated Subsidiaries

The consolidated subsidiaries of MPIC are as follows:

		September 30, 2018			December 31, 2017			
Name of Subsidiary	Place of Incorporation	**MPIC Direct Interest**	**Direct Interest of Subsidiary**	**MPIC Effective Interest**	MPIC Direct Interest	Direct Interest of Subsidiary	MPIC Effective Interest	Principal Activity
			(In %)			*(In %)*		
MPIC Subsidiaries								
Beacon Electric Asset Holdings, Inc. (Beacon Electric)	Philippines	**100.0**	**–**	**100.0**	100.0	–	100.0	Investment holding (see Note 4)
Metro Pacific Tollways Corporation (MPTC)	Philippines	**99.9**	**–**	**99.9**	99.9	–	99.9	Investment holding
Maynilad Water Holding Company, Inc. (MWHC)	Philippines	**51.3**	**–**	**51.3**	51.3	–	51.3	Investment holding
MetroPac Water Investments Corporation (MPW)	Philippines	**100.0**	**–**	**100.0**	100.0	–	100.0	Investment holding
Metro Pacific Hospital Holdings, Inc. (MPHHI)	Philippines	**85.6**	**–**	**85.6**	85.6	–	85.6	Investment holding; With the Exchangeable Bond, the non-controlling shareholder is entitled to 39.89% effective ownership interest in MPHHI.
Metro Pacific Light Rail Corp. (MPLRC)	Philippines	**100.0**	**–**	**100.0**	100.0	–	100.0	Investment holding
MetroPac Logistics Company, Inc. (MPLC)	Philippines	**100.0**	**–**	**100.0**	100.0	–	100.0	Investment holding
MetroPac Clean Energy Holdings Corporation (MCE)	Philippines	**100.0**	**–**	**100.0**	100.0	–	100.0	Investment holding
MetPower Ventures Partners Holdings, Inc. (MVPHI)	Philippines	**100.0**	**–**	**100.0**	100.0	–	100.0	Investment holding; Incorporated on March 10, 2017
Fragrant Cedar Holdings, Inc. (FCHI)	Philippines	**100.0**	**–**	**100.0**	100.0	–	100.0	Property Lessor
Porrovia Corporation (Porrovia)	Philippines	**50.0**	**50.0**	**100.0**	50.0	50.0	100.0	Investment holding; BOD of Porrovia approved the shortening of the company's corporate life to until March 31, 2019.

Name of Subsidiary	Place of Incorporation	**September 30, 2018** MPIC Direct Interest	Direct Interest of Subsidiary	MPIC Effective Interest	December 31, 2017 MPIC Direct Interest	Direct Interest of Subsidiary	MPIC Effective Interest	Principal Activity
			(In %)			*(In %)*		
Neo Oracle Holdings, Inc (NOHI)	Philippines	**96.6**	**–**	**96.6**	96.6	–	96.6	Investment holding and Real estate; Formerly Metro Pacific Corporation (MPC). NOHI's corporate life ended December 31, 2013 and is currently under the process of liquidation.
MPIC-JGS Airport Holdings, Inc. (MPIC-JGS)	Philippines	**58.8**	**–**	**58.8**	58.8	–	58.8	Investment holding; BOD of MPIC-JGS approved the shortening of the company's corporate life to until February 15, 2016.
Metro Global Green Waste, Inc. (MGGW)	Philippines	**70.0**	**–**	**70.0**	70.0	–	70.0	Investment holding; BOD of MGGW approved the shortening of the company's corporate life to until December 31, 2017.
MPIC Infrastructure Holdings Limited (MIHL)	BVI	**100.0**	**–**	**100.0**	100.0	–	100.0	Investment holding
Beacon Electric Subsidiary								
Beacon PowerGen Holdings, Inc. (BPHI)	Philippines	**–**	**100.0**	**100.0**	–	100.0	100.0	Investment holding (see Note 4)
BPHI Subsidiary								
Global Business Power Corporation (GBPC)	Philippines	**–**	**56.0**	**62.4**	–	56.0	62.4	Investment Holding (see Note 4)
GBPC Subsidiaries								
ARB Power Ventures, Inc. (APVI)	Philippines	**–**	**100.0**	**62.4**	–	100.0	62.4	Investment holding
GBH Power Resources, Inc. (GPRI)	Philippines	**–**	**100.0**	**62.4**	–	100.0	62.4	Power Generation
Global Energy Supply Corporation (GESC)	Philippines	**–**	**100.0**	**62.4**	–	100.0	62.4	Power Distribution
Global Hydro Power Corporation (GHPC)	Philippines	**–**	**100.0**	**62.4**	–	100.0	62.4	Power Generation
Global Renewables Power Corporation (GRPC)	Philippines	**–**	**100.0**	**62.4**	–	100.0	62.4	Power Generation
Mindanao Energy Development Corporation (MEDC)	Philippines	**–**	**100.0**	**62.4**	–	100.0	62.4	Power Generation
Global Trade Energy Resources Corp.	Philippines	**–**	**100.0**	**62.4**	–	100.0	62.4	Trading business; Formerly Toledo Cebu International Trading Resources Corporation
Toledo Holdings Corporation (THC)	Philippines	**–**	**100.0**	**62.4**	–	100.0	62.4	Investment holding
Toledo Power Company (TPC)	Philippines	**–**	**100.0**	**62.4**	–	100.0	62.4	Power Generation
Global Formosa Power Holdings, Inc. (GFPHI)	Philippines	**–**	**93.2**	**58.2**	–	93.2	58.2	Investment holding
Panay Power Holdings Corporation (PPHC)	Philippines	**–**	**89.3**	**55.7**	–	89.3	55.7	Investment holding
Lunar Power Core, Inc. (LPCI)	Philippines	**–**	**57.5**	**35.9**	–	57.5	35.9	Investment holding
GFPHI Subsidiary								

Name of Subsidiary	Place of Incorporation	**September 30, 2018** MPIC Direct Interest	**Direct Interest of Subsidiary**	**MPIC Effective Interest**	December 31, 2017 MPIC Direct Interest	Direct Interest of Subsidiary	MPIC Effective Interest	Principal Activity
			(In %)			*(In %)*		
Cebu Energy Development Corporation (CEDC)	Philippines	**–**	**56.0**	**32.6**	–	56.0	32.6	Power Generation
LPCI Subsidiary								
Global Luzon Energy Development Corporation (GLEDC)	Philippines	**–**	**100.0**	**35.9**	–	100.0	35.9	Power Generation
PPHC Subsidiaries								
Panay Power Company (PPC)	Philippines	**–**	**100.0**	**55.7**	–	100.0	55.7	Power Generation
Panay Energy Development Corporation (PEDC)	Philippines	**–**	**100.0**	**55.7**	–	100.0	55.7	Power Generation
GRPC Subsidiary								
CACI Power Corporation (CACI)	Philippines	**–**	**100.0**	**62.4**	–	100.0	62.4	Power Generation
MVPHI Subsidiary								
Surallah Biogas Ventures Corp.	Philippines	**–**	**100.0**	**100.0**	–	100.0	100.0	Power Generation; Incorporated on November 11, 2017
MPTC Subsidiaries								
Metro Pacific Tollways North Corporation (MPT North; formerly Metro Pacific Tollways Development Corporation)	Philippines	**–**	**100.0**	**99.9**	–	100.0	99.9	Investment holding
Cavitex Infrastructure Corporation (CIC) and subsidiaries	Philippines	**–**	**100.0**	**99.9**	–	100.0	99.9	Tollway operations; Interest in CIC is held through a Management Letter Agreement. CIC holds the concession agreement for the CAVITEX (see Note 3).
Metro Strategic Infrastructure Holdings, Inc. (MSIHI)	Philippines	**–**	**97.0**	**96.9**	–	97.0	96.9	Investment holding
MPT Asia Corporation	BVI	**–**	**100.0**	**99.9**	–	100.0	99.9	Investment holding
Metro Pacific Tollways Management Services, Inc. (MPTMSI)	Philippines	**–**	**100.0**	**99.9**	–	100.0	99.9	Formerly M+ Corporation. Incorporated on August 24, 2016 with the primary purpose to carry on the toll collection function of CAVITEX and CALAEX.
Metro Pacific Tollways South Corporation	Philippines	**–**	**100.0**	**99.9**	–	100.0	99.9	Holding company
Metro Pacific Tollways Vizmin Corporation (MPT Vizmin)	Philippines	**–**	**100.0**	**99.9**	–	100.0	99.9	Investment holding
Easytrip Services Corporation (ESC)	Philippines	**–**	**66.0**	**65.9**	–	66.0	65.9	Electronic toll collection services
Metro Pacific Tollways Asia, Corporation Pte. Ltd.	Singapore	**–**	**100.0**	**99.9**	–	–	–	Investment holding; Incorporated on June 10, 2018.

Name of Subsidiary	Place of Incorporation	**September 30, 2018** MPIC Direct Interest	Direct Interest of Subsidiary	MPIC Effective Interest	December 31, 2017 MPIC Direct Interest	Direct Interest of Subsidiary	MPIC Effective Interest	Principal Activity
			(In %)			*(In %)*		
MPT North Subsidiaries								
NLEX Corporation	Philippines	**–**	**75.3**	**75.2**	–	75.3	75.2	Tollway operations; Change in the corporate name from Manila North Tollways Corporation was approved by the SEC on February 13, 2017.
Tollways Management Corporation (TMC)	Philippines	**–**	**72.6**	**72.5**	–	72.6	72.5	Tollway management (see Note 4)
Collared Wren Holdings, Inc. (CWHI)	Philippines	**–**	**100.0**	**99.9**	–	100.0	99.9	Investment holding
Larkwing Holdings, Inc. (LHI)	Philippines	**–**	**100.0**	**99.9**	–	100.0	99.9	Investment holding
MPCALA Holdings, Inc. (MPCALA)	Philippines	**–**	**51.0**	**99.9**	–	51.0	99.9	Tollway operations; MPCALA is owned by MPTDC at 51% and the remaining 49% owned equally by CWHI and LHI.; holds the concession agreement for the CALAEX
Luzon Tollways Corporation (LTC)	Philippines	**–**	**100.0**	**99.9**	–	100.0	99.9	Tollway operations; Dormant
NLEX Corp Subsidiary								
NLEX Ventures Corporation	Philippines	**–**	**100.0**	**75.2**	–	100.0	75.2	Service facilities management
MPT Asia Subsidiaries								
MPT Thailand Corp	BVI	**–**	**100.0**	**99.9**	–	100.0	99.9	Investment holding
MPT Vietnam Corporation	BVI	**–**	**100.0**	**99.9**	–	100.0	99.9	Investment holding; Holds the investment on CII B&R (see Note 8)
PT Metro Pacific Tollways Indonesia	Indonesia	**–**	**100.0**	**99.9**	–	100.0	99.9	Investment holding; Holds the investment on PT Nusantara (see Note 8)
Metro Pacific Tollways South Corporation Subsidiary								
Metro Pacific Tollways South Management Corporation	Philippines	**–**	**100.0**	**99.9**	–	100.0	99.9	Tollway operations
MPT Vizmin Subsidiary								
Cebu Cordova Link Expressway Corporation (CCLEC)	Philippines	**–**	**100.0**	**99.9**	–	100.0	99.9	Tollway operations; CCLEC holds the concession agreement for the CCLEX
MPT Thailand Corp Subsidiaries								
FPM Tollway (Thailand) Limited	Hong Kong	**–**	**100.0**	**99.9**	–	100.0	99.9	Investment holding
AIF Toll Road Holdings (Thailand) Co., Ltd (AIF)	Thailand	**–**	**100.0**	**99.9**	–	100.0	99.9	Investment holding; Holds the investment on DMT (see Note 8).

Name of Subsidiary	Place of Incorporation	**September 30, 2018** **MPIC Direct Interest**	**Direct Interest of Subsidiary**	**MPIC Effective Interest**	December 31, 2017 MPIC Direct Interest	Direct Interest of Subsidiary	MPIC Effective Interest	Principal Activity
			(In %)			*(In %)*		
PT Metro Pacific Tollways Indonesia Subsidiary								
PT Nusantara Infrastructure Tbk (Indonesia)	Indonesia	–	**80.0**	**79.9**	–	–	–	Tollway operations (see Note 4)
PT Nusantara Subsidiaries								
PT Margautama Nusantara (MUN)	Indonesia	**–**	**75.0**	**59.9**	–	–	–	Construction, trading and services - Toll
PT Potum Mundi Infranusantara (Potum)	Indonesia	**–**	**99.9**	**79.8**	–	–	–	Water and waste management services
PT Energi Infranusantara (EI)	Indonesia	**–**	**99.9**	**79.8**	–	–	–	Construction, trading and services - Power
PT Portco Infranusantara (Portco)	Indonesia	**–**	**99.9**	**79.8**	–	–	–	Port management
PT Telekom Infranusantara (Telekom)	Indonesia	**–**	**100.0**	**79.9**	–	–	–	Trading, supplies and other telecommunications
MUN Subsidiaries								
PT Bintaro Serpong Damai	Indonesia	**–**	**88.9**	**53.3**	–	–	–	Toll road operator
PT Bosowa Marga Nusantara (BMN)	Indonesia	**–**	**98.5**	**59.0**	–	–	–	Toll road operator
BMN Subsidiary								
PT Jalan Tol Seksi Empat	Indonesia	**–**	**99.4**	**58.6**	–	–	–	Toll road operator
Potum Subsidiaries								
PT Tirta Bangun Nusantara	Indonesia	**–**	**100.0**	**79.8**	–	–	–	Water and waste management services
PT Dain Celicani Cemerlang	Indonesia	**–**	**51.0**	**40.7**	–	–	–	Water and waste management services
PT Sarana Catur Tirta Kelola (SCTK)	Indonesia	**–**	**65.0**	**51.9**	–	–	–	Water management services
SCTK Subsidiaries								
PT Sarana Tirta Rezeki	Indonesia	**–**	**80.0**	**41.5**	–	–	–	Water management services
PT Jasa Sarana Nusa Makmur	Indonesia	**–**	**100.0**	**51.9**	–	–	–	Water management services
EI Subsidiaries								
PT Inpola Meka Energi	Indonesia	**–**	**54.6**	**43.6**	–	–	–	Power supply services
PT Rezeki Perkasa Sejahtera Lestari	Indonesia	**–**	**80.0**	**63.8**	–	–	–	Power supply services
MWHC Subsidiary								
Maynilad Water Services, Inc. (Maynilad)	Philippines	**5.2**	**92.9**	**52.8**	5.2	92.9	52.8	Water and sewerage services; Holds the concession agreement for the water distribution in the West Concession Area.
Maynilad Subsidiaries								
Amayi Water Solutions, Inc. (AWSI)	Philippines	**–**	**100.0**	**52.8**	–	100.0	52.8	Water and sewerage services
Philippine Hydro, Inc. (PHI)	Philippines	**–**	**100.0**	**52.8**	–	100.0	52.8	Water and sewerage services
MPW Subsidiaries								

Name of Subsidiary	Place of Incorporation	**September 30, 2018** MPIC Direct Interest	Direct Interest of Subsidiary	MPIC Effective Interest	December 31, 2017 MPIC Direct Interest	Direct Interest of Subsidiary	MPIC Effective Interest	Principal Activity
			(In %)			*(In %)*		
MetroPac Cagayan De Oro, Inc. (MCDO)	Philippines	**–**	**100.0**	**100.0**	–	100.0	100.0	Water services
MetroPac Iloilo Holdings Corp.(MILO)	Philippines	**–**	**100.0**	**100.0**	–	100.0	100.0	Investment holding/ Water services
Metro Iloilo Bulk Water Supply Corp.	Philippines	**–**	**80.0**	**80.0**	–	80.0	80.0	Bulk water services; Holds the joint venture agreement for the bulk water supply in Metro Iloilo Water District.
Eco-System Technologies International, Inc. (ESTII)	Philippines	**–**	**65.0**	**65.0**	–	65.0	65.0	EPC and O&M contractor
MetroPac Cagayan de Oro Holdings, Inc.	Philippines	**–**	**100.0**	**100.0**	–	100.0	100.0	Investment holding; Incorporated on July 31, 2017
Cagayan De Oro Bulk Water, Inc.	Philippines	**–**	**95.0**	**95.0**	–	95.0	95.0	Bulk water services; Holds the joint venture agreement for the bulk water supply in COWD; Incorporated on October 4, 2017.
MetroPac Baguio Holdings Inc.	Philippines	**–**	**100.0**	**100.0**	–	100.0	100.0	Investment holding; Incorporated on July 31, 2017
Metro Iloilo Concession Holdings Corp.	Philippines	**–**	**100.0**	**100.0**	–	–	–	Investment holding; Incorporated on February 15, 2018
MetroPac Dumaguete Holdings Corp.	Philippines	**–**	**100.0**	**100.0**	–	–	–	Investment holding; Incorporated on June 21, 2018
Metro Pacific Water International Limited	BVI	**–**	**100.0**	**100.0**	–	100.0	100.0	Investment holding; Incorporated on October 25, 2017
Metro Pacific TL Water International Limited	BVI	**–**	**100.0**	**100.0**	–	–	–	Investment holding; Incorporated on March 28, 2018
MPHHI Subsidiaries								
Riverside Medical Center, Inc (RMCI)	Philippines	**–**	**78.0**	**66.7**	–	78.0	66.7	Hospital operation
East Manila Hospital Managers Corp. (EMHMC)	Philippines	**–**	**100.0**	**85.6**	–	100.0	85.6	Hospital operation; Doing business under the name and style of Our Lady of Lourdes Hospital
Asian Hospital Inc. (AHI)	Philippines	**–**	**85.6**	**73.3**	–	85.6	73.3	Hospital operation
Colinas Verdes Hospital Managers Corp. (CVHMC)	Philippines	**–**	**100.0**	**85.6**	–	100.0	85.6	Hospital operation; Doing business under the name and style of Cardinal Santos Medical Center.
AHI Hospital Holdings Corp.	Philippines	**–**	**100.0**	**85.6**	–	100.0	85.6	Investment holding, Formerly Bumrungrad International Philippines Inc.
De Los Santos Medical Center Inc. (DLSMC)	Philippines	**–**	**51.0**	**43.7**	–	51.0	43.7	Hospital operation

Name of Subsidiary	Place of Incorporation	**September 30, 2018** MPIC Direct Interest	Direct Interest of Subsidiary	MPIC Effective Interest	December 31, 2017 MPIC Direct Interest	Direct Interest of Subsidiary	MPIC Effective Interest	Principal Activity
			(In %)			*(In %)*		
Central Luzon Doctors' Hospital, Inc. (CLDH)	Philippines	**–**	**51.0**	**43.7**	–	51.0	43.7	Hospital operation
Metro Pacific Zamboanga Hospital Corp. (MPZHC)	Philippines	**–**	**100.0**	**85.6**	–	100.0	85.6	Hospital operation; Doing business under the name and style of West Metro Medical Center.
Metro Radlinks Network Inc.	Philippines	**–**	**100.0**	**85.6**	–	100.0	85.6	Telehealth operation; Formerly Medigo Corporation
Sacred Heart Hospital of Malolos Inc. (SHHM)	Philippines	**–**	**51.0**	**43.7**	–	51.0	43.7	Hospital operation
Marikina Valley Medical Center, Inc. (MVMC)	Philippines	**–**	**93.1**	**79.7**	–	93.1	79.7	Hospital operation
Delgado Clinic Inc. (DCI)	Philippines	**–**	**65.0**	**55.6**	–	65.0	55.6	Hospital operation; Acquired in 2017
Metro RMCI Cancer Center Corporation	Philippines	**–**	**89.2**	**76.4**	–	89.2	76.4	Hospital operations
St. Elizabeth Hospital, Inc. (SEHI)	Philippines	**–**	**54.0**	**46.2**	–	54.0	46.2	Hospital operations; On December 8, 2017, MPHHI subscribed to an additional 26% increasing the total ownership to 80% pending filing to and approval of the increase in Authorized Capital Stock by the SEC.
Western Mindanao Medical Center, Inc.	Philippines	**–**	**63.9**	**54.7**	–	–	–	Leasing; Acquired on March 11, 2018 (see Note 4)
Davao Doctors Hospital (Clinica Hilario), Inc.	Philippines	**–**	**49.0**	**41.9**	–	–	–	Hospital operations (see Note 4)
RMCI Subsidiary								
Riverside College, Inc. (RCI)	Philippines	**–**	**100.0**	**66.7**	–	100.0	66.7	School operations
CVHMC Subsidiary								
Colinas Healthcare, Inc.	Philippines	**–**	**100.0**	**85.6**	–	100.0	85.6	Clinic management
CLDH Subsidiary								
Metro CLDH Cancer Center Corporation	Philippines	**–**	**100.0**	**43.7**	–	100.0	43.7	Clinic management
DCI Subsidiary								
Caretech Medical Services, Inc.	Philippines	**–**	**73.7**	**41.0**	–	60.0	33.4	Medical services
SEHI Subsidiary								

		September 30, 2018			December 31, 2017			
Name of Subsidiary	Place of Incorporation	**MPIC Direct Interest**	**Direct Interest of Subsidiary**	**MPIC Effective Interest**	MPIC Direct Interest	Direct Interest of Subsidiary	MPIC Effective Interest	Principal Activity
			(In %)			*(In %)*		
Metro SEHI Cancer Center Corporation	Philippines	**–**	**100.0**	**46.2**	–	–	–	Clinic management; Incorporated on June 21, 2018
DDH Subsidiary								
Allied Professional Development Corp.	Philippines	**–**	**100.0**	**41.9**	–	–	–	Laundry Services
Davao Doctors College, Inc.	Philippines	**–**	**100.0**	**41.9**	–	–	–	Learning Institution
MPLRC Subsidiaries								
Light Rail Manila Holdings Inc.(LRMH)	Philippines	**–**	**50.0**	**50.0**	–	50.0	50.0	Investment holding
Light Rail Manila Corporation (LRMC)	Philippines	**–**	**55.0**	**55.0**	–	55.0	55.0	Rail operations; Holds the concession agreement for the LRT-1.
Light Rail Manila Holdings 2, Inc.	Philippines	**–**	**50.0**	**50.0**	–	50.0	50.0	Investment holding
Light Rail Manila Holdings 6, Inc.	Philippines	**–**	**50.0**	**50.0**	–	50.0	50.0	Investment holding
MPLC Subsidiaries								
MetroPac Movers, Inc (MMI)	Philippines	–	**100.0**	**100.0**	–	76.0	76.0	Logistics
LogisticsPro, Inc.	Philippines	–	**100.0**	**100.0**	–	100.0	100.0	Logistics
MMI Subsidiaries								
MetroPac Trucking Company, Inc.	Philippines	–	**100.0**	**100.0**	–	100.0	76.0	Logistics
TruckingPro, Inc	Philippines	–	**100.0**	**100.0**	–	100.0	76.0	Logistics
PremierLogistics, Inc.	Philippines	–	**90.0**	**90.0**	–	90.0	68.4	Logistics
PremierTrucking, Inc.	Philippines	–	**100.0**	**100.0**	–	100.0	76.0	Logistics
OneLogistics, Inc.	Philippines	–	**100.0**	**100.0**	–	100.0	76.0	Logistics
NOHI Subsidiaries								
First Pacific Bancshares Philippines, Inc.	Philippines	–	**100.0**	**96.6**	–	100.0	96.6	Investment holding
Metro Pacific Management Services, Inc.	Philippines	–	**100.0**	**96.6**	–	100.0	96.6	Management services
First Pacific Realty Partners Corporation (FPRPC)	Philippines	–	**50.0**	**48.3**	–	50.0	48.3	Investment holding; BOD of FPRPC approved the shortening of the company's corporate life to until May 31, 2018.
Metro Tagaytay Land Co., Inc.	Philippines	–	**100.0**	**96.6**	–	100.0	96.6	Real estate; Pre-operating.
Pacific Plaza Towers Management Services, Inc.	Philippines	–	**100.0**	**96.6**	–	100.0	96.6	Management services; Dormant.
Philippine International Paper Corporation	Philippines	–	**100.0**	**96.6**	–	100.0	96.6	Investment holding; Dormant.
Pollux Realty Development Corporation	Philippines	–	**100.0**	**96.6**	–	100.0	96.6	Investment holding; Dormant.
Metro Asia Link Holdings, Inc.	Philippines	–	**60.0**	**58.0**	–	60.0	58.0	Investment holding; Dormant.

Item 2

Management's Discussion and Analysis of Financial Condition and Results of Operations

Financial Highlights and Key Performance Indicators

The summary financial information presented below as at September 30, 2018 and for the nine-month periods ended September 30, 2018 and 2017 was derived from the Company's unaudited interim consolidated financial statements, prepared in accordance with Philippine Accounting Standard 34, *Interim Financial Reporting*. The information below is not necessarily indicative of the results of future operations.

In this Report, Core EBITDA, Core EBITDA Margin and Core Income are not measures of performance under Philippine Financial Reporting Standards (PFRS), and users of this Report should not consider Core EBITDA, Core EBITDA Margin and Core Income in isolation or as alternatives to net income as an indicator of the Company's operating performance or to cash flow from operating, investing and financing activities as a measure of liquidity, or any other measures of performance under PFRS. There are various Core EBITDA, Core EBITDA Margin and Core income calculation methods, accordingly, the Company's presentation of these measures may not be comparable to similarly titled measures used by other companies.

The following discussion and analysis of the Group's financial condition and results of operations should be read in conjunction with the accompanying unaudited interim condensed consolidated financial statements and the related notes as at September 30, 2018 and for the nine-month periods ended September 30, 2018 and 2017 ("September 30, 2018 Interim Consolidated Financial Statements") included in this Report.

Operating Segments of the Group

Operational Review

I - MPIC CONSOLIDATED

As discussed in Note 3 - *Operating Segment Information* to the September 30, 2018 Interim Consolidated Financial Statements, the Company is organized into the following segments based on services and products: Power, Toll operations, Water, Healthcare, Rail, Logistics and Others.

Segment performance is evaluated based on: consolidated net income for the period; earnings before interest, taxes and depreciation and amortization, or Core EBITDA; Core EBITDA margin; and core income. Net income for the period is measured consistent with consolidated net income in the consolidated financial statements.

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

Performance of the operating segments are also assessed based on a measure of recurring profit or core income. Core income is measured as net income attributable to owners of the Parent 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, based on occurrence or size, are not considered usual operating items.

9M 2018 versus 9M 2017

MPIC Consolidated Statements of Comprehensive Income

	9M 2018	9M 2017	Increase (Decrease)	
	Unaudited		Amount	%
	(in Php Millions)			
Operating revenues	**61,348**	43,093	18,255	42
Cost of sales and services	**31,061**	19,025	12,036	63
General and administrative expenses	**10,201**	8,443	1,758	21
Interest expense	**7,530**	5,249	2,281	43
Share in net earnings of associates and joint ventures	**8,691**	5,993	2,698	45
Dividend income	**138**	2,630	(2,492)	(95)
Interest income	**898**	352	546	155
Construction revenue	**18,352**	13,749	4,603	33
Construction costs	**(18,349)**	(13,749)	(4,600)	33
Others	**1,770**	299	1,471	492
Provision for income tax	**5,040**	4,252	788	19
Net income attributable to owners of the Parent Company	**12,488**	11,128	1,360	12
Other comprehensive income (loss)	**(152)**	219	(371)	(169)
Total comprehensive income attributable to owners of the Parent Company	**12,350**	11,345	1,005	9
Core income	**12,191**	11,330	861	8
Non-recurring income (expense)	**297**	(202)	499	(247)
Core EBITDA	**28,551**	24,092	4,459	19
Core EBITDA margin	**47%**	56%	-9%	(16)

The significant increases in the accounts enumerated in the above table are primarily attributable to the step-acquisitions of Beacon Electric, BPHI and GBPC on June 27, 2017 and PT Nusantara on July 2, 2018, respectively. Other factors contributing to the increases (or decreases, as applicable) are discussed below.

Revenues

The Company’s revenues increased by 42% to ₱61,348 million reflecting consolidation of GBPC which contributed 33% or ₱20,172 million to the group’s revenues, and improved performances from the following operating segments:

- Water utilities posted a 6% increase in revenues on the strength of Maynilad’s 3% billed volume growth together with inflationary increases in tariff at 1.9% and 2.8% effective April 2017 and

January 2018, respectively; and (ii) MPW's Bulk water and Sewage Treatment Plant services contribution.

- Toll revenues are higher by 17% with average daily entries for the first nine months of 2018 up by 8% on the NLEX, 14% on the SCTEX and 5% on the CAVITEX compared with the same period in 2017 and a ₱0.25/km add-on toll rate on NLEX Closed system beginning November 6, 2017.
- Hospital revenues increased by 18% to ₱9,252 million driven by (i) contributions from JDMH (acquired in January 2017) and St. Elizabeth Hospital (acquired in October 2017); and (ii) increased number of patients served across all hospitals.
- Rail revenues growth at 5% at par with the average daily ridership growth.
- Logistics revenues during the first nine months of 2018 at ₱1,242.

See the relevant segment information under section *II - OPERATING SEGMENTS OF THE GROUP*.

Cost of Sales and Services

Cost of sales and services increased by 63% to ₱31,061 million. Out of the total increase in expenses, 51% or ₱9,760 million is attributable to GBPC. Significant expenses incurred by GBPC included fuel costs and purchased power from the WESM (see Note 18 - *Costs of Sales and Services* to the September 30, 2018 Interim Consolidated Financial Statements). Other factors contributing to the increase in cost of services included trucking and warehousing with the expansion of logistics segment.

Interest expense

The Company's consolidated interest expense increased by 43% to ₱7,530 million with the additions of debt from the consolidation of Beacon Electric, BPHI and GBPC, new bank loans drawn for capital expenditure (net of the capitalized interest) and interest charge accreting from MPIC's payable to PCEV (see Note 13 - *Long-term Debt* and Note 15 - *Due to and from Related Parties* to the September 30, 2018 Interim Consolidated Financial Statements).

Share in net earnings of equity method investees

Share in net earnings of equity method investees increased by 45% to ₱8,691 million mainly due to the combined impact of the increase in effective ownership in MERALCO beginning June 27, 2017 (see Note 8 - *Investments and Advances* to the September 30, 2018 Interim Consolidated Financial Statements) and improvement in MERALCO's operating results (see discussion under section *II - OPERATING SEGMENTS OF THE GROUP*). Share in the net earnings of MERALCO amounted to ₱8,368 million for the first nine months of 2018 while the combined share in the net earnings of MERALCO and Beacon Electric amounted to ₱7,236 million during the same period last year.

Dividend income

Dividend income during the current period was mainly from the Company's investment in Citra Metro Manila Tollways Corporation (2% equity interest). Last year's dividend income was significantly higher as this included dividend income from the Company's investment in Beacon Electric preferred shares amounting to ₱2,541 million (see Note 8 - *Investments and Advances* to the September 30, 2018 Interim Consolidated Financial Statements).

Other income (expense) – net

Other income (net) for the first nine months of 2018 includes forex gain, net gain on prepayment of loan, gain on remeasurement of previously held interest in PT Nusantara and DDH and proceeds from indemnity claim (see Note 20 - *Interest Income, Interest Expense and Others* to the September 30, 2018 Interim Consolidated Financial Statements).

Consolidated net income attributable to equity holders of the Parent Company

The increase in this account is mainly attributable to (i) an expanded power portfolio through increased investment in Beacon Electric; (ii) continuing traffic growth on all domestic roads; and (iii) steady volume growth coupled with inflation-linked tariff increases at Maynilad.

Core Income attributable to equity holders of the Parent Company

MPIC's share in the consolidated core income increased by 8% from ₱11,330 million for the first nine months of 2017 to ₱12,191 million in 2018 primarily reflecting the following:

- Power (distribution and generation) accounted for ₱8.5 billion or 55% of the aggregate contribution;
- Toll operations contributed ₱3.3 billion or 21% of the total;
- Water (distribution, production and sewerage treatment) contributed ₱3.0 billion or 20% of the total;
- Hospital group contributed ₱586 million or 4% of the total; and,
- the Rail, Logistics and others contributed ₱26 million.

The figures referred to above represent MPIC's share in the stand-alone core income of the operating companies, net of consolidation adjustments. See the relevant segment information under section *II - OPERATING SEGMENTS OF THE GROUP.*

Non-recurring income (expenses)

Non-recurring income amounting to ₱297 million for the first nine months of 2018 comprised mainly of foreign exchange gains at MERALCO net of project costs. Last year's non-recurring expense amounted to ₱202 million and mainly included accounting gain from remeasurement of TMC and gain on sale of MERALCO offset by the accounting loss on remeasurement of Beacon Electric, refinancing costs, project expenses and one-time separation expense as a result of Maynilad's redundancy and right-sizing program.

II - OPERATING SEGMENTS OF THE GROUP

Power

MPIC's power business contributed ₱8.5 billion to Core Net Income in the first nine months of 2018, an increase of 12% driven by excellent performances at both MERALCO and GBPC and the purchase of the remaining 25% in Beacon Electric in June 2017.

MERALCO

Manila Electric Company	9M 2018	9M 2017	Increase (Decrease) Amount	%
	Unaudited		Amount	%
	(in Php Millions)			
Revenues	**227,411**	214,389	13,022	6
Expenses	**206,960**	193,808	13,152	7
Core income	**16,686**	15,370	1,316	9
Reported net income attributable to equity holders of MERALCO	**18,212**	15,928	2,284	14
Capital Expenditure	**10,111**	8,076	2,035	25

Key Performance Indicators	9M 2018	9M 2017	Increase (Decrease) Amount	%
Volume Sold (in mln kwh)	**32,921**	31,401	1,520	5
System Loss (12-month moving average)	**5.67%**	6.05%	-0.38%	(6)

Core Net Income for the nine months ended September 30, 2018 of ₱16.7 billion was largely from contribution of the core distribution business with volume growing to 32,921 GWh or 5% over the comparative period, even as average consolidated distribution rate was two centavo less than in 2017 and adjustments of provision for impairment of certain receivables.

The 5% increase in energy sales was noted across all customer classes. Residential growth was driven by growth in the south section of MERALCO's franchise area. The commercial sector grew on continued expansion of the real estate, retail trade, and hotel and restaurants sectors while the Industrial sector was anchored on the healthy performance of the semiconductor, food & beverage, and rubber and plastic industries.

Total revenues rose 6% to ₱227.4 billion on higher energy sales together with increased pass-through generation charges partly offset by customers transitioning to other retail electricity sellers.

MERALCO spent ₱10.1 billion on capital expenditures in the first nine months of 2018 to address critical loading of existing facilities and to support growth in demand and customer connections.

The continuing effort to improve days-sales collection of trade receivables and the favorable resolution of certain long outstanding receivables provided further uplift to core and reported net income, as previously recorded provisions related to these accounts were reversed.

GBPC

GBPC	9M 2018 Unaudited	9M 2017	Increase (Decrease) Amount	%
	(in Php Millions)			
Revenue	**20,172**	17,227	2,945	17
Expenses	**15,385**	12,089	3,296	27
Core EBITDA	**6,779**	6,979	(200)	(3)
Core Income	**1,899**	2,079	(180)	(9)
Reported Net Income attributable to equity holders of GBPC	**1,916**	2,034	(118)	(6)

Key Performance Indicators	9M 2018	9M 2017	Increase (Decrease) Amount	%
Electricity Sold (consolidated; GWh)	**3,656**	3,278	378	12
Bilateral – Generation	**2,746**	2,765	(19)	(1)
Bilateral – WESM	**423**	261	162	62
WESM – Spot Sales	**487**	252	235	93

Global Power sold 3,656 GWH in the first nine months of 2018, an increase of 12% from a year earlier. However, Core Net Income for the first nine months of 2018 declined 9% to ₱1.9 billion due to a combination of: the start of depreciation expense for Panay Energy Development Corporation's new 150 MW plant on June 1, 2018; lower margins from WESM sales due to higher coal and fuel costs, partly offset by trading gains; and higher repairs and maintenance costs for preventive maintenance.

Alsons Thermal Energy Corporation (ATEC), in which GBPC has a 50% interest, contributed ₱204 million in core income (see Note 8 - *Investments and Advances* to the September 30, 2018 Interim Consolidated Financial Statements). ATEC was acquired by GBPC in November 2017.

Toll Operations

Metro Pacific Tollways Corporation	9M 2018	9M 2017	Increase (Decrease) Amount	%
	Unaudited			
	(in Php Millions)			
Consolidated Statements of Income				
Net toll revenues	**11,251**	9,605	1,646	17
Costs and expenses	**5,305**	4,496	809	18
Core EBITDA	**7,778**	6,259	1,519	24
Core Income	**3,277**	3,024	253	8
Reported net income attributable to equity holders of MPTC	**3,312**	4,507	(1,195)	(27)
Capital Expenditure	**6,748**	3,988	2,760	69
Key Performance Indicators			Increase (Decrease)	
	9M 2018	**9M 2017**	**Amount**	**%**
Average Daily Vehicle Entries:				
NLEX	**250,992**	233,332	17,660	8
SCTEX	**61,701**	53,407	8,294	16
CAVITEX	**143,907**	137,627	6,280	5
DMT	**99,684**	97,838	1,846	2
CII B&R	**33,045**	52,698	(19,653)	(37)
PT Nusantara	**311,806**	-	311,806	100

Net toll revenues for the first nine months of 2018 amounted to ₱11.3 billion, 17% higher than the revenue recognized during the same period last year, mainly due to strong traffic growth on the NLEX (8%), SCTEX (16%) and CAVITEX (5%) and a ₱0.25/km add-on toll rate on NLEX Closed system beginning November 6, 2017. Increases in traffic on all domestic roads are attributable to the integration of the NLEX and SLEX, the opening of additional lanes in the NLEX in 2017, and the growth in residential communities in Cavite and tourism in Batangas.

Costs and expenses increased by 18% to ₱5.3 billion during the first nine months of 2018. The first nine months of 2018 includes cost and expenses of PT Nusantara beginning July 2018, partially offset by the decrease in O&M fees owing to the consolidation of TMC beginning April 2017 (see Note 18 - *Costs of Sales and Services* to the September 30, 2018 Interim Consolidated Financial Statements).

The increase in traffic on all domestic roads and cost savings from TMC synergy boosted core income by 8% to ₱3.3 billion. Reported Net Income decreased by 27% mainly due to the accounting gain recorded in 2017 on remeasurement of previously held interest in TMC amounting to ₱1.8 billion at MPTC level.

<u>Tollroads outside the Philippines</u>:
DMT in Bangkok reported a 2% increase in daily traffic to 99,684 in the first nine months of 2018.

In Vietnam, CII B&R saw a decline in vehicle entries to 33,045 due to the end of the concession for the Rach Chiec Bridge. Traffic is expected to improve again by approximately 23,000 with the opening of part of the Hanoi Highway Expansion before the end of 2018.

Nusantara's traffic in Indonesia rose 2% to 311,806 in the first nine months of 2018. In July of this year, MPTC increased its interest in Nusantara from 48.3% to 53.3% on a fully-diluted basis. This step-up acquisition triggered the need for a General Offer for the balance of the Nusantara shares which further increased MPTC's ownership to 77.94% (see Note 4 – *Business Combination* to the September 30, 2018 Interim Consolidated Financial Statements).

Equity in net earnings from the above foreign investees amounted to loss of ₱145 million during the first nine months of 2018 (see Note 8 - *Investments and Advances* to the September 30, 2018 Interim Consolidated Financial Statements).

Water

	Unaudited		**Increase (Decrease)**	
Maynilad Water Services, Inc.	**9M 2018**	**9M 2017**	**Amount**	**%**
	(in Php Millions)			
Consolidated Statements of Income				
Revenues	**16,553**	15,578	975	6
Costs and Expenses	**6,937**	6,484	453	7
Core EBITDA	**11,698**	10,764	934	9
Core Income	**6,130**	5,575	555	10
Reported Net Income	**5,856**	5,105	751	15
Capital Expenditure	**9,016**	7,693	1,323	17
Key Performance Indicators			**Increase (Decrease)**	
	9M 2018	**9M 2017**	**Amount**	**%**
Volume of water supplied (MCM)	**567.6**	565.6	2.0	0
Volume of water billed (MCM) - Maynilad	**394.4**	383.4	11.0	3
Volume of water billed (MCM) - Consolidated	**408.2**	395.7	12.5	3
Non revenue water % DMA (average)	**30.5%**	32.2%	-1.7%	(5)
Non revenue water % DMA (period end)	**29.1%**	32.5%	-3.4%	(10)
Billed customers (period end)	**1,395,958**	1,347,747	48,211	4
Customer mix (% based on billed volume)				
Domestic (residential and semi-business)	**80.7%**	81.0%	-0.3%	(0)
Non-domestic (commercial and industrial)	**19.3%**	19.0%	0.3%	1

MPIC's water business comprises investments in Maynilad and MPW. The water segment's contribution to Core Net Income amounted to ₱3.0 billion in the first nine months of 2018, most of it attributable to Maynilad.

Revenues in the first nine months of 2018 rose 6% to ₱16.6 billion from ₱15.6 billion in the same period last year driven by a 3% increase in volume sold and an inflation-linked tariff increases of 1.9% in April 2017 and 2.8% in January 2018.

Costs and expenses increased by 7% to ₱6.9 billion primarily driven by higher amortization of service concession asset from completed capital expenditure (see Note 18 - *Costs of Sales and Services* to the September 30, 2018 Interim Consolidated Financial Statements). In addition, contracted services increased due to higher cost of security services, increase in number of pump operators and increase in desludging activities.

Owing to the increase in revenues combined with lower net interest expense, core net income for the first nine months of 2018 increased by 10% to ₱6.1 billion.

Healthcare

			Increase	
	9M 2018	**9M 2017**	**(Decrease)**	
Healthcare Group*	**Unaudited**		**Amount**	**%**
	(in Php Millions)			
Goss Revenues	**18,932**	16,522	2,410	15
Expenses	**14,976**	13,021	1,955	15
Core EBITDA	**4,148**	3,629	519	14
Core Income	**1,771**	1,510	261	17
Reported Net Income	**1,778**	1,518	260	17
			Increase	
Key Performance Indicators			**(Decrease)**	
	9M 2018	**9M 2017**	**Amount**	**%**
Occupancy rate (%) - Standard Beds	**67%**	66%	1%	2
Total beds available	**3,187**	2,967	220	7
No. of Patients - In patient	**143,579**	124,573	19,006	15
No. of Patients - Out patient	**2,534,985**	2,293,042	241,943	11
No. of Accredited Doctors	**8,613**	7,781	832	11
No. of Enrollees (schools) - average YTD	**6,738**	6,236	502	8

**Combined financial results of entities under the healthcare group (e.g. subsidiaries and associates).*

MPHHI reported a 15% rise in aggregate revenues for the first nine months of 2018 on the strength of an 11% increase in out-patient visits to 2,534,985 and a 15% growth in in-patient admissions to 143,579. Part of this performance is a result of investments we made in Jesus Delgado Memorial Hospital in Quezon City and St. Elizabeth Hospital in General Santos City in 2017.

On August 1, 2018, MPHHI made a Voluntary Tender Offer to acquire an additional 14.75% share in Davao Doctors Hospital. The result of this tender increased its ownership from 35.16% to 49.91%.

MPHHI is driving enhancements in patient care offerings and providing new service centers for the communities it serves. This continues to attract new patients to our network, though costs associated with the initial rollout of some of these new programs at the start of this year held back the growth in contribution to MPIC to 13%.

Rail

Rail	9M 2018	9M 2017	Increase (Decrease) Amount	%
	Unaudited			
	(in Php Millions)			
Farebox revenues	**2,440**	2,327	113	5
Expenses	**1,925**	1,842	83	5
Core EBITDA	**697**	590	107	18
Core Income	**544**	380	164	43
Reported Net Income	**560**	372	188	51
Key Performance Indicators			**Increase (Decrease)**	
	9M 2018	**9M 2017**	**Amount**	**%**
Average daily ridership	**452,892**	431,464	21,428	5
Available LRV (period end)	**112**	105	7	7

LRMC served an average daily ridership of 452,892 in the first nine months of 2018, an improvement of 5% from a year earlier while the highest daily ridership was 575,000 (9M 2017: 549,000). The increase in ridership combined with the impact of higher advertising income and lower repairs and maintenance, lifted LRMC's core income by 43% to ₱544 million. LRMC's contribution to MPIC's Core Income amounted to ₱299 million for the first nine months of 2018.

3Q 2018 versus 3Q 2017

MPIC Consolidated Statements of Comprehensive Income

	3Q 2018	**3Q 2017**	**Increase (Decrease)**	
	Unaudited		**Amount**	**%**
	(in Php Millions)			
Operating revenues	**21,280**	18,997	2,283	12
Cost of sales and services	**10,867**	9,083	1,784	20
General and administrative expenses	**4,131**	3,442	689	20
Interest expense	**2,911**	2,517	394	16
Share in net earnings of associates and joint ventures	**2,481**	2,569	(88)	(3)
Dividend income	**72**	89	(17)	(19)
Interest income	**370**	178	192	108
Construction revenue	**7,309**	5,753	1,556	27
Construction costs	**(7,306)**	(5,753)	(1,553)	27
Others	**1,147**	85	1,062	>100
Provision for income tax	**1,687**	1,661	26	2
Net income attributable to owners of the Parent Company	**3,547**	3,307	240	7
Other comprehensive income (loss)	**(233)**	95	(328)	>100
Total comprehensive income attributable to owners of the Parent Company	**3,320**	3,400	(80)	(2)
Core income	**3,591**	3,530	61	2
Non-recurring expense	**(22)**	(223)	(201)	90

The significant increases in the accounts enumerated in the above table are primarily attributable to the step-acquisition of PT Nusantara on July 5, 2018. Other factors contributing to the increases (or decreases, as applicable) are discussed below.

Revenues

The Company's revenues increased by 12% to ₱21,280 million reflecting improved performances from the following operating segments:

- Power generation grew 7% mainly due to higher pass through cost from increasing coal and fuel prices despite 5% decline in sales.
- Water utilities posted a 2% increase in revenues on the strength of (i) Maynilad's 2% billed volume growth together with inflation-linked increases in tariff at 2.8% effective January 2018; and (ii) MPW's Bulk water and Sewage Treatment Plant services contribution.
- Toll revenues are higher by 23% mainly due to higher traffic across all local toll roads compared with the same period in 2017 and a ₱0.25/km add-on toll rate on NLEX Closed system beginning November 6, 2017.
- Hospital revenues increased by 22% to ₱3,452 million driven by (i) contributions from St. Elizabeth Hospital (acquired in October 2017); and (ii) increased number of patients served across all hospitals.
- Rail revenues growth at 6% was driven by the increase in average daily ridership.

- Logistics revenues during the third quarter of 2018 at ₱312 million.

Cost of Sales and Services

Cost of sales and services increased by 20% to ₱10,867 million. The increase is mainly attributable to higher power generation and power replacement cost, increased amortization of service concession assets and increased repairs and maintenance cost in GBPC and Maynilad.

Interest expense

The increase in interest expense is attributable to the additional debt drawn and interest charge accreting from MPIC's payable to PCEV.

Share in net earnings of equity method investees

Share in net earnings of equity method investees decreased by 3% to ₱2,481 million mainly due to the sale of PT Nusantara's Telco company, KIN offset by the improvement in MERALCO's operating results and contribution from ATEC which was acquired in 4Q 2017.

Other income – net

Other income (net) for 3Q 2018 is mainly gains on remeasurement of previously held interests in PT Nusantara and DDH, and forex gain while 3Q2017 was higher advertising and rental income.

Consolidated net income attributable to equity holders of the Parent Company

7% or ₱240 million increase in the consolidated net income attributable to equity holders of the Parent Company is mainly attributable to steady growth in MERALCO, continuing traffic growth on all domestic roads and steady volume growth coupled with inflationary tariff increase at Maynilad.

Core Income attributable to equity holders of the Parent Company

MPIC's share in the consolidated core income slightly increased by 2% from ₱3.53 billion in 3Q 2017 to ₱3.59 billion in 3Q 2018 primarily reflecting the following:

- Power (distribution and generation) accounted for ₱2.7 billion or 56% of the aggregate contribution;
- Toll operations contributed ₱1.0 billion or 20% of the total;
- Water (distribution, production and sewerage treatment) contributed ₱0.9 billion or 19% of the total;
- Hospital group contributed ₱248 million or 5% of the total; and,
- the Rail, Logistics and others resulted to a loss of ₱34 million.

The figures referred to above represent MPIC's share in the stand-alone core income of the operating companies, net of consolidation adjustments.

Non-recurring expenses

Non-recurring expense amounting to ₱44 million for 3Q 2018 comprise mainly of project costs net of foreign exchange gains at MERALCO. Last year's non-recurring expense amounted to ₱223 million which are mainly project expenses.

Discussion on Financial Position as at September 30, 2018 and December 31, 2017

Assets

The following table summarizes the individual increases (decreases) of consolidated asset accounts.

	September 30, 2018 Unaudited	%	December 31, 2017 Audited	%	Increase (Decrease) Amount	%
	(in Php Millions)					
ASSETS						
Current assets						
Cash and cash equivalents and short-term deposits	**45,509**	59	49,317	66	(3,808)	(8)
Restricted cash	**4,545**	6	4,047	5	498	12
Receivables	**13,073**	17	10,899	15	2,174	20
Other current assets	**12,385**	16	10,432	14	1,953	19
	75,512	98	**74,695**	100	817	1
Asset held for sale	**1,247**	2	**250**	0	997	399
	76,759	100	**74,945**	100	1,814	2
Noncurrent Assets						
Investments and advances	**149,230**	32	150,971	35	(1,741)	(1)
Service concession assets	**195,069**	43	168,783	40	26,286	16
Property, plant and equipment	**72,048**	15	67,606	16	4,442	7
Goodwill	**30,160**	6	25,384	6	4,776	19
Intangible assets	**4,434**	1	4,637	1	(203)	(4)
Deferred tax assets	**1,384**	0	1,045	0	339	32
Other noncurrent assets	**14,464**	3	10,380	2	4,084	39
	466,789	100	428,806	100	37,983	9

The significant increases in the accounts enumerated in the above table are primarily attributable to the step-acquisitions of PT Nusantara on July 2, 2018 and DDH on September 5, 2018. Other factors contributing to the increases (or decreases, as applicable) are discussed below.

- *Cash and cash equivalents and short-term deposits* – (Decrease) Mainly due to Beacon Electric's loan prepayment, MPIC's scheduled settlement of the amount owed to PCEV and MPW's acquisitions of TLW and PNW (see section *Liquidity and Capital Resources* for the summary of the Group's statement of cash flows for the nine-month period ended September 30, 2018).

- *Restricted Cash – (Increase)* Restricted cash pertains to sinking fund or debt service account (DSA) representing amounts set aside for principal and interest payments of certain long-term debt. This DSA is maintained and replenished in accordance with the provision of the loan agreements. Decrease in restricted cash is a consequence of the scheduled repayment of loans (see Note 5 - *Cash* *and Cash Equivalents, Short-term Deposits and Restricted Cash* to the September 30, 2018 Interim Consolidated Financial Statements).

- *Receivables – (Increase)* Mainly driven by the increase in trade receivables in relation to the improvement in revenues particularly on the power generation business (see Note 6 - *Receivables* to the September 30, 2018 Interim Consolidated Financial Statements).

- *Asset held for sale – (Increase)* Mainly driven by GBPC's reclassification to Asset held for sale of transmission facilities to be transferred to NGCP (see Note 24 – *Contracts, Agreements and Commitments* to the September 30, 2018 Interim Consolidated Financial Statements).

- *Other current assets* – (Increase) Mainly driven by the increase in advances to contractors and consultants of Maynilad and GBPC and reclassification of the deposits for LTIP from noncurrent to current assets. The LTIP payout scheduled in March 2019 (see Note 7 – *Other Current Assets* to the September 30, 2018 Interim Consolidated Financial Statements).

- *Investments and advances* – (Decrease) Mainly due to the consolidation of PT Nusantara and DDH which were previously accounted for as associates partially offset by the acquisition of new associates (TLW and PNW) and equity in net earnings recognized net of dividend income for the period (see Note 8 - *Investments and Advances* to the September 30, 2018 Interim Consolidated Financial Statements).

- *Service concession assets* – (Increase) Mainly due to the service concession assets acquired from consolidating PT Nusantara and additional capital expenditures, net of amortization. See Note 9 - *Service Concession Assets* to the September 30, 2018 Interim Consolidated Financial Statements for the nature of the additions to the service concession assets.

- *Goodwill* – (Increase) Mainly driven by the step-up acquisition of PT Nusantara and DDH and acquisition of PT Rezeki through PT Nusantara.

- *Other noncurrent assets* – (Increase) Mainly driven by the increase in advances made to contractors for the ongoing construction of MPTC's toll road and LRMC's LRT-1 rehabilitation and extension projects.

Liabilities and Equity

The following table summarizes the individual increases (decreases) of consolidated liability and equity accounts.

	September 30, 2018 Unaudited	%	December 31, 2017 Audited	%	Increase (Decrease) Amount	%
	(in Php millions)					
Current Liabilities						
Accounts payable and other current liabilities	**30,132**	56	27,142	49	2,990	11
Income tax payable	**1,633**	3	1,415	3	218	15
Due to related parties	**4,412**	8	3,879	7	533	14
Current portion of:						
Provisions	**5,963**	11	5,997	11	(34)	(1)
Service concession fees payable	**571**	1	871	2	(300)	(34)
Long-term debt	**11,345**	21	15,573	28	(4,228)	(27)
	54,056	100	54,877	100	(821)	(1)
Noncurrent Liabilities						
Noncurrent portion of:						
Provisions	**2,384**	1	2,106	1	278	13
Service concession fees payable	**30,193**	12	28,873	12	1,320	5
Long-term debts	**196,531**	77	173,510	75	23,021	13
Due to related parties	**7,296**	3	11,767	5	(4,471)	(38)
Deferred tax liabilities	**8,481**	3	6,836	3	1,645	24
Other long-term liabilities	**9,482**	4	10,103	4	(621)	(6)
	254,367	100	233,195	100	21,172	9
Equity						
Capital stock	**31,631**	19	31,626	20	5	0
Additional paid-in capital	**68,487**	40	68,465	42	22	0
Treasury shares	**(167)**	0	(167)	0	0	0
Equity reserves	**5,700**	3	5,742	4	(42)	(1)
Retained earnings	**62,891**	37	53,894	33	8,997	17
Other comprehensive income reserve	**1,546**	1	1,684	1	(138)	(8)
Total equity attributable to owners of the Parent Company	**170,088**	100	161,244	100	8,844	5
Non-controlling interest	**65,037**		54,435		10,602	19

- *Accounts payable and other current liabilities* – (Increase) Mainly due to the increase in accrued construction costs attributable to Toll Roads and Maynilad (see Note 11 - *Accounts Payable and Other Current Liabilities* to the September 30, 2018 Interim Consolidated Financial Statements).

- *Service concession fees payable – current and noncurrent portions* – (Increase) Represents movement in foreign exchange and interest accretion net of actual payment of concession fees (see Note 14 – *Service Concession Fees Payable* to the September 30, 2018 Interim Consolidated Financial Statements).

- *Due to related parties* – (Decrease) The decrease is mainly driven by the scheduled payment of payable to PCEV. See Note 15 - *Due to and from Related Parties* and Note 26 - *Supplemental Cash Flow Information* to the September 30, 2018 Interim Consolidated Financial Statements.

- *Long-term debt – current and noncurrent portions* – (Increase) See Note 13 - *Long-term Debt* to the September 30, 2018 Interim Consolidated Financial Statements for details of the Company's new loan facilities and borrowings.

- *Non-controlling interest* – (Increase) Aside from the NCI's share in Net Income, additions to NCI included NCI acquired from PT Nusantara and DDH and infusion of the other shareholders of LRMH and LRMC into the LRT-1 project (see Note 16 - *Equity* to the September 30, 2018 Interim Consolidated Financial Statements). Refer to the Statements of Changes in Equity for the other movements in the NCI account.

Liquidity and Capital Resources

The following table shows a summary of the Group's unaudited statements of cash flows for the first nine months of 2018 and 2017 as well as the Company's consolidated capitalization as of September 30, 2018, and December 31, 2017:

	Unaudited		Increase (Decrease)	
	9M 2018	9M 2017	Amount	%
	(in Php Millions)			
Cash Flows				
Net cash provided by operating activities	**26,420**	18,813	7,607	40
Net cash (used in) provided by investing activities	**(18,981)**	(2,724)	16,257	>100
Net cash used in financing activities	**(5,194)**	(1,066)	(4,128)	(>100)
Net increase (decrease) in cash and cash equivalents	**2,245**	15,023	(12,778)	(85)
Capital expenditures	**23,900**	15,302	8,598	56

	Unaudited September 30, 2018	Audited December 31, 2017	Increase (Decrease) Amount	%
	(in Php Millions)			
Capitalization				
Long-term debt net of current portion	**196,531**	173,510	23,021	13
Current portion of long-term debt	**11,345**	15,573	(4,228)	(27)
Total short and long-term debt	**207,876**	189,083	18,793	10
Non-controlling interest	**65,037**	54,435	10,602	19
Total equity attributable to owners of the Parent Company	**170,088**	161,244	8,844	5
Cash and cash equivalents	**43,080**	40,835	2,245	5
Short-term deposits	**2,429**	8,482	(6,053)	(71)

As at September 30, 2018, MPIC's consolidated cash and cash equivalents and short-term deposits totaled ₱45,509 million, a decrease of ₱3,808 million from ₱49,317 million as at December 31, 2017. This decrease mainly resulted from increased CAPEX spending, acquisition of new investments (TLW and PNW), scheduled payment of amount owed to PCEV and the prepayment of certain borrowings. Refer to the *Exhibit I - Unaudited Interim Consolidated Financial Statements* for the Company's *Consolidated Statements of Cash Flows* for the details of the cash inflow and outflows during the current period.

Operating Activities

MPIC's consolidated net operating cash flow in the first nine months of 2018 posted a 40% increase from ₱18,813 million to ₱26,420 largely attributable to the improvement in the operating results. Total revenues for the nine-month period ended September 30, 2018 increased by ₱18,255 million to ₱61,348 million owing to the consolidation of GBPC beginning June 27, 2017 and improved operating performance.

Investing activities

Net cash used in investing activities amounted to ₱18,981 million during the first nine months of 2018. Cash outflows included CAPEX spending comprising of additions to service concession and hospital assets and acquisitions of TLW and PNW. See Note 8 – Investments and Advances for details of the acquisition and Note 9 - *Service Concession Assets* to the September 30, 2018 Interim Consolidated Financial Statements for the nature of the additions to the service concession assets.

Financing Activities

The Company's consolidated net cash used in financing activities amounted to ₱5,194 million in the first nine months of 2018. Significant outflows included: (i) scheduled payments of debt (including interest), portion of Maynilad's service concession fees and payable to PCEV; (ii) Beacon Electric's prepayment of loan; and (iii) dividends paid to both owners of the parent company and to non-controlling shareholders.

FINANCIAL SOUNDNESS INDICATORS

Financial Ratios	Formula	September 30, 2018	December 31, 2017
a) Current Ratio	$\frac{\text{Total Current Assets}}{\text{Total Current Liabilities}}$	1.42	1.37
b) Solvency Ratio [a]	$\frac{\text{NPAT + Depreciation and amortization}}{\text{Total Liabilities}}$	0.11	0.09
c) Debt-to-Equity Ratio	$\frac{\text{Total Debt}}{\text{Total Stockholders' Equity}}$	0.88	0.88
d) Asset to Equity Ratio	$\frac{\text{Total Assets}}{\text{Total Stockholders' Equity}}$	2.31	2.34

Financial Ratios	Formula	September 30, 2018	September 30, 2017
e) Interest Rate Coverage Ratio	$\frac{\text{EBIT}}{\text{Net Interest Expense}}$	4.63	5.01
f) Net Profit margin	$\frac{\text{Net Profit after tax}}{\text{Net Revenues}}$	31.0%	35.7%

Financial Ratios	Formula	September 30, 2018	December 31, 2017
g) Return on assets*	$\frac{\text{NPAT + Interest Expense (net of tax)}}{\text{Average Total Assets}}$	6.4%	6.0%
h) Return on Equity*	$\frac{\text{Net Profit after tax}}{\text{Average Total Stockholders' Equity}}$	11.2%	9.4%

**Annualized*

METRO PACIFIC INVESTMENTS CORPORATION AND SUBSIDIARIES
AGING OF ACCOUNTS RECEIVABLES
As at September 30, 2018 (Unaudited)
(Amounts in Millions)

Trade receivables	**₱11,885**
Notes receivable	**150**
Concession financial receivable	**316**
Nontrade	**2,308**
Due from related parties	**23**
	14,682
Less allowance for doubtful accounts	**(1,187)**
	13,495
Less current portion	**(13,096)**
Noncurrent portion	**₱399**

The aging analysis of receivables follows:

Neither past due nor impaired	**₱8,713**
Past due but not impaired:	
0–30 days	**2,037**
31–60 days	**658**
61–90 days	**587**
Over 90 days	**1,500**
Impaired	**1,187**
	₱14,682

RISK FACTORS

As an investment and management company, MPIC undertakes risk management at a number of distinct levels:

1. **On entering new investments**

   Prior to making a new investment, any business to be acquired is subject to an extensive due diligence including financial, operational, regulatory and risk assessment as well as dispute resolution mechanisms. Risks to investment returns are then calibrated and specific measures to manage these risks are determined. The Company is highly selective in the investment opportunities it examines. Due diligence is conducted on a phased basis to minimize costs of evaluating opportunities that may ultimately not be pursued.

   MPIC's investments involve - in varying degrees - a partnership approach with MPIC taking a controlling position and key operating partners providing operational and technological input thereby mitigating risks associated with investing in new business areas. These partners are equity partners - and having co-invested with the Company in a particular opportunity, they participate in the risks and rewards of the business alongside MPIC.

   Financing for new investments is through a combination of debt and/or equity by reference to the underlying strength of the cash flow of the target business and the overall financing position of MPIC itself.

   MPIC's geographic focus is still predominantly the Philippines within which its management team has extensive experience. Recently, MPIC has increased its presence in Southeast Asia with its investment in Indonesia's PT Nusantara Infrastructure Tbk (PT Nusantara), adding to its position in Thailand's Don Muang Tollway Public Ltd (DMT) and Vietnam's CII Bridges and Roads Investment Joint Stock Company (CII B&R), Tuan Loc Water Resources Investment Joint Stock Company (TLW) and BOO Phu Ninh Water Treatment Plant Joint Stock Company (PNW). MPIC is mitigating its foreign investment risk through partnerships with reputable local firms in these countries and engaging strong and reputable advisers.

2. **On ongoing Management of the Financial Stability of the Holding Company**

   MPIC does not guarantee the borrowings of its investee companies and there are no cross-default provisions from one investee operating company to another. Financial stability of the holding company, including its dividend commitment to shareholders, is managed by reference to the ability of the investee companies to remit dividends to MPIC to cover operating costs and service borrowings. MPIC avoids currency and investment cycle mismatches by borrowing mostly in Pesos using primarily long-term instruments with fixed rates.

   MPIC sets the level of debt on the Parent Company's balance sheet so as to withstand variability of dividend receipts from its operating companies associated with regulatory and other risks described below.

3. **Risk Management within the Operating Companies**

   Each of the operating companies has a full management team which is responsible for having their own plan to manage risk which is reviewed annually by their respective Risk Management Committees and periodically by MPIC.

- *Political and Regulatory risks.* The majority of MPIC's invested capital is deployed into businesses which are directly regulated by arms of the state: electricity distribution; water supply and distribution along with sewage treatment; tollroads; and light rail. Each of these businesses has concession or franchise agreements which involve a degree of operating performance obligation in order to retain our rights and earn our expected returns. In some cases, these agreements provide for retrospective assessment of the extent of our overall operational and financial performance sometimes over a period of years.

  Risks arising from these types of businesses include the potential for differences with regulators involving interpretation of the relevant agreements – either during the period in question or in retrospect. To manage these risks, the operating companies have established dedicated regulatory management groups with experienced personnel. Their duty is to manage the relationship with regulators, keep management up-to-date on the status of the relationship and ensure companies are well prepared for any forthcoming regulatory changes or challenges.

  As of September 30, 2018, the Group has a sizeable amount of pending claims accumulated for its water, toll and rail businesses (see Note 23 – *Contingencies* to the September 30, 2018 Interim Consolidated Financial Statements). The Group is mitigating the risk of being unable to collect its claims by continuing to deliver its obligations under its concession and franchise agreements and maintaining open communication lines with the various responsible government agencies and ministers.

  MPIC also monitors and, where possible, contributes to the discussions on the creation of new regulatory policies or amendments to existing ones.

- *Competition and Market.* There is strong competition in bidding for Public-Private Partnership (PPP) projects offered by the Philippine Government which may reduce forecast equity returns for winning bids. MPIC's preference is to deliver unsolicited proposals to government in order to receive Original Proponent Status on its ideas. In this way it seeks to increase the prospect of winning projects without sacrificing returns thresholds.

  Competition risks in MPIC's relevant operating companies were discussed in each operating company's writeup (see Item 1 - *Description of Business* to the 2017 SEC Form 17-A).

  Revenue and sales volume. Sales volume among the major operating companies of MPIC is partly driven by the prevailing economic conditions of the country. For example, the volume growth of MERALCO was affected by the rising inflation during the period. Other factors affecting sales volumes of the Group are related to service delivery reliability and quality. For example, in Maynilad, any incident on poor water quality distributed can severely have an impact on the health and safety of its customers, undermine the Company's reputation and hence, its revenues. Internal factors such as possible material internal mistakes or adverse incidents may also be a source of negative publicity for the Company and can possibly affect the Group's volume growth.

- *Supply risk.*

    MPIC's water company, Maynilad, has some supply side risk in that: (i) it secures almost all of its supply from a single source – the Angat dam; and (ii) this water source is shared by another water concessionaire, a hydroelectric plant, and the needs of farmers for irrigation. A water usage protocol is in place to ensure all users receive water as expected within the constraints of available supply. Following significant water supply disruptions in the past, the business has experienced periods of lower water supply than allowed for in its concession. We have worked to moderate our reliance on Angat by developing the Putatan Water Treatment Plant. In addition, the Sumag Diversion Project, which was initiated by the Government, aims to provide additional 188 MLD, was jointly implemented by Maynilad and Manila Water.

The power generation companies in the MPIC portfolio depend on varying grades of coal for their fuel. Primary supply sources are backed up by alternative supply sources and carrying appropriate inventories.

- *Safety and Security risk.*

  - The operation of LRMC has significant operational safety and security risks. These risks have been exacerbated by the poor condition and inadequate maintenance of the system prior to the September 12, 2015 takeover by LRMC. LRMC is mitigating these risks by establishing a Safety Management System driven from the top, appointing a strong senior management team with extensive light rail operating experience and using a combination of engineering and administrative controls in the operations and maintenance of LRT-1. The risk of terrorism in the trains and stations, which is assessed as the top risk of LRMC, is also mitigated through strict inspection of incoming passengers, x-ray screening in high density stations, banning of wrapped packages as well as potentially harmful tools and chemicals and use of dogs trained in bomb detection in each station.

  - For GBPC, possible hazards facing its employees include fires, electrical shocks and burns, boiler fires and pressure vessel explosions, and contact with hazardous chemicals, moving objects and heavy equipment, fall, confined space works and marine operations such as off-loading of coal which are common risks in power plant facilities. GBPC is implementing safety programs and policies aimed at reducing and/or eliminating accidents. In addition, GBPC is investing in manpower safety training, machine safety design, fire protection systems, emergency response equipment and regular fire-drills, provision of personal protective equipment, site inspections, regular equipment maintenance and 3rd party certifications, and monitoring systems for emergency and security purposes. All GBPC power plants are ISO-certified.

  - For Maynilad, poor water quality can have an impact on the health and safety of its customers. This is mitigated through quality assurance and control checks to ensure it complies to the Philippine National Standard for Drinking Water 2017. In addition, Maynilad’s employees are facing common safety related hazards including slips, trips and falls into a confined space and exposure to gases such as methane, hydrogen sulfide and chlorine. Maynilad mitigates these risks by providing preventive measures to ensure safety.

  - For MERALCO, the safety risks are those attendant to operating an above ground power distribution system serving approximately 28 million people. The primary risks are death or injury through fall, burn or electrocution. Extensive training is made in training, safety equipment and operating protocols to minimize safety incidents.

- *Other operational risk.*
  - In LRMC, there are risks to projected financial returns through late delivery of Government procured items such as Rights of Way, additional Light Rail Vehicles (LRVs), and the Common Station. Plans to mitigate these risks include consistently engaging the regulators on

the status of the projects' milestones and joint regular performance reviews by both parties – the Concessionaire (LRMC) and the Grantors (the DOTC and the Light Rail Transit Authority or LRTA).

- Other risk associated with the Group's operations, specifically on its Environmental, Social and Governance aspects were discussed in the Company's *2017 Sustainability Report*.

4. Financial Risk Management

The financial risks of MPIC's operating companies are primarily: interest rate risk, foreign currency risk, liquidity risk, credit risk and equity price risk (see Note 32 - *Financial Risk Management Objectives and Policies* to the 2017 Audited Consolidated Financial Statements for more details on these risks).

Equity Price Risk. MPIC's operating companies are generally not faced with equity price risk beyond that normal for any listed company, where relevant. MPIC's investment in MERALCO, through Beacon Electric, is partly financed by borrowings which require a certain security cover based on the price of MERALCO's shares on the Philippine Stock Exchange (PSE) on a volume weighted 30 trading day average calculation. MERALCO's share price would have to decline by 90.9% from its price as at September 30, 2018 before Beacon Electric would be required to top-up collateral with cash or pay-down debt.

The regulatory returns for MERALCO and Maynilad are benchmarked in part to the changing cost of equity (and debt) in the Philippines with a positive correlation between rising equity risk premiums and nominal returns. For more details on MERALCO's risk factors, please see MERALCO's September 2018 17-Q as also uploaded on the edge website of the PSE.

Key Variable and Other Qualitative and Quantitative Factors

i. *Events that will trigger direct or contingent financial obligation that is material to the company, including any default or acceleration of an obligation*

   Refer to Note 23 – *Contingencies* and Note 24 – *Contracts, Agreements and Commitments* to the September 30, 2018 Interim Consolidated Financial Statements for the updates on the Company's financial obligations.

ii. *All material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the company with unconsolidated entities or other persons created during the reporting periods*

   Refer to Note 24 – *Contracts, Agreements and Commitments* to the September 30, 2018 Interim Consolidated Financial Statements for the updates on the Company's financial obligations.

iii. *Description of any material commitments for capital expenditures, general purpose of such commitments, expected sources of funds for such expenditures*

   Refer to Note 9 - *Service Concession Assets* and Note 24 – *Contracts, Agreements and Commitments* to the September 30, 2018 Interim Consolidated Financial Statements for the updates on the Company's commitments.

iv. *Any known trends, events or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on net sales or revenues or income from continuing operations*

The Company's results of operations are highly dependent on its ability to set and collect adequate tariffs under its concession agreements with the Philippine Government. Please refer to Note 23 – *Contingencies* to the September 30, 2018 Interim Consolidated Financial Statements.

v. *Any seasonal aspects that had a material effect on the financial condition or results of operations*

Please refer to Note 3 – *Operating Segment Information* to the September 30, 2018 Interim Consolidated Financial Statements.