IMPORTANT NOTICE

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Any offer or sale of the Bonds within the Philippines is subject to registration unless such offer or sale is made under circumstances in which the Bonds qualify as exempt securities or pursuant to an exempt transaction under the SRC. The offer or sale of the Bonds in the Philippines to (a) "primary institutional lenders" pursuant to Rule 9.2(2) B of the amended implementing rules of the SRC, or (b) persons who are "qualified buyers" pursuant to Section 10.1(1) of the SRC, or (c) not more than nineteen (19) persons who are not "qualified buyers" during any twelve-month period pursuant to Section 10.1(k) of the SRC is exempt from registration. FPMH Finance Limited (the "**Issuer**") has not obtained confirmation from the Philippine Securities and Exchange Commission that the offer and sale of the bonds within the Philippines qualifies as an exempt transaction. If necessary, the Issuer will file a notice of exemption from registration with the Philippine Securities and Exchange Commission pursuant to SRC Rule 10.1. Crédit Agricole Corporate and Investment Bank (the "**Lead Manager**") has represented, warranted and agreed that it has and will not sell or offer for sale or distribution any bonds in the Philippines except to "primary institutional lenders" pursuant to Rule 9.2(2) B of the amended implementing rules of the SRC or to "qualified buyers" pursuant to Section 10.1(1) of the SRC. Prospective investors should take note of the transfer restrictions set out in Rule 9.2(2) B of the amended implementing rules of the SRC.

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The materials relating to the offering of securities to which this Offering Circular relates do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the underwriters or any affiliate of the underwriters is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the underwriters or such affiliate on behalf of the Issuer (as defined in this Offering Circular) in such jurisdiction.

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US$300,000,000

FPMH FINANCE LIMITED

(incorporated in the British Virgin Islands with limited liability)

7.375% GUARANTEED SECURED BONDS DUE 2017

irrevocably and unconditionally guaranteed by

FIRST PACIFIC COMPANY LIMITED

(incorporated in Bermuda with limited liability)

ISSUE PRICE: 100.0%

The US$300,000,000 7.375% Guaranteed Secured Bonds due 2017 (the "**Bonds**") offered hereby by FPMH Finance Limited (the "**Issuer**") will be secured by (a) a share pledge under Philippine law (the "**Share Pledge**") granted by Metro Pacific Holdings, Inc. ("**MPHI**") over common shares (the "**MPIC Shares**") in Metro Pacific Investments Corporation ("**MPIC**") and (b) an assignment by way of continuing security of all rights in respect of an escrow account (the "**Escrow Account**") in the name of the Issuer (the "**Escrow Account Assignment**"). The Bonds are also irrevocably and unconditionally guaranteed (the "**Guarantee**") by First Pacific Company Limited (the "**Guarantor**" or "**First Pacific**").

The Bonds will constitute direct, unconditional, secured obligations of the Issuer. The Bonds will be secured in the manner described in Condition 3 of the Bonds and shall at all times rank *pari passu* and without any preference or priority amongst themselves. The Guarantee will constitute a direct, unsecured and unsubordinated obligation of First Pacific which will at all times rank at least *pari passu* with all other present and future unsecured and unsubordinated obligations of First Pacific save for such exceptions as may be provided by applicable laws.

The Bonds will bear interest from 23 July 2010 at the rate set forth above, payable semi-annually in arrear on 24 January and 24 July of each year (commencing 24 January 2011), except that the first payment of interest, to be made on 24 January 2011, will be in respect of the period from and including 23 July 2010 to but excluding 24 January 2011 and will amount to US$37.080 per US$1,000 in principal amount of Bonds. The Bonds mature on 24 July 2017 but may be redeemed before then, in whole but not in part at the option of the holder of the Bonds (the "**Bondholder**"), on the occurrence of a Change of Control, a Delisting or, at the option of the Issuer in the event of certain developments affecting taxation, as described in this Offering Circular.

An application has been made for the listing of the Bonds on the Official List of the Singapore Exchange Securities Trading Limited (the "**SGX-ST**"). The SGX-ST assumes no responsibility for the correctness of any statements made or opinions expressed or reports contained in this Offering Circular. Admission of the Bonds to the Official List of the SGX-ST is not to be taken as an indication of the merits of the Issuer, First Pacific, MPHI, MPIC or the Bonds.

Investing in the Bonds involves risks. Please see "Risk Factors" beginning on page 21.

The Bonds and the Guarantee have not been and will not be registered under the United States Securities Act of 1933, as amended (the "**Securities Act**") and may not be offered or sold within the U.S. except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. The Bonds are being offered in offshore transactions outside the United States in reliance on Regulation S under the Securities Act. For a description of these and certain further restrictions on offers and sales of the Bonds and the distribution of this Offering Circular, see "Subscription and Sale".

The Bonds will be represented by beneficial interests in a global certificate (the "**Global Certificate**") in registered form, without interest coupons attached, which will be registered in the name of a nominee of, and shall be deposited on or about 23 July 2010 with a common depositary for, Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking, société anonyme ("**Clearstream**").

Beneficial interests in the Global Certificate will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream. Except as described herein, certificates for Bonds will not be issued in exchange for beneficial interests in the Global Certificate.

Sole Bookrunner and Lead Manager

Crédit Agricole CIB

Domestic Managers

CLSA Exchange Capital, Inc. **First Metro Investment Corporation**

16 July 2010

The Issuer and the Guarantor are responsible for the accuracy and completeness of the information in this Offering Circular and the Issuer and the Guarantor represent and warrant that the information in this Offering Circular is in all material respects in accordance with the facts and does not omit anything likely to affect the accuracy and completeness of such information in any material respect, provided that for the information provided by third-party sources contained herein, the Issuer and the Guarantor accept responsibility for accurately reproducing such information but accept no further or other responsibility in respect of such information.

Investors should only rely on the information contained in this Offering Circular. The information contained in this Offering Circular is given only as at the date of this Offering Circular. The business, financial condition, results of operations and prospects of the Issuer and the Guarantor may have changed since that date.

This Offering Circular is based on information provided by the Issuer and the Guarantor and by other sources that they believe are reliable. No assurance can be given that such information from other sources is accurate or complete.

THIS OFFERING CIRCULAR DOES NOT CONSTITUTE AN OFFER TO SELL, OR A SOLICITATION OF AN OFFER TO BUY, ANY BOND OFFERED HEREBY BY ANY PERSON IN ANY JURISDICTION IN WHICH IT IS UNLAWFUL FOR SUCH PERSON TO MAKE SUCH AN OFFER OR SOLICITATION. NEITHER THE DELIVERY OF THIS OFFERING CIRCULAR NOR ANY SALE MADE HEREUNDER SHALL UNDER ANY CIRCUMSTANCES IMPLY THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE ISSUER OR THE GUARANTOR OR THE GUARANTOR'S SUBSIDIARIES OR ASSOCIATES OR THAT THE INFORMATION SET FORTH HEREIN IS CORRECT AS AT ANY DATE SUBSEQUENT TO THE DATE HEREOF.

The distribution of this Offering Circular and the offering of the Bonds in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Issuer, the Guarantor and Crédit Agricole Corporate and Investment Bank (the "**Lead Manager**") to inform themselves about and to observe any such restrictions. No action is being taken to permit a public offering of the Bonds or the distribution of this Offering Circular in any jurisdiction where action would be required for such purposes. There are restrictions on the offer and sale of the Bonds, and the circulation of documents relating thereto, in certain jurisdictions including the U.S., the United Kingdom, Singapore, Hong Kong, the Philippines, the British Virgin Islands and Bermuda, and to persons connected therewith. For a description of certain further restrictions on offers, sales and resales of the Bonds and distribution of this Offering Circular, see "Subscription and Sale".

This Offering Circular has been prepared by the Issuer and the Guarantor solely for use in connection with the offering of the Bonds related thereto and described herein. The Issuer, the Guarantor and the Lead Manager reserve the right to reject any offer to purchase the Bonds offered hereby in the primary market, in whole or in part, for any reason.

Each person receiving this Offering Circular acknowledges that (i) such person has been afforded an opportunity to request from the Issuer and the Guarantor and to review, and has received, all additional information considered by it to be necessary to verify the accuracy of, or to supplement, the information contained herein, (ii) such person has not relied on the Lead Manager or any person affiliated with the Lead Manager in connection with any investigation of the accuracy of such information or its investment decision, and (iii) no person has been authorised to give any information or to make any representation concerning the Issuer, the Guarantor or the Bonds (other than as contained herein and information given by duly authorised officers and employees of the Issuer and the Guarantor in connection with investors' examination of the Issuer and the Guarantor and the terms of the offering of the Bonds) and, if given or made, any such other information or representation should not be relied upon as having been authorised by the Issuer, the Guarantor or the Lead Manager.

In making an investment decision, investors must rely on their own examination of the Issuer and the Guarantor and the terms of the offering of the Bonds, including the merits and risks involved. The Bonds have not been recommended by the Issuer, the Guarantor or the Lead Manager.

No representation or warranty, expressed or implied, is made by the Lead Manager as to the accuracy or completeness of the information set forth herein, and nothing contained in this Offering Circular is, or shall be relied upon as, a promise or representation, whether as to the past or the future. The Lead Manager has not independently verified any of such information and assumes no responsibility for its accuracy or completeness. To the fullest extent permitted by law, neither the Lead Manager nor the Trustee accepts any responsibility for the contents of this Offering Circular. Each of the Lead Manager and the Trustee accordingly disclaims all and any liability whether arising in tort or contract or otherwise which it might otherwise have in respect of this Offering Circular.

IN CONNECTION WITH THIS OFFERING, THE LEAD MANAGER OR ANY PERSON ACTING FOR THE LEAD MANAGER MAY, SUBJECT TO ALL APPLICABLE LAWS, OVER-ALLOT BONDS OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THAT THE LEAD MANAGER (OR PERSONS ACTING ON BEHALF OF THE LEAD MANAGER) WILL UNDERTAKE STABILISATION ACTION. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE BONDS IS MADE AND, IF BEGUN, MAY BE ENDED AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE BONDS AND 60 DAYS AFTER THE DATE OF ALLOTMENT OF THE BONDS.

SPECIAL NOTE ON FORWARD-LOOKING STATEMENTS

Certain statements under "Risk Factors", "Business of First Pacific" and elsewhere in this Offering Circular constitute "forward-looking statements". The words including "believe", "expect", "plan", "anticipate", "schedule", "estimate" and similar words or expressions identify forward-looking statements. In addition, all statements other than statements of historical facts included in this Offering Circular, including, but without limitation, those regarding the financial position, business strategy, prospects, capital expenditure and investment plans of the Issuer, First Pacific, MPIC, PT Indofood Sukses Makmur Tbk ("**Indofood**"), Philippine Long Distance Telephone Company ("**PLDT**") and Philex Mining Corporation ("**Philex**") and the plans and objectives of the Issuer's, First Pacific's, MPIC's, Indofood's and PLDT's and Philex's management for its respective future operations (including development plans and objectives relating to the operations of the Issuer, First Pacific and its subsidiaries (the "**Group**"), PLDT and Philex and other associates of the Group, are forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results or performance of the Issuer, First Pacific, the Group, PLDT, Philex and other associates of the Group to differ materially from those expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding the Issuer's, First Pacific's, the Group's, PLDT's, Philex's or other associates of the Group present and future business strategies and the environment in which the Issuer, First Pacific, the Group, PLDT, Philex or other associates of the Group will operate in the future. Each of the Issuer and First Pacific expressly disclaim any obligation or undertaking to release any updates or revisions to any forward-looking statements contained herein to reflect any change in the Issuer's and First Pacific's expectations with regard thereto or any change of events, conditions or circumstances, on which any such statements were based. This Offering Circular discloses, under "Risk Factors" and elsewhere, important factors that could cause actual results to differ materially from the expectations of the Issuer or First Pacific. All subsequent written and forward-looking statements attributable to the Issuer or First Pacific or persons acting on behalf of the Issuer or First Pacific are expressly qualified in their entirety by such cautionary statements.

CERTAIN TERMS AND CONVENTIONS

Unless indicated otherwise, in this Offering Circular all references to (i) the "**Issuer**" are to FPMH Finance Limited, (ii) the "**Guarantor**" and "**First Pacific**" are to First Pacific Company Limited, (iii) "**MPHI**" are to Metro Pacific Holdings, Inc., (iv) the "**Group**" are to First Pacific and its subsidiaries, (v) "**MPIC**" are to Metro Pacific Investments Corporation, (vi) "**PLDT**" are to Philippine Long Distance Telephone Company, (vii) "**Indofood**" are to PT Indofood Sukses Makmur Tbk and (viii) "**Philex**" are to Philex Mining Corporation.

Unless otherwise specified or the context requires, references herein to "**Hong Kong dollars**", "**HK dollars**" or "**HK$**" are to the lawful currency of Hong Kong, references herein to "**U.S. dollars**", "**US$**" or "**U.S. cents**" are to the lawful currency of the United States of America, references herein to "**peso**" or "**₱**" are to the lawful currency of the Republic of the Philippines, references to "**Rupiah**" or "**Rp**" are to the lawful currency of the Republic of Indonesia, references to "**HKFRS**" are to the Hong Kong Financial Reporting Standards, references to "**PFRS**" are to the Philippine Financial Reporting Standards and references to "**Indonesian GAAP**" are to accounting principles generally accepted in Indonesia. Unless otherwise stated, currency translations in this Offering Circular in relation to figures relating to the 2009 fiscal year were made and have been made on the basis of the following exchange rates as specified in the relevant annual reports of First Pacific related to the particular fiscal year and are summarised below:

	Average exchange rates			Closing exchange rates		
First Pacific Annual Report for the fiscal year:	**2009**	**2008**	**2007**	**2009**	**2008**	**2007**
Peso/US$1.00	47.81	44.68	45.86	46.20	47.52	41.28
Rupiah/US$1.00	10,349	9,700	9,163	9,400	10,950	9,419

No representation is made that the U.S. dollar, peso, Rupiah or HK dollar amounts referred to in this Offering Circular could have been or could be converted into U.S. dollars, peso, Rupiah or HK dollars, as the case may be, at any particular rate or at all. For further information relating to exchange rates, see "Exchange Rates".

Certain figures included in this Offering Circular have been subject to rounding adjustments; accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

INCORPORATION OF FINANCIAL INFORMATION

The audited consolidated financial statements of First Pacific which are contained in the annual reports of First Pacific as at and for the years ended 31 December 2007 and 2008 are incorporated by reference in this Offering Circular. Copies of the financial statements are available and may be obtained free of charge at the specified office of the First Pacific at 24/F Two Exchange Square, 8 Connaught Place, Central, Hong Kong. The financial statements for First Pacific were prepared in conformity with HKFRS issued by the Hong Kong Institute of Certified Public Accountants.

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The summary below is only intended to provide a limited overview of information described in more detail elsewhere in this Offering Circular. As it is a summary, it does not contain all the information that may be important to investors and terms defined elsewhere in this Offering Circular shall have the same meanings when used in this summary. Prospective investors should therefore read this Offering Circular in its entirety. The summary is also qualified in its entirety by the audited consolidated financial statements of First Pacific and MPIC and notes thereto appearing elsewhere in this Offering Circular.

OVERVIEW

First Pacific was founded in May 1981 and was incorporated in Bermuda in May 1988 as a limited liability company. First Pacific is a Hong Kong-based investment holding and management company with its principal business interests in Southeast Asia relating to telecommunications, infrastructure, consumer food products and natural resources.

The principal business activities of the Group and its affiliates and associated companies are as follows:

Telecommunications

PLDT, of which an approximately 26.5% economic interest is held by the Group, is the leading telecommunications service provider in the Philippines. Through its three principal business groups, wireless (operated principally through its wholly-owned subsidiary Smart Communications, Inc. ("**Smart**")), fixed line (operated principally through PLDT), and information and communications technology ("**ICT**") (operated principally through its wholly-owned subsidiary ePLDT, Inc. ("**ePLDT**")), PLDT offers the largest and most diversified range of telecommunications services across the Philippines' most extensive fiber optic backbone and wireless, fixed line, broadband and satellite networks.

Infrastructure

MPIC, an affiliate of First Pacific, of which an approximately 55.6% economic interest is held by the Group, is a diversified infrastructure holding and management company in the Philippines, with interests in the water utilities (including water, sewerage and sanitation services), toll roads, electricity distribution and healthcare sectors.

Consumer Food Products

Indofood, a 50.1% owned indirect subsidiary of First Pacific, is a leading processed food company engaged in food manufacturing, processing, marketing and distribution. Through its four complementary business groups, Indofood offers and distributes a wide range of food products throughout Indonesia: consumer branded products ("**CBP**") (noodles, dairy, food seasonings, snack foods and nutrition & special foods), Bogasari (flour and pasta), agribusiness (oil palm, rubber, sugar cane, cocoa and tea plantations, cooking oils, margarine and shortening) and distribution.

Natural Resources

Philex, of which an approximately 31.4% economic interest is held by the Group, is engaged in the exploration, development and utilisation of mineral resources in the Philippines. Philex also holds selected interests in the oil and petroleum business. In addition, Two Rivers Pacific Holdings Corporation ("**Two Rivers**"), a Philippine affiliate of First Pacific, holds an approximately 15.0% interest in Philex.

The major shareholder of First Pacific is Anthoni Salim, who directly or indirectly owned approximately 44.0% of the issued share capital of First Pacific as at the date of this Offering Circular.

First Pacific is listed on The Stock Exchange of Hong Kong Limited ("**SEHK**") and maintains an American Depositary Receipt facility in the United States, with a market capitalisation of approximately HK$21.2 billion as at 9 July 2010. For the year ended 31 December 2009, First Pacific reported turnover of US$3,925.6 million and profit attributable to owners of the parent of US$401.6 million.

STRENGTHS

First Pacific believes that it has the following core strengths:

Strong and Consistent Cash Flow

Primarily through its economic interest in PLDT, of which it is the single largest shareholder and exercises significant influence, First Pacific receives strong recurring dividend income. With respect to the financial years ended 31 December 2007, 2008 and 2009, PLDT paid out approximately 100% of its core net income as dividends to its shareholders, resulting in dividend payments of ₱34.8 billion, ₱37.5 billion and ₱40.7 billion, respectively. Through its economic interest in PLDT, First Pacific consequently received cash dividends of the equivalent of approximately US$153 million, US$208 million and US$203 million in the years ended 31 December 2007, 2008 and 2009. Furthermore, Indofood paid out approximately 40% of its net income as dividends to its shareholders in the years ended 31 December 2007, 2008 and 2009. Through its equity interest in Indofood, First Pacific consequently received cash dividends of the equivalent of approximately US$14 million, US$19 million and US$18 million in those years. In May 2010, Indofood declared its final dividend for fiscal year 2009, which is expected to result in a cash dividend income to First Pacific of approximately US$40 million.

Leading Market Position

The Group's main business segments enjoy significant market positions in their respective sectors. PLDT is the leading cellular service and fixed line telecommunications services provider in the Philippines, with approximately 55% and 60% of total reported cellular and fixed line subscribers nationwide, respectively. MPIC's main subsidiaries, Maynilad Water Services, Inc. ("**Maynilad**") and Metro Pacific Tollways Corporation ("**Metro Pacific Tollways**" or "**MPTC**"), as well as its associated company, Manila Electric Company ("**Meralco**"), are leading infrastructure operating companies in the Philippines. Under concessions expiring in 2037, Maynilad is the exclusive concessionaire to distribute water in the West Zone of Metro Manila and MPTC is the exclusive concessionaire to operate the North Luzon Expressway ("**NLEX**") toll road while Meralco is the franchised exclusive distributor of electricity in substantially all of its service areas, with the franchise valid until 2028. Indofood is one of the largest total integrated food solutions companies in Indonesia.

Diversified Portfolio of Major Philippine Infrastructure Assets

MPIC, an affiliate of First Pacific, has assembled a diversified portfolio of Philippine infrastructure and utility companies, and has potential for long-term growth and stable cash flows. These include (i) Maynilad, currently the exclusive provider of water utilities services to approximately 7.2 million people in Western Metro Manila, making it the largest water concessionaire by customer base in the Philippines; (ii) MPTC, the operator of the NLEX, Subic Clark Tarlac Expressway ("**SCTEx**") and Subic Freeport Expressway, which comprise three of the major toll road developments in the Philippines; and (iii) Meralco, the largest private sector electricity distribution utility in the Philippines.

Experienced Management Team

First Pacific considers active management to be a key part of its investment policy and has maintained a strict focus on recruiting and retaining a strong management team. First Pacific's senior management team has significant experience in each of its businesses and a strong track record of maximising profitability, integrating acquisitions and realising synergies within and across First Pacific's businesses. First Pacific's senior management has a developed understanding of local markets and has strong relationships with government and regulatory agencies, international consultants and sources of capital.

STRATEGY

First Pacific's principal business strategy is to promote the continuing growth in profitability across all group companies and associated companies whilst further exploring investment opportunities in the Asian emerging markets, focusing on its existing core businesses across the region. To position itself better for growth, First Pacific will seek to increase its cashflow and implement a capital management programme.

Specific strategies for First Pacific's telecommunications, infrastructure, consumer food products and natural resources operations are set forth below:

Telecommunications

Build on PLDT's Leading Positions in the Fixed Line and Wireless Businesses.

PLDT and Smart plan to build on their position as the leading wireless service provider in the Philippines by continuing to introduce new products and services (in particular, broadband services) to increase its subscribers' use of their network for both voice and data, as well as subscribers' reliance on their services. PLDT is currently upgrading its fixed line facilities to the Next Generation Network, and has rolled out a 3G network based on its W-CDMA technology as well as expanding its digital subscriber lines ("**DSL**") and wireless broadband facilities.

Capitalise on PLDT's Strength as an Integrated Provider of Telecommunications Services.

PLDT offers the broadest range of telecommunications services among all operators in the Philippines. It plans to capitalise on this position to maximise revenue opportunities by bundling and cross-selling its products and services, and by developing convergent products that feature the combined benefit of voice and data, fixed line, wireless and information and communication technologies services utilising PLDT's network and business platforms. PLDT is also lowering its costs by integrating the operations of its different businesses.

Strengthen PLDT's Leading Position in the Data and Broadband Market.

Leveraging on the inherent strength of its fixed line and wireless businesses, PLDT is committed to further develop its fastest growing business segment — broadband, data and other network services. Consistent with its strategy of introducing innovative products and services using advanced technology, PLDT has launched various products and services that address different market needs.

Infrastructure

Increase Profitability of its Core Infrastructure Assets.

MPIC plans to increase the profitability of its core infrastructure assets, enhance portfolio value and grow dividend flows through prudent management. In the water utilities business, MPIC intends to increase Maynilad's profitability by expanding its water utilities services principally in the West Zone

to reach the approximately 2.1 million customers either currently without piped services or underserved in terms of water availability and pressure, increasing per capita water consumption, reducing non-revenue water ("**NRW**") and improving efficiencies in water delivery and revenue collection. In the toll roads business, MPIC intends to build, expand and operate various toll road facilities and extensions to the NLEX in order to increase traffic volumes and enjoy economies of scale. In its healthcare business, MPIC intends to develop its core holdings into the first nationwide chain of hospitals across the Philippines, featuring superior facilities and quality medical services. In the electricity distribution business, MPIC intends to increase Meralco's profitability by ensuring its performance meets the requirements of the guaranteed service level performance payouts and for Meralco to enjoy a financial return as stipulated in the performance-based regulation ("**PBR**") for meeting those requirements.

Develop and Maintain a Diverse Set of Infrastructure Assets.

MPIC intends to maintain and continue to develop a diverse portfolio of infrastructure assets. MPIC believes that its existing investments in water utilities, toll roads, electricity distribution and healthcare services should provide strong and stable revenues. It also believes that there are other areas in the infrastructure sector that may provide opportunities for further risk diversification.

Growth Through Further Investments in Attractive Infrastructure Assets.

MPIC is committed to investing through acquisitions and strategic partnerships in prime infrastructure assets with the potential to provide synergies with its existing operations. Accordingly, it intends to monitor closely strategic opportunities in the Philippines. MPIC intends to leverage its sophisticated management team and strong relationships to identify attractive targets in the infrastructure sector and execute its growth plans.

Consumer Food Products

Maintain Market Leadership in Indofood's Key Consumer Branded Products.

Indofood plans to maintain its market leadership by continuing to invest in its brands to strengthen their brand equity with consumers. It intends to continue with advertising and promotion activities that enhance consumer awareness and loyalty. In conjunction with its marketing initiatives, Indofood plans to continue with its rural development programme. Commencing in 2009, the programme is intended to increase the distribution and penetration of its products in rural areas by pulling demand and pushing availability. Furthermore, Indofood plans to continue to meet consumers' changing preferences and ensure its products' relevance through product innovation and rejuvenation.

Further Develop its Agribusiness.

Crude palm oil continues to represent one of the cheapest vegetable oils, with continuing strong demand, especially from emerging countries, and as bio-diesel use increases, particularly in European countries. Indofood intends to capitalise on the long-term prospects of crude palm oil by continuing its strategy of new plantings and improvements in productivity through improved research and development capabilities, continuous improvement of agronomy practices and enhancement of human resources skills. Indofood also plans to continue to expand its operations into sugar production, where shortages in both the domestic and international markets continue to provide opportunities to further expand its sugar operation. Indofood expects sugar to become the second crop of its agribusiness operations and in the future create a significant contribution to Indofood's Agribusiness group.

Natural Resources

Become a Dominant Gold and Copper Producer in the Philippines.

In August 2009, the operating life of the mine at the Sto. Thomas II deposit located at Padcal, Tuba, Benguet Province, Philippines (the "**Padcal Mine**") was extended from 2014 to 2017. Philex intends to conduct further exploratory drilling in adjacent areas to assess if there are further resources that

could be mined in the years ahead. In April 2010, Philex acquired the residual interest and completed a tender offer to acquire full ownership of the resource and reserves of Boyongan and Bayugo mineral deposits located in Surigao del Norte, Northern Mindanao, Philippines (the "**Silangan Project**"). In the medium term, technical and financial resources will be devoted primarily to bringing this project into production as soon as practicable. The Silangan Project combines the development of the Boyongan and Bayugo deposits, which comprise gold, copper and silver. A pre-feasibility study on the Boyongan deposit concluded that based on certain assumptions contained in the report, the Boyongan deposit is technically and financially feasible, with proven mineral reserves of gold and copper. Drilling continues for the Silangan Project to define further the mineralisation limits and to upgrade the Bayugo resource to measured from indicated.

THE OFFERING

The following is a brief summary of the terms of the offering of the Bonds. For a more complete description of the terms of the Bonds, see "Terms and Conditions of the Bonds" in this Offering Circular. Terms used but not defined herein have the meanings set forth in "Terms and Conditions of the Bonds".

Issuer	FPMH Finance Limited
Guarantor	First Pacific Company Limited
Bonds Offered	US$300,000,000 aggregate principal amount of 7.375% Guaranteed Secured Bonds due 2017 (the "**Bonds**").
Guarantee	Payment of all sums from time to time payable in respect of the Bonds is irrevocably and unconditionally guaranteed by First Pacific.
Issue Price	100.0%.
Maturity Date.	24 July 2017.
Interest Payment Dates	24 January and 24 July in each year, commencing on 24 January 2011.
Interest	The Bonds will bear interest from 24 July 2010 at the rate of 7.375% per annum, payable semi-annually in arrear, except that the first payment of interest, to be made on 24 January 2011, will be in respect of the period from and including 23 July 2010 to but excluding 24 January 2011 and will amount to US$37.080 per US$1,000 in principal amount of Bonds.
Ranking of the Bonds	The Bonds will constitute direct, unconditional, secured obligations of the Issuer. The Bonds will be secured in the manner described in Condition 3 of the Bonds and shall at all times rank *pari passu* and without any preference or priority amongst themselves.
Ranking of the Guarantee	The Guarantee will constitute a direct, unsecured and unsubordinated obligation of First Pacific which will at all times rank at least *pari passu* with all other present and future unsecured and unsubordinated obligations of First Pacific, save for such exceptions as may be provided by applicable laws.
Events of Default	The Bonds will contain certain events of default, including a cross default provision as further described in Condition 10 of the Bonds.
Security	The Bonds will be secured by: (i) the Share Pledge, governed by Philippine law, over all rights, benefit and title of MPHI in the Initial MPIC Shares and any Additional MPIC Collateral;

(ii) the Escrow Account Assignment, which is an assignment by way of continuing security under Hong Kong law, of all rights of the Issuer in respect of the Escrow Account; and

(iii) any Additional Security with respect to any cash or Cash-equivalent Securities secured pursuant to Condition 4(d) of the Bonds.

Charged Property. . . . . The Charged Property consists of:

(i) The Share Pledge: Intially MPIC Shares (the number of MPIC Shares to be secured initially will be calculated based on their Market Value on the Closing Date, for illustrative purposes only, based on the Market Value of US$0.0581 for one MPIC Share on 16 July 2010, approximately 10.33 billion MPIC Shares would be initially subject to the Share Pledge) will be subject to the Share Pledge, representing a Collateral Value of at least 200% of the Reference Amount. If at any time and from time to time the Collateral Value is less than 150% of the Reference Amount, the Issuer shall as soon as possible and in any event within thirteen Business Days provide security over Additional MPIC Collateral and/or cash or Cash-equivalent Securities (at the Issuer's discretion) so that the aggregate Collateral Value is at least 215% of the Reference Amount. To the extent that the Collateral Value at any time exceeds 215% of the Reference Amount, the Issuer may, at any time, cause such reduction in the cash or Cash-equivalent Securities secured as Collateral (such reduction to be made in the amount of cash and/or Cash-equivalent Securities as instructed by, and at the discretion of, the Issuer, with such cash and/or Cash-equivalent Securities to be released and transferred by the Security Trustee as instructed by the Issuer) as will result in the Collateral Value being at least equal to 215% of the Reference Amount.

(ii) The Escrow Account: The Issuer is required to credit an amount equal to 12 months' interest on the Bonds into the Escrow Account within one Business Day of the Closing Date. Following the first Interest Payment Date, the credit balance of the Escrow Account shall not be less than an amount equal to the interest due on the immediately succeeding Interest Payment Date. The Issuer shall not be entitled to withdraw any funds from the Escrow Account except in accordance with Condition 4(c) of the Bonds. In addition to the foregoing obligations, the Issuer is required for the five Business Days prior to the next immediately succeeding Interest Payment Date (except the first and last Interest Payment Date) to credit the Escrow Account with the Interest Amount due on all Bonds outstanding on that Interest Payment Date.

	(iii) Additional Security: Any Additional Security with respect to any cash or Cash-equivalent Securities secured pursuant to Condition 4(d) of the Bonds.
Covenants	Subject to certain conditions as further described in Conditions 4(e) and 4(f) of the Bonds, First Pacific has undertaken not to make any Asset Disposition including any Asset Disposition which reduces First Pacific's interest in PLDT as at the Closing Date to less than 25%.
Tax Redemption	Pursuant to Condition 6(b) of the Bonds, the Bonds are not redeemable by the Issuer prior to maturity except that the Bonds may be redeemed at any time at the option of the Issuer, in whole but not in part, at 100% of the principal amount thereof, plus accrued and unpaid interest, in the event, as a result of certain developments affecting taxation described herein, the Issuer is, or would be, obliged to pay additional amounts in respect of the Bonds. See "Terms and Conditions of the Bonds — Redemption, Purchase and Cancellation — Redemption for Taxation".
Change of Control	The Bonds may be redeemed at any time following the occurrence of a Change of Control at the option of the Bondholder, in whole but not in part, at 101% of the principal amount thereof, plus accrued and unpaid interest.
Delisting	The Bonds may be redeemed at any time following the occurrence of a Delising, except when such Delisting is at the instruction or request of First Pacific, at the option of the Bondholder, in whole or in part, at 100% of the principal amount thereof, plus accrued and unpaid interest.
Further Issues	The Issuer and First Pacific may from time to time, without the consent of Bondholders create and issue further notes or bonds having the same terms and conditions as the Bonds in all respects (or in all respects except for the first interest payment date). Additional Bonds issued in this manner will be consolidated and form a single series with the previously outstanding Bonds.
Governing Law	The Bonds and the Trust Deed and any non-contractual obligations arising out of or in connection with them are governed by English law. The Share Pledge will be governed by Philippines law. The Escrow Account Assignment will be governed by Hong Kong law.
Denomination, Form and Registration	The Bonds will be registered and issued in the denomination of US$100,000 and integral multiples of US$1,000 in excess thereof.

Clearing Systems	The Bonds will be represented by beneficial interests in the Global Certificate, which will be registered in the name of a nominee of, and deposited on the Closing Date with, a common depositary for, Euroclear and Clearstream. Beneficial interests in the Global Certificate will be shown on and transfers thereof will be effected only through records maintained by Euroclear and Clearstream. Except as described herein, individual certificates evidencing the Bonds will not be issued in exchange for beneficial interests in the Global Certificate.
Clearance and Settlement	The Bonds have been accepted for clearance through Euroclear and Clearstream under the following codes: ISIN: XS0528191058 Common Code: 052819105
Listing	An application has been made for the listing of the Bonds on the SGX-ST. The Bonds will be traded on the SGX-ST in a minimum trading board lot size of US$200,000 for so long as the Bonds are listed on the SGX-ST.
Trustee	DB Trustee (Hong Kong) Limited
Registrar	Deutsche Bank Luxembourg S.A.
Principal Paying Agent	Deutsche Bank AG, Hong Kong Branch
Use of Proceeds	The net proceeds of the offering of the Bonds, after deducting underwriting commissions and other expenses, are estimated to be approximately US$294.5 million. The net proceeds will be on-lent by the Issuer to First Pacific who will use the net proceeds primarily for the repayment of its outstanding debts.

SUMMARY CONSOLIDATED FINANCIAL INFORMATION OF FIRST PACIFIC

The following tables present the summary consolidated financial information for First Pacific. The summary consolidated financial information presented below have been derived from the audited consolidated financial statements of First Pacific as at and for the years ended 31 December 2007, 2008 and 2009. First Pacific's consolidated financial statements as at and for the years ended 31 December 2007, 2008 and 2009 have been audited by Ernst & Young, Hong Kong, independent certified public accountants. The financial data should be read in conjunction with, and are qualified in their entirety by reference to, the consolidated financial statements of First Pacific including the notes thereto included elsewhere in this Offering Circular or incorporated by reference. The consolidated financial statements of First Pacific are prepared and presented in accordance with HKFRS.

	For the years ended 31 December (Audited)		
	2007 Restated	**2008**	**2009**
	(US$ in millions)		
Summary Consolidated Income Statement Data:			
Turnover	3,040.8	4,105.3	3,925.6
Cost of sales	(2,320.7)	(3,103.4)	(2,739.9)
Gross profit	720.1	1,001.9	1,185.7
Gain on dilutions and divestments	356.1	28.7	85.9
Distribution costs	(254.2)	(273.9)	(289.0)
Administrative expenses	(170.7)	(256.8)	(286.8)
Other operating income/(expenses), net	0.6	(144.9)	105.1
Net borrowing costs	(137.1)	(150.5)	(230.3)
Share of profits less losses of associated companies and joint ventures	239.7	192.9	233.4
Profit before taxation	754.5	397.4	804.0
Taxation	(94.0)	(61.4)	(143.7)
Profit for the year from continuing operations	660.5	336.0	660.3
Profit for the year from a discontinued operation	5.1	0.6	1.1
Profit for the year	665.6	336.6	661.4
Attributable to:			
Owners of the parent	504.8	200.8	401.6
Minority interest	160.8	135.8	259.8
	665.6	336.6	661.4

	As at 31 December (Audited)		
	2007 Restated	2008	2009
	(US$ in millions)		
Selected Consolidated Statement of Financial Position Data :			
Cash and cash equivalents	600.8	625.9	936.6
Pledged deposits and restricted cash	—	12.0	29.2
Total assets	5,221.1	7,199.0	9,397.3
Total borrowings (including short-term borrowings)	2,044.6	3,158.7	3,685.3
Total liabilities	3,098.1	4,823.8	5,358.2
Total equity	2,123.0	2,375.2	4,039.1

	For the years ended/as at 31 December (Audited)		
	2007 Restated	2008	2009
	(US$ in millions)		
Other Consolidated Financial Data:			
Capital expenditure	106.3	300.5	389.8
Depreciation and amortisation	64.5	106.5	177.9
Other Head Office Financial Data:			
Dividend income[(2)]	166.3	226.2	221.6
Net interest expense[(2)]	36.3	29.9	24.0
Net debt (at end of year)[(2)]	532.4	731.3	651.7

Note:

(1) Decline in Head Office's dividend income from US$226.2 million in the year ended 31 December 2008 to US$221.6 million in the year ended 31 December 2009 is due solely to the depreciation of the peso and rupiah against the U.S. dollar.

(2) Includes the amounts of certain wholly-owned financing and holding companies.

SUMMARY CONSOLIDATED FINANCIAL INFORMATION OF MPIC

The following tables present the summary consolidated financial information for MPIC. The summary consolidated financial information presented below as at 31 December 2008 and 2009 and for the years ended 31 December 2007, 2008 and 2009 was derived from the consolidated financial statements of MPIC, audited by SyCip Gorres Velayo & Co., a member firm of Ernst & Young Global Limited, in accordance with Philippine Standards on Auditing. The selected consolidated financial information for the three-month periods ended 31 March 2009 and 2010 was derived from the unaudited interim condensed consolidated financial statements of MPIC, reviewed by SyCip Gorres Velayo & Co. in accordance with Philippine Standard on Review Engagement 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". The audited consolidated financial statements as at 31 December 2008 and 2009 and for the years ended 31 December 2007, 2008 and 2009 and the unaudited interim condensed consolidated financial statements for the three-month periods ended 31 March 2009 and 2010 included in this Offering Circular have been prepared in accordance with PFRS and PFRS applicable to interim financial reporting.

Summary Consolidated Income Statements:	**For the years ended 31 December**				**For the three months ended 31 March**		
	2007 Restated	**2008 Restated**	**2009**	**2009**	**2009**	**2010**	**2010**
	(Audited)				**(Unaudited)**		
	₱	**₱**	**₱**	**US$**	**₱**	**₱**	**US$**
				(in millions)			
Operating revenues							
Water and sewerage services revenue	—	4,326.1	10,618.5	222.1	2,199.3	2,879.0	62.7
Toll fees	—	715.1	5,489.2	114.8	1,340.6	1,429.9	31.1
	—	5.041.2	16,107.7	336.9	3,539.9	4,308.9	93.8
Cost of services	—	(2,371.0)	(7,120.7)	(148.9)	(1,366.8)	(1,450.1)	(31.6)
Gross profit	—	2,670.2	8,987.0	188.0	2,173.1	2,858.8	62.2
General and administrative expenses	(158.7)	(1,442.7)	(2,640.9)	(55.2)	(682.5)	(1,093.7)	(23.8)
Other income and expenses							
Construction revenue	—	4,158.9	4,879.1	102.1	823.5	2,626.3	57.2
Construction costs	—	(4,092.1)	(4,771.0)	(99.8)	(805.9)	(2,611.6)	(56.9)
Share in net earnings of associates and joint ventures	1,521.6	143.9	432.2	9.0	65.6	221.7	4.8
Foreign exchange gains (losses) - net	376.4	(499.9)	(985.4)	(20.6)	(177.0)	(79.4)	(1.7)
Interest income	34.5	278.8	499.2	10.4	134.5	232.4	5.1
Interest expense	(3,527.2)	(1,161.4)	(4,012.3)	(83.9)	(917.3)	(1,207.7)	(26.3)
Revenue from sale of real estate	20.4	—	—	—	—	—	—
Cost of real estate sold	(19.4)	—	—	—	—	—	—
Other income	2,213.0	1,659.3	2,829.4	59.2	359.0	481.8	10.5
Other expenses	(617.7)	(789.5)	(885.4)	(18.6)	(10.4)	(108.3)	(2.3)
	1.6	(302.0)	(2,014.2)	(42.2)	(528.0)	(444.8)	(9.6)
Income (loss) from continuing operations before income tax	(157.1)	925.5	4,331.9	90.6	962.6	1,320.3	28.8
Provision for (benefit from) income tax							
Current	2.9	7.4	35.6	0.7	2.2	26.6	0.6
Deferred	146.9	(70.5)	(105.5)	(2.2)	(117.0)	54.0	1.2
	149.8	(63.1)	(69.9)	(1.5)	(114.8)	80.6	1.8
Income (loss) from continuing operations after income tax	(306.9)	988.6	4,401.8	92.1	1,077.4	1,239.7	27.0
Income (loss) from discontinued operations, net of tax	431.2	42.1	(31.9)	(0.7)	(37.6)	—	—
Net income (loss)	124.3	1,030.7	4,369.9	91.4	1,039.8	1,239.7	27.0
Net income/(loss) attributable to:							
Owners of Parent Company from:							
Continuing operation	(412.1)	532.6	2,306.3	48.2	572.2	649.9	14.1
Discontinuing operations	301.7	(7.1)	(6.6)	(0.1)	(21.2)	—	—
	(110.4)	525.5	2,299.7	48.1	551.0	649.9	14.1
Non-controlling interests	234.7	505.2	2,070.2	43.3	488.8	589.8	12.9
	124.3	1,030.7	4,369.9	91.4	1,039.8	1,239.7	27.0

Selected Consolidated Balance Sheet Data:	As at 31 December				As at 31 March	
	2007[1] Restated	2008 Restated	2009	2009	2010	2010
	(Audited)				(Unaudited)	
	₱	₱	₱	US$	₱	US$
			(in millions)			
Cash and cash equivalents	248.1	2,028.8	6,379.7	138.1	5,228.0	115.7
Short-term deposits	—	6,715.6	2,433.4	52.7	1,320.7	29.2
Total assets	12,139.6	91,563.9	129,399.8	2,800.9	125,093.6	2,769.4
Total debts (including short-term debts)	4,982.3	32,267.7	42,786.4	926.1	31,943.9	707.2
Total liabilities	9,069.5	64,858.0	69,124.2	1,496.2	63,211.6	1,399.4
Total equity	3,070.1	26,705.9	60,275.6	1,304.7	61,881.9	1,370.0

Note:

(1) The seleted consolidated balance sheet data as at 31 December 2007 was derived from published documents released by MPIC.

Other Consolidated Financial Data:	For the years ended 31 December				For the three months ended 31 March		
	2007 Restated	2008 Restated	2009	2009	2009	2010	2010
	(Audited)				(Unaudited)		
	₱	₱	₱	US$	₱	₱	US$
				(in millions)			
Other Financial Data:							
Acquisition of service concession assets and property and equipment	72.1	3,053.8	5,045.3	105.5	1,142.7	2,864.2	62.4
Amortisation of service concession assets	—	1,286.5	3,105.4	65.0	422.2	526.8	11.5
Depreciation and amortisation	35.8	120.5	185.1	3.9	35.8	45.7	1.0

Note: The U.S. dollar translations are provided for indicative purposes only and are unaudited. These translations were calculated based on the following peso/US$ exchange rates:

Average exchange rates		Closing exchange rates	
Year ended 31 December 2009	Three months ended 31 March 2010	As at 31 December 2009	As at 31 March 2010
47.81	45.93	46.20	45.17

RISK FACTORS

The following is a summary of certain aspects of the Bonds, the Security, the Guarantee and the related transactions about which prospective Bondholders should be aware. The risk factors described below do not purport to be complete or comprehensive of all the risks that may be involved in the operations, businesses, financial condition (including debt financing and refinancing risks), performance or prospects of the Issuer, First Pacific, PLDT, MPIC, Philex and the subsidiaries and associated companies of First Pacific, or any decision to purchase, own or dispose of the Bonds. Additional risks which the Issuer and/or First Pacific are currently unaware, or which the Issuer and/or First Pacific currently deem immaterial, may also impair the operations, businesses, financial condition (including debt financing and refinancing risks), performance or prospects of the Issuer, First Pacific, PLDT, MPIC, Philex and the subsidiaries and associated companies of First Pacific. Prospective Bondholders should read the detailed information set out elsewhere in this Offering Circular and reach their own views prior to making any investment decision. The Bonds are suitable for purchase only by investors who understand and are able to bear the risks associated with them, including the risks set out below.

Risks Relating to First Pacific and the Guarantee

First Pacific is a holding company and the Guarantee will be structurally subordinated to all existing and future obligations of First Pacific's subsidiaries and investments (including associated companies such as PLDT and Philex).

First Pacific is a holding company that operates through subsidiaries and investments (including associated companies such as PLDT and Philex). As a result, First Pacific's obligations under the Guarantee will be effectively subordinated to all existing and future obligations of its direct and indirect subsidiaries and associated companies. All claims of creditors of these subsidiaries and associated companies, including trade creditors, lenders and all other creditors, will have priority as to the assets of such entities over claims of First Pacific and its creditors, including Bondholders as beneficiaries of the Guarantee.

As at 31 December 2009, the net debt (representing the total of short-term and long-term borrowings, including loan capital, net of cash and cash equivalents, pledged deposits and restricted cash) of First Pacific and its subsidiaries was approximately US$2,719.5 million, and the consolidated gearing ratio (calculated by net debt divided by the total equity) was 0.67 times. First Pacific's subsidiaries and associated companies may incur additional indebtedness over the next few years in connection with ongoing expansion projects and other projects that they may undertake.

First Pacific has limited operations of its own and is dependent on the payment of dividends and management fees by its subsidiaries and associated companies (in particular, PLDT) for revenue and to pay interest, principal and redemption premium, if any, on the Bonds.

As it is principally a holding company with limited operations of its own, First Pacific will depend, to a significant extent, upon the receipt of dividends and management fees from its subsidiaries and associated companies to meet its overhead expenses and to make payments with respect to its obligations, including its obligations under the Guarantee, and in order to provide funds to its other subsidiaries and associated companies. The ability of subsidiaries and associated companies of First Pacific to pay dividends to their shareholders (including First Pacific) is subject to the performance and cash flow requirements of such subsidiaries and associated companies and to applicable law, regulations and restrictions contained in debt instruments of such subsidiaries and associated companies, if any. No assurance can be given that First Pacific will have sufficient cash flow from dividends to satisfy its obligations, including the obligations under the Guarantee or otherwise to enable the Issuer to make payments under the Bonds, or that its subsidiaries and associated companies will pay dividends at all. Moreover, further issues of equity interests by subsidiaries and associated companies of First Pacific could dilute the economic interest of First Pacific in such entities.

Failure by First Pacific, PLDT, MPIC, Indofood and Philex (including their respective subsidiaries or associated companies) to complete or integrate acquisitions successfully may have an adverse effect on First Pacific's results of operations and financial condition.

As an investment holding company with limited operations of its own and as part of its business strategy, First Pacific has acquired and expects to continue to acquire businesses and assets in the Asia Pacific, which may or may not fall within its current scope of investment holdings. First Pacific has in the past acquired and disposed of significant assets and may decide to make additional strategic acquisitions (or disposals to fund such acquisitions) in the future. First Pacific evaluates acquisition opportunities from time to time and may make acquisitions in the future, if suitable opportunities arise. Similarly, PLDT, Indofood and Philex and MPIC may continue to acquire businesses and assets which may or may not differ from their current core areas of operations.

Furthermore, certain sectors in which First Pacific, PLDT, Indofood, Philex and MPIC invest or operate or may in the future invest or operate are undergoing consolidation, and several parties may compete for a given opportunity. Competitors in respect of these opportunities may have greater financial and other resources, which could reduce the likelihood that desirable acquisitions are completed successfully. In addition, for acquisitions within certain sectors, such as public utilities and services, acquisition bids may be subject to regulatory approval processes, which may not be completed on a timely basis, or at all.

Even if First Pacific, PLDT, Indofood, Philex and MPIC are able to complete future acquisitions, they could fail to successfully integrate the operations, services or assets of acquired companies or assets. These acquisitions could also materially increase costs or liabilities and divert management from its other business concerns. A failure by First Pacific, PLDT, Indofood, Philex and MPIC to integrate new businesses or manage new alliances successfully could materially and adversely affect First Pacific's business, financial condition and performance and results of operations.

Any significant acquisition by PLDT may result in a significant reduction in the amount of cash available for distribution as dividends to its shareholders. This could result in an adverse impact on First Pacific's dividend income, cashflow, results of operations and financial condition.

First Pacific's and any of its subsidiaries' or associated companies' success depends on its ability to maintain its key senior management personnel.

First Pacific, its subsidiaries and its associated companies, such as PLDT and Philex, rely on the expertise and services of key members of their senior management personnel. If First Pacific or any of its subsidiaries or associated companies lose any of these key personnel, First Pacific and/or such subsidiary or associated company may have difficulty finding replacements with similar knowledge and experience and integrating them into the organisation. As a result, First Pacific's growth, results of operations and financial condition could be materially and adversely affected.

First Pacific faces foreign currency exchange rate exposures, not all of which are hedged.

A substantial portion of First Pacific's indebtedness, related interest expenses, capital investments and a portion of its operating expenses are denominated and recorded in U.S. dollars and other foreign currencies, but a significant portion of First Pacific's revenues, derived from the payment of dividends and management fees by its subsidiaries and associated companies, is denominated in pesos and Rupiah.

Since the Asian financial crisis in 1997, the peso has generally depreciated against most foreign currencies. In addition, during this period, the Philippine economy has also, from time to time, experienced periods of concentrated peso devaluation and limited availability of foreign currency. Since 30 June 1997, when the Bangko Sentral ng Pilipinas (the "**BSP**") announced that it would let

market forces determine the value of the peso, the peso has experienced a significant decline against the U.S. dollar. It depreciated from ₱26.38 to US$1.00 as at 30 June 1997, to ₱46.20 to US$1.00 as at 31 December 2009 and has further depreciated to approximately ₱46.37 as at 30 June 2010. The peso has also been subject to significant fluctuations.

The peso may again be subject to significant fluctuations and may depreciate due to a range of factors, including:

- political and economic developments affecting the Philippines, including the level of remittances from overseas Filipino workers;
- global economic and financial trends;
- the volatility of regional currencies;
- any interest rate increases by the Federal Reserve Bank of the United States;
- higher demand for U.S. dollars by both banks and domestic businesses to service their maturing U.S. dollar obligations; and
- some banks covering their short U.S. dollar positions.

Since July 1997, the Rupiah has been subject to significant depreciation and volatility against the U.S. dollar and other currencies. Depreciation or volatility of the Rupiah or changes in the Indonesian government's exchange rate policies may result in significantly higher domestic interest rates, liquidity shortages, sovereign and corporate loan defaults, capital or exchange controls and withholding of further financial assistance by multilateral institutions.

Although First Pacific enters into forward contracts to partly hedge against fluctuations between the peso and the U.S. dollar and Rupiah and the U.S. dollar with respect to its dividend income, it does not currently actively hedge against such fluctuations with respect to its book value of investments in the Philippines and Indonesia due to the non-cash nature of such exposures and the high costs associated with any such hedging. There can be no assurance that any hedging activity will be arranged or be effective, and the absence of any cost effective long-term hedging instrument for the peso and Rupiah means that First Pacific would not be able to put in place economically feasible hedges.

Disruptions in the global financial markets or any further downturn in the global economy could have an adverse impact on availability of funding.

The global financial crisis that began in 2008 has adversely affected the United States and other world economies, including Hong Kong, the Philippines and Indonesia. Since the second half of 2008, the global financial markets have experienced, and may continue to experience, significant dislocations and liquidity disruptions, which have originated from the liquidity disruptions in the United States and the European Union credit and sub-prime residential mortgage markets. These and other events, such as the collapse of a number of financial institutions and the European debt crisis, including the potential default of Greece on its debt, have had and continue to have a significant adverse impact on the global financial markets.

The global financial crisis also resulted in increased volatility and a tightening in credit markets, as well as a lower level of liquidity in many financial markets. Many financial institutions worldwide have tightened lines of credit and reduced the amount of funding available to borrowers. If these conditions continue, worsen or recur, they may adversely affect the availability, terms and cost of borrowing in the future, including any financing necessary to fund First Pacific's, PLDT's, MPIC's, Indofood's and Philex's capital expenditures and refinancing needs. As First Pacific, PLDT, MPIC,

Indofood and Philex rely on bank borrowings for a portion of their working capital and capital expenditure requirements and refinancing needs, any disruption in their ability to renew existing credit facilities or obtain new borrowings on acceptable terms may adversely affect their financial condition, results of operations and cash flows.

Also, First Pacific, PLDT, MPIC, Indofood and Philex may be exposed to interest rate risks on any floating rate borrowings and on additional debt financing that may be needed for working capital, acquisitions, capital expenditures and refinancing. Upward fluctuations in interest rates as a result of changing market conditions increase the cost of both existing and new debts. This may adversely impact First Pacific's, PLDT's, MPIC's, Indofood's or Philex's results of operations, planned capital expenditures and cash flows.

The timing and nature of any recovery in worldwide financial markets and the global economy remain uncertain, and there can be no assurance that market conditions will improve in the near future. Although there have been recent signs of a possible economic recovery, there can be no assurance that market conditions will not deteriorate again.

Risks Relating to the Philippines

Substantially all of PLDT's and MPIC's business activities are conducted in the Philippines, which exposes them to risks associated with the Philippines, including the performance of the Philippine economy.

PLDT and MPIC derive substantially all of their revenues and operating profits from the Philippines and their businesses are dependent on the state of the Philippine economy. Demand for telecommunications, water, transportation facilities, electricity and healthcare services are directly related to the strength of the Philippine economy (including overall growth and income levels) and the overall levels of business activity in the Philippines. In the past, the Philippines has experienced periods of slow or negative growth, high inflation, significant devaluation of its currency and the imposition of exchange controls. In addition, global financial, credit and currency markets have, since the second half of 2008, experienced, and may continue to experience, significant dislocations and liquidity disruptions. There is significant uncertainty as to the potential for a continued downturn in the U.S. and global economy, which would be likely to cause economic conditions in the Philippines to deteriorate.

Other factors that may adversely affect the Philippine economy include:

- reduced business, industrial, manufacturing or financial activity in the Philippines or elsewhere in Southeast Asia;
- scarcity of credit or other financing available to the government, corporations or individuals in the Philippines;
- fluctuations in currency exchange rates and interest rates or prolonged periods of inflation or deflation;
- a downgrade in the long-term foreign and local currency sovereign credit ratings of the Philippines or the related outlook for such ratings;
- significant changes to the Philippine government's economic, social or tax policies;
- natural disasters, including tsunamis, typhoons, earthquakes, fires, floods and similar events;
- political instability, terrorism or military conflict in the Philippines, other countries in the region or globally; and

- other regulatory, political or economic developments in or affecting the Philippines.

Any deterioration in economic conditions in the Philippines as a result of these or other factors could materially adversely affect PLDT, MPIC or their respective consumers, customers and contractual counterparties. This, in turn, could materially and adversely affect PLDT's and MPIC's operations, business, financial condition and results of operations and its ability to implement its business strategy.

PLDT's, MPIC's and Philex's business operations in the Philippines are highly regulated.

The telecommunications, water utilities, toll road, electricity distribution and mining businesses in the Philippines are highly regulated and subject to concession, licence or franchise rights granted by regulatory authorities. The businesses of PLDT, MPIC and Philex are currently subject to the following licences, franchises or concessions granted by the following regulatory authorities:

Regulated Business	**Regulatory Authority**
Telecommunications operations	National Telecommunications Commission
Water utilities operations	Metropolitan Waterworks and Sewerage System / National Water Resources Board
Toll road operations	Toll Regulatory Board
Electricity distribution operations	Energy Regulatory Commission
Mining	Department of Environment and Natural Resources

Continued operation of regulated businesses is dependent on the operator's ability to comply with the operational and maintenance requirements under the concession agreements or the relevant licence and/or franchise agreements. In many cases, granters of concessions may unilaterally terminate concession agreements prior to the expiry of the concession period if a concessionaire does not rectify certain specified defaults by it within any relevant specified cure periods. Accordingly, MPIC's rights to operate and collect revenue from its regulated businesses depend upon its compliance and the terms and conditions of the relevant concession agreements.

The rate structure, allowed returns and permitted cost recoveries are the most significant determinants of regulated businesses' operating results, and are subject to comprehensive regulation pursuant to the franchise, licence and/or concession agreements. Prevailing rates are set (with the approval of regulatory authorities) to permit a reasonable rate of return on investments on the provision of regulated services and may provide for the pass through to customers, on a limited basis, of certain costs resulting from adverse movements in costs, currency exchange rates and, for electricity distribution, system losses. MPIC's results of operations are highly dependent on its ability to set and collect adequate tariffs for their services. Although MPIC may request tariff rate adjustments periodically pursuant to the relevant franchise, licence and/or concession agreements, any rate adjustment requires approval by the relevant regulatory body.

There can be no assurance that MPIC will continue to comply with the terms of their respective licence, franchise and/or concessions or that any rate increase requested by MPIC will be granted in a timely manner, in full or at all. Any of these considerations may have a material adverse effect on MPIC's business, financial condition or operations.

In addition to licence, franchise and concession agreements, PLDT's, MPIC's and Philex's regulated businesses are also subject to the oversight of national and local governments, which are empowered to impose taxes and enact laws and regulations (including those relating to environmental protection and health and safety). PLDT, MPIC and Philex may be required to incur significant costs and expenses in order to comply with these laws and regulations. There can be no assurance that these laws

and regulations will not become more stringent in the future or that the costs of compliance will not increase. Failure by PLDT, MPIC or Philex to comply with applicable laws and regulations could result in the imposition of civil or criminal liability, liens, fines, or increased expenditures in order to bring operations into compliance.

In addition, the Philippine Constitution mandates that all franchises granted by the State are subject to the condition that they may be amended, altered or repealed by the Philippine Congress when the common good so dictates. The franchises of PLDT, Smart, a company that handles the cellular business of PLDT, and MPIC relating to its toll road operations are all subject to this condition.

In the case of the toll road operation for the NLEX, the toll operation agreement dated 30 April 1998 among the Philippine government (acting by and through the Toll Regulatory Board) as the grantor (the "**Toll Road Grantor**"), Philippine National Construction Corporation ("**PNCC**") as franchisee and Manila North Tollways Corporation ("**MNTC**" as the "**Toll Road Concessionaire**") (the "**Supplemental Toll Operation Agreement**") under which MPIC, through its subsidiary MNTC, holds the exclusive right to finance, design, construct, rehabilitate, expand, operate and maintain the project roads constituting the NLEX as toll roads and to install and collect revenue through a tollway collection system (the "**Toll Road Concession Agreement**"). The power of Congress to alter, amend and revise the NLEX concession was delegated to the Toll Road Grantor, which can exercise such power when public interest so requires. The grantee of the NLEX concession, MNTC, is afforded certain remedies under the Toll Road Concession Agreement in the event the alteration, amendment or revision of the concession adversely affects the assumptions in the underlying financial projections submitted by MNTC's predecessor-in-interest for the project. There is no certainty that such remedies would adequately compensate MNTC for its investments and loss of opportunity and profits.

Furthermore, in times of national emergency, when the public interest so requires, the Philippine Constitution allows the Philippine government to temporarily take over or direct the operation of any business that affects the public interest. The term "national emergency" has been interpreted to include threat from external aggression, calamities or national disasters and strikes of such proportion as would paralyse government service. Recent jurisprudence has held that, in the event of such a temporary takeover, the Philippine government is not required to compensate the private entity owner of the business, nor may the private entity owner affected by the takeover claim compensation. Any such temporary takeover would have a material adverse effect on PLDT's, MPIC's and Philex's business, financial condition or results of operations.

Further, the interests of First Pacific in the Philippines are subject to legislation limiting foreign ownership. Under the Philippine Constitution, franchises for public utilities and natural resources companies are limited to corporations or associations organised under the laws of the Philippines at least 60% of whose capital is owned by Filipino citizens. Regulations adopted by the SEC in 1972 and the Foreign Investments Act of 1991 (Republic Act No. 7042, or the "**FIA**") have determined tests for determining the nationality of holding companies and companies engaged in natural resources and public utility businesses with Filipino and foreign investors. First Pacific believes that PLDT, MPIC and Philex qualify as Philippine nationals under the 1972 SEC Rules and the FIA. However, no assurance can be made that challenges will not be made to the status of First Pacific's interests (see "Business of First Pacific — Legal Proceedings — PLDT — The Gamboa Case"), nor that laws or regulations in determining the nationality of corporations will not be amended or repealed. If such challenges were successful or such laws or regulations were to be amended in an adverse manner to First Pacific's or repealed, First Pacific's interest in PLDT and MPIC could be adversely affected or, unless appropriate measures are adopted by PLDT and MPIC to comply with the nationality requirements applicable to their businesses (in the case of MPIC, its operating businesses), the ability of PLDT or MPIC to continue operating its partly nationalised businesses could be adversely affected. On the other hand, Philex would not be subject to any nationality restriction if it were to convert its mining concessions into concessions for large scale exploration and mining pursuant to the Philippine Constitution.

PLDT's, MPIC's and Philex's businesses may be affected by political or social instability in the Philippines.

The Philippines is subject to political, social and economic volatility that, directly or indirectly, may have a material adverse impact on business and growth.

For example, the Philippines has from time to time experienced a number of street protests and violent civil unrest, including *coup détat* attempts against the administration of former President Gloria Macapagal-Arroyo. On 10 May 2010, the Philippines held a presidential election, as well as elections for national (members of the Senate and the Congress) and local positions. This resulted in the election of Benigno Aquino III as the new President of the Philippines, effective 30 June 2010. Although there has been no major public protest of the change in government, there can be no assurance that the political environment in the Philippines will continue to be stable or that the new government will adopt economic policies conducive to sustained economic growth or which do not impact adversely on the current regulatory environment for telecommunications, infrastructure, utilities, mining and natural resource or other companies.

There can also be no assurance that President Aquino will continue to implement the economic and development policies followed by former President Arroyo's administration, including those policies that have a direct effect on the telecommunications, water, transportation facilities, electricity, healthcare and natural resources sectors. Any change in the administration's economic and development policies in these or other respects could have a material and adverse effect on PLDT's, MPIC's and Philex's respective business, financial condition and results of operations.

Acts of terrorism could destabilise the Philippines.

The Philippines has been subject to a number of terrorist attacks since 2000. In recent years, the Philippine army has also been in conflict with the Abu Sayyaf organisation, which has ties to the al-Qaeda terrorist network, and has been identified as being responsible for certain kidnapping incidents and other terrorist activities particularly in the southern part of the Philippines. Moreover, isolated bombings have taken place in the Philippines in recent years, mainly in cities in that part of the country. Although no one has claimed responsibility for these attacks, it is believed that the attacks are the work of various separatist groups, possibly including the Sayyaf organisation. An increase in the frequency, severity or geographic reach of these terrorist acts could destabilise the Philippines, and adversely affect the country's economy. In addition, PLDT's, MPIC's and Philex's businesses, including telecommunications operations, water utilities operations, electricity distribution operations, toll road operations, healthcare facilities and mining operations, particularly those in Mindanao, could be the strategic targets of or otherwise directly affected by any terrorist activities.

There can be no assurance that the Philippines will not be subject to further acts of terrorism in the future, which could have a material adverse effect on PLDT's, MPIC's and Philex's respective business, financial condition, and results of operations.

If foreign exchange controls were to be imposed, the ability to meet foreign currency payment obligations could be adversely affected.

The Philippine government has, in the past, instituted restrictions on the conversion of the peso into foreign currency and the use of foreign exchange received by Philippine companies to pay foreign currency-denominated obligations. The Monetary Board of the BSP has statutory authority, with the approval of the President of the Philippines, during a foreign exchange crisis or in times of national emergency, to:

- suspend temporarily or restrict sales of foreign exchange;

- require licensing of foreign exchange transactions; or

- require the delivery of foreign exchange to the BSP or its designee banks.

There can be no assurance that foreign exchange controls will not be imposed in the future. If imposed, these restrictions could materially and adversely affect the ability of First Pacific, MPIC and PLDT to obtain foreign currency to service their respective foreign currency obligations.

Fluctuations in the exchange rate between the peso and foreign currencies could have a material adverse effect on PLDT's, MPIC's and Philex's respective business, financial condition and results of operations.

The revenues of PLDT and MPIC and their subsidiaries are predominantly denominated in pesos, while certain payments, including capital expenditures, operating expenses and debt obligations, are denominated in currencies other than the peso, including the U.S. dollar. Accordingly, although PLDT and MPIC may hedge some of their exposure to foreign currency fluctuations, they remain exposed to fluctuations of the peso. A depreciation of the peso against foreign currencies will increase the amount of peso revenue required to pay certain expenses, including capital expenditures, operating expenses and debt obligations that are denominated in foreign currencies. There can be no assurance that the peso will not depreciate significantly against other currencies in the future or that such depreciation will not have an adverse effect on the growth of the Philippine economy. Such depreciation may have a material adverse effect on PLDT's and MPIC's respective business, financial condition and results of operations.

The revenues of Philex are denominated in U.S. dollars, while most of its expenses, including operating costs and expenses, are denominated in peso. Any appreciation of the peso against the U.S. dollar will increase the amount of U.S. dollar revenue required to fund the peso portion of Philex's operating costs and expenses. Such appreciation may have a material adverse effect on Philex's business, financial condition and results of operations.

The occurrence of natural catastrophes may materially disrupt operations.

The Philippines has experienced a number of major natural catastrophes over the years, including typhoons, floods, volcanic eruptions and earthquakes that may materially disrupt and adversely affect the MPIC's, PLDT's and Philex's business operations. In particular, droughts caused by El Niño have had an adverse effect on the water supply required by Maynilad for its operations. The frequency and severity of the occurrence of natural catastrophes and challenges may be further exacerbated through effects of global climate change. There can be no assurance that PLDT, MPIC and Philex are fully capable to deal with these situations and that the insurance coverage they maintain will fully compensate them for all the damages and economic losses resulting from these catastrophes.

Decreases in government and private sector spending and capital spending may materially and adversely affect MPIC.

Some of MPIC's businesses, including its water utilities business, electricity distribution business and toll road operations, are directly affected by changes in government and private sector spending and financing for infrastructure projects. Economic downturns may lead to decreases in the development of new infrastructure projects, as well as delays or cancellations of major infrastructure projects. Accordingly, reduction in available government and private sector spending and financing for infrastructure projects may have a material and adverse effect on MPIC's business, financial condition and results of operations.

Risks Relating to Indonesia

Indofood's financial performance may be affected by adverse economic conditions in Indonesia.

Indofood's performance is necessarily dependent on the overall health of the Indonesian economy. Following the Asian economic crisis in 1997, Indonesia was in a recessionary phase with relatively low levels of economic growth until 2002 and had started to recover until 2007. The global financial

crisis that began in 2008 had significant impact on certain segments of the Indonesian economy as well as the stability of Indonesian financial markets. Any worldwide financial market instability could have a negative impact on the Indonesian economy, which could have an adverse effect on Indofood's business, financial condition, results of operations and prospects.

Indofood's financial performance may be affected by adverse political and social conditions and acts of terrorism.

Indonesia has experienced political instability and social and civil unrest since the onset of the 1997 Asian financial crisis. In 1999, Indonesia successfully conducted its first free elections for parliament and president. As a new democratic country it still faces various problems, including conflicts between political factions within the Indonesian government, conflicts between regional authorities and the central government, friction between civilian and military institutions, civil disturbances, social unrest, labour unrest and activism, clashes between religious and ethnic groups, various armed separatist uprisings and, most recently, terrorism-linked attacks on foreign tourists and consular facilities.

On 12 October 2002, a bombing occurred at a tourist area in Bali, a region of Indonesia previously considered safe from the unrest affecting other parts of the country. Indonesian and U.S. government officials have indicated that this bombing may be linked to the al-Qaeda terrorist network. On 27 April 2003, a bombing occurred in the departure lounge of Jakarta's Soekarno-Hatta International Airport. On 5 August 2003, a bomb exploded at the JW Marriott Hotel in Jakarta and on 9 September 2004, a bomb exploded outside the Australian embassy in Jakarta. On 1 October 2005, bombs exploded in three restaurants in Bali.

The Indonesian government has attempted to address unrest in troubled areas with limited success. Partly as a consequence of such instability and unrest, Indonesia has had four different Presidents since 1998. There can be no assurance that such instability and unrest will not increase or re-emerge in the future, although parliamentary elections proceeded smoothly in 2004 and 2009, when Indonesia successfully held its democratic presidential election. Such instability and unrest has had in the past, and could continue to have, a material adverse effect on investment and confidence in, and the performance of, the Indonesian economy, and in turn Indofood's business.

Depreciation in the value of the Rupiah may materially and adversely affect Indofood's results of operations and cash flows.

Indofood's functional currency is the Rupiah but a proportion of its raw material costs and indebtedness are denominated in U.S. dollars and other foreign currencies. Since July 1997, the Rupiah has been subject to significant depreciation and volatility against the U.S. dollar and other currencies. Changes in exchange rates have affected and may continue to affect Indofoods' results of operations and cash flows. For example, a depreciation of the Rupiah against the U.S. dollar or other international currencies may increase the cost of Indofood's raw materials, which is often tied to international markets, and costs of goods sold. With no active hedging activity, and limited natural hedging, against fluctuations between the Rupiah and the U.S. dollars, a depreciation of the Rupiah may materially and adversely affect Indofood's financial condition, results of operations and cash flows.

There can be no assurance that the Rupiah will not depreciate significantly against other currencies in the future or that such depreciation will not have an adverse effect on the growth of the Indonesian economy.

The occurrence of natural catastrophes may materially disrupt Indofood's operations.

Indonesia has experienced a number of major natural catastrophes over the years, including a tsunami in 2004, numerous earthquakes that have occurred in Yogyakarta, various cities in Sulawesi, Manokwari and Padang and floods as well as El Niño, that may materially disrupt and adversely affect

Indofood's business operations, in particular its plantation operations. There can be no assurance that Indofood will be able to deal with such situations and that the insurance coverage Indofood maintains for these risks will adequately compensate Indofood for all damage and economic losses resulting from natural catastrophes.

Risks Relating to the Security

Enforcement of the Security may be subject to uncertainties relating to foreign ownership limitations under Philippine laws and regulations, certain material contracts and agreements, and enforcement procedure.

The ability of the Bondholders to enforce the Security is subject to uncertainties, including the following:

- The ownership and transfer of MPIC Shares is subject to applicable Philippine laws relating to foreign ownership.
- Certain material contracts and agreements of MPIC and its subsidiaries contain provisions restricting the ownership, control or transfer of the MPIC Shares.
- The enforcement procedure pursuant to the Share Pledge may be time-consuming and difficult.

The ownership and transfer of the MPIC Shares are subject to foreign ownership limitations under Philippine laws and regulations and certain material contracts and agreements. In particular, the FIA provides that only "Philippine Nationals" may invest in certain sectors and assets designated by the Philippine Constitution and specific laws of the Philippines. The term "Philippine Nationals" is defined to include, among others, citizens of the Philippines and corporations that are themselves at least 60% owned by citizens of the Philippines. Additionally, the Foreign Investments Act states that where a corporation (and its non-Filipino shareholders) own stock in enterprises registered with the Philippine Securities and Exchange Commission, at least 60% of the capital stock outstanding and entitled to vote of both the investing corporation and the investee corporation must be owned and held by citizens of the Philippines, and at least 60% of the members of the board of directors of both the investing corporation and the investee corporation must be Philippine citizens in order for the investee corporation to be considered a Philippine national. Such limitations on foreign ownership may limit the liquidity of the MPIC Shares upon enforcement of the Security.

In addition, certain material contracts of MPIC and its subsidiaries contain provisions governing the ownership of the MPIC Shares and/or control of MPIC. The foreclosure of the Share Pledge and sale of MPIC Shares could therefore result in lenders to MPIC and/or its subsidiaries accelerating their loans.

With respect to the Share Pledge, under Philippine law, a pledgee must generally exercise its rights over secured property by public auction and may only appropriate the secured property following two failed public auctions. Such enforcement procedure may be time consuming and difficult.

The proceeds of enforcement of the Charged Property may be insufficient for Bondholders to recover the principal, interest and any other amounts payable under the Bonds.

The security for payment on the Bonds includes the Share Pledge with respect to the MPIC Shares and any Additional MPIC Collateral, and the Escrow Account Assignment in respect of the Escrow Account. If the Issuer or First Pacific fails (for whatever reason) to redeem or pay interest or other amounts on the Bonds, the Bondholders may have to rely on the realisation of the Charged Property. The proceeds of the realisation of the Security depend upon the market value of such Charged Property, including the market value of the MPIC Shares and any Additional MPIC Collateral, the U.S. dollar to peso exchange rate at the time such Charged Property are sold, at the time of realisation and the ability to dispose of the same to willing purchasers.

The future market value of the MPIC Shares may fluctuate and decline due to a number of factors, including MPIC's performance. Any realisation upon enforcement of the Share Pledge would likely involve a significant amount of MPIC Shares. The sale of a large number of MPIC Shares in a short period of time may have an adverse effect on the prevailing market price. As a result, the proceeds resulting from the realisation of the MPIC Shares may be insufficient for Bondholders to recover the principal, interest and any other amounts payable under the Bonds.

In addition, the Trust Deed provides that, upon enforcement of the Security, certain fees and expenses will be paid in priority to payments due in respect of interest or principal of the Bonds outstanding. Any net amount realised from the enforcement of the Security will, subject to payment of the prior ranking fees and expenses, be shared between the Bondholders in accordance with the order of priorities set out in the Trust Deed.

Enforcement in the Philippines of judgments obtained in foreign courts may be difficult.

Bondholders may experience difficulty in enforcing in the Philippines any judgments obtained in a foreign court with respect to the Share Pledge or the MPIC Shares, which are governed by Philippine law. A judgment rendered against a party by a foreign court may be enforced in the Philippines by filing an action in a Philippine court, but such judgment may be rejected by evidence that (i) such foreign court did not have jurisdiction in accordance with the rules of such court, (ii) the party against whom the judgment is sought to be enforced had no notice of the proceedings, or (iii) the judgment of such foreign court was obtained through collusion or fraud or was based on clear mistake of law or fact.

Volatility and illiquidity in securities markets may affect the value of the Charged Property.

The relative volatility and illiquidity of the securities markets may substantially limit the Security Trustee's ability to sell the Charged Property at a suitable price or at a time it desires. The Philippine securities markets are substantially smaller, less liquid and more volatile than major securities markets in the United States and other jurisdictions, and are not as highly regulated or supervised as some of these other markets. The market price of securities can and does fluctuate, and it is impossible to predict whether the price of the Charged Property will rise or fall. An individual security may experience upward or downward movements, and may even lose all of its value. There is an inherent risk that losses may be incurred rather than profit made as a result of buying and selling securities. There may be a substantial difference between the buying price and the selling price of such securities. Trading prices of the Charged Property will be influenced by, among other things, MPIC's financial position, its results of operations, and political, economic and other factors.

The priority of the Security Trustee's security interest in the Security may be affected by the laws of a number of jurisdictions.

The laws of a number of jurisdictions may affect the Security Trustee's priority in the Security, including (i) the British Virgin Islands, where the Issuer is incorporated; (ii) the Philippines, the governing law of the Share Pledge, the location of the assets under the Share Pledge and the place of incorporation of MPIC and MPHI; (iii) England, the governing law of the Trust Deed and the Agency Agreement; and (iv) Hong Kong, the governing law of the Escrow Account Assignment and the location of the assets under the Escrow Account. No assurance can be given that the laws of the different jurisdictions in relation to the offering of the Bonds may not delay or prevent the enforcement of the Security.

The MPIC Shares subject to the Share Pledge may not be listed in the future.

MPIC's common shares are currently listed on the Philippine Stock Exchange ("**PSE**"). However, MPIC is not obliged to maintain such a listing. If the Philippine listing is not maintained, if trading is suspended for whatever reason or the related securities are de-listed, there would likely be no significant trading market for MPIC's shares, including the MPIC Shares subject to the Share Pledge, and the market price of the Bonds in secondary transactions may also be materially affected.

The Trustee may decline to take actions requested by the Bondholders

In certain circumstances (including the giving of notice to the Issuer and First Pacific pursuant to Condition 10 (*Events of Default*)), the Trustee may (at its sole discretion) request the Bondholders to provide an indemnity and/or security to its satisfaction before it takes actions on behalf of the Bondholders. The Trustee shall not be obliged to take any such actions if not indemnified and/or secured to its satisfaction. Even if the Bondholders agree to indemnify and/or provide security to the Trustee, the time taken to agree the indemnity and/or security may impact on when such actions are taken.

The Trustee may decline to take action requested by the Bondholders, notwithstanding the provision of an indemnity or security to it, where it is not satisfied that the action is permitted by the terms of the Trust Deed or applicable law.

Risks Relating to an Investment in the Bonds

There is currently no active trading market for the Bonds.

The Bonds are a new issue of securities for which there is currently no trading market. The Bonds are being offered pursuant to an exemption from registration under the Securities Act, and, as a result, an investor will only be able to resell the Bonds in transactions that are not subject to, or exempt from registration under, the Securities Act. The Issuer cannot predict whether an active trading market for the Bonds will develop or be sustained. If an active trading market were to develop, the Bonds could trade at prices that may be lower than the initial offering price. Whether or not the Bonds trade at lower prices depends on many factors, including:

- the number of holders of the Bonds;
- adverse economic developments in Hong Kong, the Philippines, Indonesia and other countries where First Pacific, MPIC, Indofood, PLDT and Philex have operations;
- political, economic, financial and any other factors that could affect the capital markets generally;
- developments in, and changes in securities analysts' recommendations regarding the industries in which First Pacific, MPIC, Indofood, PLDT and Philex operate; and
- the financial condition, historical financial performance and future prospects of First Pacific, MPIC, Indofood, PLDT and Philex.

If an active market for the Bonds fails to develop or be sustained, the trading price of the Bonds could be materially and adversely affected. An application has been made for the listing of the Bonds on the SGX-ST. However, there can be no assurance that the Issuer will be able to obtain or be able to maintain such a listing or that, if listed, a trading market will develop on the exchange, or as to the liquidity or sustainability of any such market. The Issuer does not intend to apply for listing of the Bonds on any securities exchange other than the SGX-ST. The Bonds may not be publicly offered, sold, pledged or otherwise transferred in any jurisdiction where registration may be required.

Risks Relating to the Telecommunications Business

PLDT faces strong competition and may need to increase its marketing expenditures or reduce its rates in order to compete effectively.

The Philippine government has liberalised the Philippine telecommunications industry and opened up the Philippine telecommunications market to new entrants. Including PLDT, there are currently four major local exchange carriers ("**LECs**") and three major cellular mobile telephone system providers in the Philippines. PLDT is facing increasing competition in major segments of the telecommunications industry, particularly in the cellular, local exchange and data and other network services segments. There can be no assurance that the number of providers of cellular and fixed lines telecommunication services will not increase, or that competition for telecommunications customers will not result in PLDT's cellular and fixed line subscribers switching to other operators, or PLDT increasing its marketing expenditures or reducing its rates; any of which could result in a reduction in PLDT's profitability.

The cellular telecommunications industry in the Philippines has been particularly competitive, as operators have sought to develop and maintain revenue market share and to attract new subscribers. Competitive pressures on Smart's cellular rates may affect its cellular revenues and revenue growth. There can be no assurance that these marketing expenses, rate pressures and potential loss of customers will not have a material adverse effect on PLDT's financial performance.

The franchise of Smart may be revoked due to its failure to conduct a public offering of its shares.

Smart has publicly stated that it believes that it had 10 years from the commencement of its operations, or until August 2004, to conduct a public offering of its shares required under the Public Telecommunications Policy Act (Republic Act No. 7925, or "**R.A. 7925**"). As Smart has not conducted a public offering of its shares by August 2004, the Philippine Congress may revoke the franchise of Smart for failure to comply with the requirement under R.A. 7925 on the public offering of its shares. A *quo warranto* case may also be filed against Smart by the Office of the Solicitor General of the Philippines for the revocation of the franchise of Smart on the ground of violation of R.A. 7925. In August 2004, Senate Bill No. 1418 was filed seeking to amend Section 21 of R.A. 7925. The bill sought to declare that a telecommunications entity shall be deemed to have complied with the requirement of making a public offering of its shares if two-thirds of its outstanding voting stock are owned and controlled, directly or indirectly, by a listed company. Since the 13th Philippine Congress, in which Senate Bill No. 1418 was filed, has already adjourned, it will have to be re-filed before it can be passed into law. There is no certainty that Senate Bill No.1418 will be re-filed in the upcoming Philippine Congress. If the Senate Bill No. 1418 is not re-filled and passed into law in the upcoming Philippine Congress, there can be no assurance that the Philippine Congress will not revoke the franchise of Smart for failure to comply with the requirement under R.A. 7925, which in turn will have a material adverse effect on the business, financial condition and the results of operations of Smart and PLDT.

PLDT's results of operations have been, and may continue to be, adversely affected by competition in, and the emergence of new services which may put additional pressure on, PLDT's traditional international and national long distance services.

The international long distance business has historically been one of PLDT's major sources of revenue. However, due to competition and the steep decline in international settlement rates that are paid to PLDT by foreign telecommunications carriers for termination of international calls on PLDT's network, revenues generated from PLDT's international long distance business have declined in recent years.

PLDT anticipates that revenues from international long distance services will continue to decline in the future primarily due to:

- increased competition from other domestic and international telecommunications providers;
- advances in technology;
- alternative providers offering internet telephony, also known as Voice over Internet Protocol (“**VoIP**”), and broadband capacity; and
- unauthorised traffic termination and bypass routings by international simple resale operators.

The continued increase in cellular penetration in the Philippines and the prevalence of short messaging service (“**SMS**”) has negatively impacted PLDT’s national long distance business in recent years. Although revenues from data and other services have grown significantly in recent years compensating for declines in PLDT’s traditional fixed line businesses, there can be no assurance that PLDT will be able to generate new revenue streams that may fully offset the declines in its traditional fixed line long distance businesses or that these declines will not materially and adversely affect PLDT’s financial performance.

Rapid changes in telecommunications technology may adversely affect the economics of PLDT’s existing businesses and the value of its assets, increase PLDT’s required capital expenditures and create new competition.

The telecommunications sector has been characterised by recent rapid technological changes. There can be no assurance that these developments will not result in competition from providers of new services or the need to make substantial capital expenditures to upgrade PLDT’s facilities. For example, the National Telecommunications Commission (the “**NTC**”) has issued to Smart’s and PLDT’s competitors licences covering 3G cellular services, and PLDT as a result has made significant investments to respond to this new competition. PLDT is also continuing to upgrade its fixed line network to a next generation, all-internet protocol network and is also rolling out a wireless broadband network in order to expand its broadband capabilities. These projects require and will continue to require significant capital expenditures over the next few years.

PLDT’s future success will depend, in part, on its ability to anticipate or adapt to further changes in the industry and to offer services that meet customer demands on a competitive and timely basis. PLDT may be unable to obtain new technologies on a timely basis or on satisfactory terms, or implement these technologies in an appropriate or effective manner. Future development of new technologies, services or standards could require significant changes to PLDT’s business model, negatively impact its existing businesses, require new investments and result in increased competition. There can be no assurance that PLDT would be able to adopt and successfully implement any new technologies and there can be no assurance on how emerging and future technological changes will affect PLDT’s operations or the competitiveness of its services.

The cellular telecommunications industry may not continue to grow or may grow at a slower rate.

The majority of PLDT’s consolidated revenues is derived from its cellular services. As a result, PLDT depends on the continued development and growth of the cellular telecommunications industry to maintain its growth. As at 31 December 2009, the cellular penetration rate in the Philippines was estimated to have reached approximately 83%, counting multiple subscriber identity module, or SIM, card ownership. As a result, PLDT’s cellular business may not continue to grow at the same rate as in previous years as Smart further penetrates the lower-income segments of the market. In addition, the growth of the cellular communications market generally depends on many factors beyond PLDT’s

control, including the continued introduction of new and enhanced cellular devices, as well as consumer preferences. The failure of PLDT to continually grow its cellular business, or any economic, technological or other developments resulting in a reduction in demand for cellular services, may have an adverse effect on PLDT's business.

PLDT's debt instruments contain restrictive covenants which require it to maintain certain financial tests and PLDT's indebtedness could impair its ability to fulfil its financial obligations, service its other debt and carry out new financings.

As at 31 December 2009, PLDT had consolidated total indebtedness of ₱98.8 billion, and a consolidated ratio of debt to equity (total debt on a consolidated basis divided by total equity attributable to equity holders of PLDT) of 1.0 times. PLDT's existing debt instruments contain covenants which, among other things, require PLDT to maintain certain financial ratios, and other financial tests, calculated on the basis of PFRS on a consolidated and non-consolidated basis and limit PLDT's ability to incur indebtedness.

PLDT's indebtedness and the requirements and limitations imposed by its debt covenants could have important consequences. For example, they could require PLDT to dedicate a substantial portion of its cash flow to payments on its indebtedness, thereby reducing the availability of PLDT's cash flow to fund working capital, capital expenditures, dividend payments to shareholders and other general corporate requirements.

The principal factors that could negatively affect PLDT's ability to comply with the financial ratios and other financial tests under its debt instruments are: depreciation of the peso relative to the U.S. dollar, poor operating performance of PLDT and its subsidiaries, impairment or similar charges in respect of investments or other long-lived assets that may be recognised by PLDT and its subsidiaries, and increases in PLDT's interest expenses. As at 31 December 2009, approximately 46% of PLDT's total consolidated debts was denominated in foreign currencies, principally in U.S. dollars. As a result, many of these financial ratios and other tests are expected to be negatively affected by any weakening of the peso.

PLDT has maintained compliance with all of its financial ratios and covenants, as measured under PFRS, under its loan agreements and other debt instruments. However, if negative factors adversely affect PLDT's financial ratios, it may be unable to maintain compliance with these ratios and covenants and consequently be unable to incur new debt. Inability to comply with the financial ratios and covenants or raise new financing could also result in a declaration of default and acceleration of maturities of some or all of PLDT's indebtedness. The terms of some of PLDT's debt instruments have no minimum amount for cross-default.

If PLDT is unable to meet its debt service obligations or comply with its debt covenants, it could be forced to restructure or refinance its indebtedness, seek additional equity capital or sell assets. An inability to effect these measures successfully could result in a declaration of default and an acceleration of maturities of some or all of PLDT's indebtedness.

PLDT's subsidiaries could be limited in their ability to pay dividends to PLDT due to internal cash requirements and their creditors having superior claims over their assets and cash flows, which could materially and adversely affect PLDT's financial condition.

A growing portion of PLDT's total revenues and cash flow from operations is derived from its subsidiaries, particularly Smart. Smart and certain of PLDT's other subsidiaries have significant internal cash requirements for debt service, capital expenditures and operating expenses, and as a result, may be financially unable to pay any dividends to PLDT. Although Smart has been making dividend payments to PLDT since December 2002, there can be no assurance that PLDT will continue to receive dividends or other distributions, or otherwise be able to derive liquidity from Smart or any other subsidiary or investee in the future.

Creditors of PLDT's subsidiaries will have priority claims over those subsidiaries' assets and cash flows. PLDT and its creditors will effectively be subordinated to the existing and future indebtedness and other liabilities, including trade payables, of PLDT's subsidiaries, except that PLDT may be recognised as a creditor with respect to loans it has made to subsidiaries. If PLDT is recognised as a creditor of a subsidiary, its claim will still be subordinated to any indebtedness secured by assets of the subsidiary and any indebtedness of the subsidiary otherwise deemed senior to the indebtedness PLDT holds.

PLDT may have difficulty in meeting debt payment obligations if it does not continue to receive cash dividends from its subsidiaries and its financial condition and results of operation could be materially and adversely affected as a result.

If a major shareholder sells its interest in PLDT, the transaction may result in an event of default under certain circumstances.

If the First Pacific group and NTT Communications Corporation sell all or a portion of their equity interest in PLDT, under certain circumstances, such sale may give rise to an obligation for PLDT to make an offer to purchase its outstanding US$250 million 11.375% notes due 2012. As at 31 December 2009, approximately ₱6.8 billion in principal amount of PLDT's indebtedness is directly subject to a redemption upon any change in the major shareholding of PLDT or to an offer to purchase requirement. In such event, if PLDT fails to complete an offer to purchase the affected debts, all of its debt could become immediately due and payable as a result of various cross-default and acceleration provisions.

PLDT's business is significantly affected by governmental laws and regulations, including regulations in respect of its franchises, rates and taxes.

PLDT operates its business under franchises, each of which is subject to amendment, termination or repeal by the Philippine Congress. Additionally, PLDT operates pursuant to various provisional authorities and certificates of public convenience and necessity ("**CPCNs**") which were granted by the NTC and will expire between now and 2028. Some of PLDT's CPCNs and provisional authorities have already expired. However, PLDT filed applications for extension of these CPCNs and provisional authorities prior to their respective expiration dates and is therefore entitled to continue to conduct its business under its existing CPCNs and provisional authorities pending the NTC's decisions on these extensions.

Because PLDT filed the applications for extension on a timely basis, PLDT has publicly stated it expects that these extensions will be granted. However, there can be no assurance that the NTC will grant these extensions. If a CPCN has not been issued, the NTC may permit an operator to provide services pursuant to a provisional authority. Provisional authorities are typically granted for a period of 18 months. The Philippine Revised Administrative Code of 1987 provides that if the grantee of a licence or permit, such as a CPCN or provisional authority, has made timely and sufficient application for the extension thereof, the existing CPCN or provisional authority will not expire until the application is finally decided upon by the administrative agency concerned. However, there can be no assurance that PLDT's franchises, CPCNs and provisional authorities will be renewed.

On the other hand, Smart operates its cellular, international long distance, national long distance and global mobile personal communications via satellite services as well as international private leased circuits pursuant to CPCNs, which will expire upon the expiration of its franchise.

The NTC also regulates the rates PLDT is permitted to charge for services that have not yet been deregulated, such as local exchange services. The NTC could impose additional obligations on PLDT that could lead to the revocation of its licences if not adhered to and/or reduction in its total revenues

or profitability. In addition, the NTC could adopt changes to the regulations governing PLDT's interconnection with other telecommunications companies or the rates and terms upon which PLDT provides services to its customers that could have a material and adverse effect on its results of operations.

The PLDT group is also subject to a number of national and local taxes. There can be no assurance that the PLDT group will not be subject to new and/or additional taxes and that the PLDT group would be able to impose additional charges or fees to compensate for the imposition of such taxes.

There were bills filed with the Philippine Congress which proposed to impose a franchise tax on telecommunication companies and to tax telecommunications services, among them, the imposition of a tax on mobile phone companies on all text entries to text games; the imposition of a ₱0.50 specific tax on each SMS to be borne by the cellular phone companies; imposition of a 10% ad valorem tax on all cellular phone calls using 3G; the prohibition on telecommunications companies from imposing fees and/or charges on text messages between subscribers of the same telecommunications company and providing for free text messages until the prepaid amount has been fully used up; and the imposition of an additional ₱0.05 tax on text messaging charges. In addition, there was a bill which sought to impose on telecommunications companies a 20% tax on gross receipts from text messaging services for a period of five years, where the proceeds of such tax would be used to fund educational projects. If bills of this nature were in the future enacted into law, such legislation would have a material and adverse impact on PLDT's results of operations and financial condition. There can be no assurance that PLDT would be able to impose additional charges or fees to compensate for the imposition of such taxes or charges, or for the loss of fees and/or charges.

Risks Relating to the Infrastructure Business

MPIC may experience difficulties managing its existing investments and its growth.

MPIC has rapidly expanded its portfolio of infrastructure assets over the past few years. MPIC acquired its interest in its water utilities business beginning in 2006, its toll road business in 2008, its healthcare facilities in stages from 2007 to 2010, and has recently acquired and streamlined its interest in the Meralco, the largest private sector electricity distribution utility in the Philippines. This rapid expansion into new business sectors has presented, and will continue to present, significant challenges for MPIC's management, operational and administrative systems and its ability to maintain effective systems of internal controls. MPIC will have to continue to train new personnel and expand and improve its management, operational, administrative and financial control and auditing systems relating to new businesses or expansion of existing businesses. There can be no assurance that MPIC will not experience difficulties in managing its existing investments and growth. If MPIC fails to develop and maintain its management, administrative and internal control systems, as well as other resources, its business, financial condition and results of operations could be materially and adversely affected.

A part of MPIC's long-term strategy is to expand its water supply, toll roads and electricity distribution operations to other locations outside the areas in which it currently operates. Expanding into such new locations will depend on MPIC's ability to obtain the necessary permits, licences and approvals to operate in new territories in a timely and cost-effective manner.

Failure to obtain financing on reasonable terms could affect the execution of MPIC's growth strategies; increased debt financing may have a material adverse effect on MPIC.

MPIC's ability to make strategic investments and acquisitions (including the ongoing discussions for a toll road connecting the NLEX to the SLEX and to increase its equity interest in Citra Tollways and the plan to accomplish its growth strategy outside of Maynilad's and Meralco's current operating areas) may depend on satisfactory risk and return analysis, obtaining the necessary concessions as well as external fund raising activities, including debt and equity financing. MPIC's ability to raise additional equity financing from non-Philippine investors is subject to prevailing market risks and

foreign ownership restrictions imposed by the Philippine Constitution and applicable laws. MPIC's access to debt financing for new projects and acquisitions and to refinance maturing debt is subject to many factors, some of which are outside of MPIC's control. For example, political instability, economic downturns, liquidity of the U.S. dollar and peso debt capital markets and the banking market, social unrest or changes in MPIC's regulatory environment could increase MPIC's cost of borrowing or restrict MPIC's ability to obtain debt financing. MPIC cannot guarantee that it will be able to arrange financing on acceptable terms, if at all. The inability of MPIC to obtain debt financing from banks and other financial institutions would adversely affect its ability to execute its growth strategies or refinance maturing debt.

The volume of raw water available to Maynilad may be limited and may not increase to satisfy expected increases in water demand.

Various factors may limit the volume of raw water available to Maynilad, and, accordingly, the volume of water available may not increase in line with increases in water demand. These factors include, among others, the level of water in the Metropolitan Waterworks and Sewerage System ("**MWSS**") reservoirs, the condition of the MWSS reservoirs and dams, the development of new water supply projects undertaken by MWSS and the terms of the permits issued to MWSS by the National Water Resources Board (the "**NWRB**") that limit the amount of water that MWSS may extract from its reservoirs. In addition, drought, changing weather patterns and other circumstances may result in major shortages in Maynilad's water supply. For example, in 2004 heavy rainfall associated with two typhoons caused landslides which damaged the MWSS system and resulted in the NWRB temporarily reducing Maynilad's water supply by 10%. In 1997, a strong El Niño weather event caused a severe drought and significantly decreased Maynilad's water supply. El Niño is a disruption of the ocean-atmosphere system in the tropical Pacific that impacts global weather patterns, including weather in the Philippines, and usually recurs every five to seven years. In 2010, due to a shortage of water, Maynilad is receiving less water than it is entitled to under its concession. Droughts, including those caused by El Niño, will continue to be a fundamental threat to Maynilad's water supply.

Maynilad's results of operations could be materially affected if it is unable to reduce non-revenue water.

NRW refers to the volume of water lost in Maynilad's distribution system due to leakage, theft from illegal connections and metering errors. During the year ended 2009, Maynilad's average NRW was approximately 60%, and during the three months ended 31 March 2010, Maynilad's average NRW was approximately 57%. As approved by the regulatory office (formed pursuant to the terms of a water utilities concession agreement dated 21 February 1997 (the "**Water Utilities Concession Agreement**")) (the "**Regulatory Office**"), Maynilad's annual NRW target is 40% for 2012 and 30% for 2017 and through to the expiration date of the water concession. Due to an extension of the expiration date of the water concession, the NRW targets were further adjusted from 30% for 2021 to 20% for 2031. The 20% NRW target is then to be maintained until 2037. If Maynilad does not meet these targets, it could be subject to penalties under the Water Utilities Concession Agreement with the MWSS. Maynilad intends to reduce NRW by, among other methods, improving Maynilad's billing system, replacing meters for commercial and high-usage customers, undertaking comprehensive leak repairs, reducing illegal connections, servicing pipe replacements and rehabilitating distribution lines.

A variety of factors affect Maynilad's ability to reduce NRW, including inability to obtain government approvals, licences and/or permits necessary to replace aging infrastructure and to construct new connections, lack of funding for required capital expenditures, leakage as the system continues to age and increased theft from illegal connections as demand and tariff rates increase. If Maynilad does not continue to significantly reduce NRW, as it has done in the past, this could materially and adversely affect MPIC's business, financial condition and results of operations.

Maynilad has substantial liquidity and capital resource requirements, and failure to obtain new financing could have a material adverse effect on MPIC's business, financial condition and results of operations.

The water utilities and sewerage facilities located in the West Zone need further rehabilitation and expansion, which will require extensive capital expenditure by Maynilad. Maynilad has designed and planned various new projects to improve water and wastewater services and meet its service obligations under the Water Utilities Concession Agreement. In addition, the Water Utilities Concession Agreement requires Maynilad to continue MWSS-funded projects, as well as to undertake projects on its own.

There can be no assurance that Maynilad will be able to obtain sufficient funds at acceptable rates, or at all, to complete its planned projects and pay future water concession fees to MWSS or satisfy its other liquidity and capital resources requirements. Failure to obtain the requisite funds could delay or prevent completion of projects, lead to termination of the water concession and materially and adversely affect MPIC's business, financial condition and results of operations.

Liability for water supply contamination could result in material losses and costs.

Maynilad's business, the supply of water to end-users in particular, is subject to the risk of water supply contamination which could result in disease, death or otherwise endanger the public health. As a result of contamination, Maynilad may have to interrupt the supply of water to its customers until it can install treatment equipment or substitute the flow of water from an uncontaminated water source. If Maynilad's water supply becomes contaminated, it could be subject to civil, criminal or regulatory enforcement actions, private lawsuits and expensive cleanup obligations. There can be no assurance that Maynilad's water supply is or will always be in compliance with the water quality standards of the Philippine National Standard for Drinking Water set by the Department of Health.

Maynilad's inability to substitute water supply from an uncontaminated water source, or to adequately treat a contaminated water source in a cost-effective manner, could materially and adversely affect MPIC's business, financial condition and results of operations.

Maynilad may no longer be able to avail itself of an income tax holiday it has historically enjoyed.

Maynilad is registered with the Philippine Board of Investments (the "**BOI**") as a "pioneer enterprise" under the Omnibus Investments Code of 1987 as a result of its status as the operator of water utilities in the West Zone. As a registered enterprise, Maynilad is entitled to certain tax and non-tax incentives, including an income tax holiday.

Maynilad's initial income tax holiday expired on 31 December 2009. The BOI recently granted Maynilad a new income tax holiday through 2015 and as well as an income tax holiday on Maynilad's proposed 300 million litres per day ("**MLD**") treated bulk water supply project in Putatan, the Philippines. There is no guarantee that Maynilad will continue to enjoy its tax holidays as it has in the past or at all. If the BOI does not renew its current incentive under similar terms or at all and/or grant the new incentive, Maynilad's tax expenses will increase.

MPIC's Toll Road Concession is subject to a challenge in the Supreme Court of the Philippines.

The validity of the Supplemental Toll Operation Agreement under which MPIC, through its subsidiary MNTC, holds the exclusive right to finance, design, construct, rehabilitate, expand, operate and maintain the project roads constituting the NLEX as toll roads and to install and collect revenue through a tollway collection system and other agreements that are material to the Toll Road Concession, as well as other similar agreements relating to toll concessions held by a number of other operators in the Philippines, have been challenged by two petitions lodged in the Supreme Court of

the Philippines. If the petitioners' claims are granted or if the Supreme Court otherwise determines that the Toll Road Concession Agreement and the related agreements are invalid, the business, financial condition and results of operations of MPIC could be materially and adversely affected. For further information see Note 34 to the Audited Financial Statements of MPIC for the year ended 31 December 2009 incorporated herein.

A decrease in traffic volumes, capacity limits, toll rates and toll collected on the NLEX may adversely affect MPIC's toll road operations.

Revenues from MPIC's toll road operations principally depend upon the number and type of motor vehicles using the NLEX. Traffic volume is directly and indirectly affected by a number of factors, including the availability, quality, proximity and cost of alternative roads (including non-toll roads) and alternative modes of transportation and government economic and transportation policies. More generally, traffic volumes on the NLEX depend to a large extent on the continued economic growth and development of the Philippines and, in particular, Metro Manila and the special economic zones of Subic and Clark.

Traffic volumes on the NLEX are also influenced by traffic volumes on expressways, highways and other roads which are part of the regional highway system and network. There can be no assurance that changes in this highway system and network, in particular in Metro Manila or the special economic zones of Subic and Clark, will not adversely affect traffic volume on the NLEX. For example, significant construction projects in Metro Manila, neighboring roads, highways or expressways could adversely impact traffic volume on the NLEX.

Capacity limits may also affect MPIC's revenues from toll road operations. There are limits to the number of vehicles that can efficiently use the NLEX in any given period. At certain interchanges in the Metro Manila region, the need for a toll plaza at the entrance to the expressway may, during periods of high congestion, create a bottleneck restricting traffic flow onto the expressway and limiting traffic volumes of paying customers. High levels of traffic congestion could result in customer dissatisfaction and reduce the volume of toll-paying motorists.

MNTC derives substantially all of its revenue from toll collections from the users of the NLEX. The Toll Road Concession Agreement establishes a toll rate formula and adjustment procedure for setting the "Authorised Toll Rate", the maximum authorised amount that can be assessed upon toll users. The Toll Road Concession Agreement also provides for both regular adjustments every two calendar years and interim adjustments to the Authorised Toll Rate in certain circumstances, particularly significant changes in the Philippines consumer price index. However, no assurance can be given that adjustments to the Authorised Toll Rate will be made at the times or in the amounts contemplated by the Toll Road Concession Agreement or will be favorable to MNTC or MPIC.

The receipt of toll revenue is highly dependent upon the integrity of MNTC toll collection system. Most of the toll revenues collected on the NLEX are collected in cash, as opposed to through cashless electronic collection systems. The level of revenues derived from the collection of tolls may be reduced by leakage through toll-evasion, fraud or technical faults in MNTC's toll collection systems. MNTC has established policies and procedures designed to prevent such leakage, including the prevention of toll-evasion, user fraud, employee fraud and theft. However, there can be no assurance that these policies and procedures will be effective.

The occurrence of any of the above situations could have a material adverse effect upon MPIC's business, financial condition and results of operations.

MNTC may encounter difficulties in funding future capital requirements, including the expansion and maintenance of the NLEX.

The Toll Road Concession Agreement contemplates the development of a regional highway network in the region north of Metro Manila in phases. The first phase was initiated in March 2001 and was completed in February 2005. Pursuant to the Toll Road Concession Agreement, MNTC, under certain specified conditions, is obligated to participate in the further expansion of the project roads. The obligation to commence construction on a given phase or segment is subject to compliance with certain requirements, including the delivery by the Toll Road Grantor of the land required and actual access and possession by MNTC of the land required, ready for fencing and construction, and proof of availability of funds. Work on the first segment of Phase II, an extension spanning a total of 2.7 kms, began in April 2009 and was completed in June 2010.

Any future construction obligations arising under the Toll Road Concession Agreement may require significant capital expenditures for the funding of roadway construction costs, the development of toll facilities and amenities, and related costs. MNTC is obligated under the Toll Road Concession Agreement to maintain the toll roads it operates including both routine and heavy maintenance and repairs.

There can be no assurance that MNTC will have sufficient cash flow or be able to obtain third party financing necessary to finance MNTC's construction and maintenance obligations. If MNTC were unable to obtain financing for its future capital expenditures, it may have difficulty meeting its construction and maintenance obligations under the Toll Road Concession Agreement. In certain cases, the inability of MNTC to meet these obligations is a default under the Toll Road Concession Agreement, which could cause MPIC's business, financial condition and results of operations to be materially adversely affected.

MNTC may be subject to the prospective assessment of value added taxes on toll revenues.

In September 2005, the Philippine Secretary of Finance, acting through the Bureau of Internal Revenue (the "**BIR**"), issued a Revenue Memorandum Circular that for the first time expressly identified toll road operations as subject to a 10% value added tax ("**VAT**") (which has been adjusted to the current rate of 12%). At the direction of the Toll Regulatory Board, MNTC and other toll road operators in the Philippines have deferred the imposition of VAT on toll fees collected from motorists ("**output VAT**"). Although MNTC, along with other toll operators, are currently in discussion with the applicable regulatory agencies concerning the issue of VAT assessment and collection, it remains possible that the BIR will determine that MNTC was obligated to collect VAT from motorists, and that MNTC is liable for uncollected output VAT.

MNTC has benefitted from an income tax holiday that may not be renewed.

MNTC is registered with the Board of Investments as a "pioneer enterprise" under the Omnibus Investments Code of 1987, as a result of its status as the operator of the NLEX. As a registered pioneer enterprise, MNTC is entitled to certain tax and non-tax incentives, including an income tax holiday incentive. In July 2009, the Board of Investments granted MNTC's request for an extension of the income tax holiday. As a result, MNTC's income tax holiday is currently scheduled to expire at the end of December 2010. If these incentives are not renewed, MNTC's tax expenses will increase significantly.

Meralco is dependent on third-party suppliers of electricity.

Although Meralco may in the future consider expansion into electricity generation, it does not currently operate its own electricity generation facilities and depends on third-party suppliers for all of the power it distributes. In particular, Meralco purchases significant quantities of the electric power it distributes from National Power Corporation ("**NPC**") under a transition supply contract. There can be no assurance that Meralco's current power generation sources will continue to supply electricity in amounts sufficient to satisfy present demand or future growth in demand for electric power.

The Philippine power industry is undergoing restructuring.

Under the Philippine Electric Power Industry Reform Act of 2001, the Philippine power industry is undergoing a fundamental restructuring, which has required, and will continue to require, significant changes in Meralco's business, including:

- the deregulation of, and introduction of competition in, power generation and supply activities and pricing;
- the privatisation of the NPC's power generation assets and independent power producers contracts;
- the unbundling of the costs constituting the power supply chain and the reflection of these separate costs in the bills provided to consumers;
- the freedom of customers to choose among electricity suppliers;
- subject to certain conditions, the open and non-discriminatory access in the networks of distribution utilities;
- the implementation of a wholesale electricity spot market; and
- the removal of inter-grid, intra-grid and inter-class cross subsidies.

These and other risks or uncertainties, alone or in combination, could have a material and adverse effect on Meralco's business, financial condition and results of operations.

Litigation matters could result in large costs and distribution rate adjustments for Meralco.

Meralco and its subsidiaries are subject to various pending or threatened legal actions in the ordinary course of business which, if found against Meralco and its subsidiaries, may result in the payout of substantial claims and or the adjustment of electricity rates, including but not limited to legal proceedings between Meralco and NPC over historical billing adjustments involving a potential claim of approximately ₱14.3 billion against Meralco. As the legal proceedings remain pending, the ultimate aggregate amount of any monetary liability, the potential adjustment to electricity rates, their impact to Meralco and its subsidiaries' results of operation and financial condition and their impact to MPIC's book value of its attributable interest in Meralco remains uncertain.

Risks Relating to the Consumer Food Products Business

Legal claims, product recalls or other regulatory enforcement, adverse publicity, negative public perception regarding Indofood's products, product liability claims and customer complaints, or concerns with the safety and quality of food products in general could affect Indofood's sales, reputation and profitability.

The sale of consumer food products involves a number of reputational, regulatory, legal and other risks in relation to food safety. Indofood may need to recall some of its products if they were to become contaminated, adulterated or misbranded or if they are tampered with. Indofood may also be held liable if the consumption of any of its products were to cause injury, illness or death. A widespread product recall or market withdrawal could also result in significant losses due to the cost of conducting a recall, including the destruction of product inventory, and loss of sales due to unavailability of the affected product for a period of time. Food safety defects, including product contamination, spoilage, product tampering or other adulteration, regardless of whether they actually occur or are merely rumoured and regardless of whether they implicate Indofood's own products or those of its competitors, could have a heavy impact on business outcomes not only because of any resulting product liability claims but also due to adverse publicity, damage to Indofood's reputation

and loss of consumer confidence in Indofood's food products. For example, in 2008, the market for baby food was adversely affected by the discovery of *ebacteria sakazakii* in some packaged baby food products sold by other producers. The incident affected the industry as a whole, including sales of Indofood's baby food products. Regulatory investigations, whether or not they directly involve Indofood, and new regulatory measures regarding food safety and quality that affect Indofood's product categories could also adversely affect its business, financial condition, results of operations and prospects.

Indofood could also be adversely affected if consumers were to lose confidence in the nutritional or health value of certain food products or ingredients. This negative perception may include publicity regarding the nutritional or health merits of Indofood's product segments in general, of other companies' branded products or of Indofood's products specifically. Regulations motivated by concerns over nutritional or health issues that implicate Indofood's product categories or key ingredients may also adversely affect its business, financial condition, results of operations and prospects.

In addition, Indofood advertises its products and could be the target of claims relating to alleged false or deceptive advertising under applicable laws and regulations and of new laws or regulations restricting Indofood's right to advertise products.

Indofood's business will be adversely affected if it loses its halal certificate.

A large proportion of Indofood's consumer base is of the Muslim faith and can only consume products which are halal. The Indonesian government has instituted a certification process whereby vendors that prepare, process and sell their products according to certain standards, receive a halal certificate that will allow such vendors to label and market their products as halal. All of Indofood's products have received halal certification from the relevant Muslim authority in Indonesia, and continued renewal of its halal certificates is of paramount importance to the success of its business. While Indofood has processes and procedures to ensure continued compliance with the halal certificates, it does not have control over the facilities of its vendors from whom it purchases raw materials and ingredients for its products and cannot control situations in which these vendors may not fully comply with their halal certification requirements. Any such occurrence may result in Indofood's halal certificates being terminated or not renewed. If Indofood is at any time unable to renew or maintain its halal certificates, or if consumers lose confidence in Indofood's products' compliance with halal requirements, even if based on unsubstantiated rumours, it would materially and adversely affect Indofood's business, financial condition, results of operations and prospects.

Climate change, or legal, regulatory or market measures to address climate change, may negatively affect Indofood's business and operations.

There is growing concern that carbon dioxide and other greenhouse gases in the atmosphere may have an adverse impact on global temperatures, weather patterns and the frequency and severity of extreme weather and natural disasters. In the event that such climate change has a negative effect on agricultural productivity, Indofood may be subject to decreased availability or less favourable pricing for certain commodities that are necessary for its products, such as (but not limited to) flour, cooking oil, milk, potatoes and sugar.

Indofood may also be subjected to decreased availability or less favourable pricing for water as a result of climate change, which could impact its manufacturing costs. The increasing concern over climate change also may result in more regional, domestic and/or global legal and regulatory requirements to reduce or mitigate the effects of greenhouse gases. In the event that such regulation is enacted and is more aggressive than the sustainability measures that Indofood is currently undertaking to monitor its waste emissions, Indofood may experience significant increases in its costs

of operation and delivery. In particular, increasing regulation of fuel emissions could substantially increase the distribution and supply chain costs associated with Indofood's products. As a result, climate change and related regulations could negatively affect Indofood's business, financial condition, results of operations and prospects.

Indofood faces increased competition in its business segments.

The markets for many of Indofood's products are subject to significant competition, both from domestic and international companies. For example, in the instant noodle market, additional market competitors such as Wings Group in the past few years have put pressure on selling prices and thus lowered margins for instant noodle producers. No assurance can be given that existing competitors will not expand production capacity or increase competitive pressures on Indofood or that additional domestic or foreign competitors will not enter the markets in which Indofood operates. Any such additional competition could affect Indofood's ability to maintain or raise prices or result in lower sales volumes, increased operating expenses or decreased operating margins, all of which could adversely affect Indofood's results of operations.

Anti-monopoly legislation in Indonesia may adversely affect Indofood.

In 1999, Indonesia enacted anti-monopoly legislation which prohibits a variety of practices considered to be anti-competitive or monopolistic. The legislation focuses on the behaviour of competitors within a market and the structural characteristics of a market. Although market share is considered one of the indicators that a monopoly or unfair competition exists, it is not the only factor, and there is uncertainty in the interpretation of markets and market shares. Indofood is one of the largest processed foods company in Indonesia, with leading domestic market shares for its major products, including instant noodles, flour and branded cooking oils and fats. Indofood is not aware of any action or proceedings taken or threatened against it under this legislation. However, there can be no assurance that this law, depending on how it is interpreted and enforced in the future, could not have an adverse effect on Indofood's business and market share in Indonesia.

The prices and costs of Indofood's products fluctuate depending upon international prices, exchange rates and inflation.

The prices and costs of Indofood's products are affected by international prices of imported raw materials, especially the price of wheat grain which is milled into flour and partly used in the production of Indofood's products. International prices of wheat grain and other imported raw materials, such as resin for packaging materials, are affected by a number of factors, including (among others):

- level of supply and demand;
- world production levels (wheat grain production tends to be affected by global weather conditions);
- world consumption levels of these products; and
- the world economy generally.

According to Bloomberg, average world wheat grain "free on board" ("**FOB**") prices were US$280 per tonne in 2007, US$399 per tonne in 2008 and US$239 per tonne in 2009. Fluctuations of the international prices for raw materials and Rupiah depreciation against the U.S. dollar could adversely affect Indofood's results of operations and financial condition. While Indofood has adjusted the prices of its products to reflect the depreciation of the Rupiah and inflation, Indofood may not be able to raise the Rupiah prices of its products in the Indonesian market to reflect fully and in a timely manner the depreciation of the Rupiah against the U.S. dollar or inflation.

Changes in tax, environmental, food quality and safety or other regulations or failure to comply with existing licensing, trade, food quality and safety and other regulations and laws could have a material adverse effect on Indofood's consolidated financial condition.

Indofood's activities are subject to regulation by various laws, regulations and government agencies, including Ministry of Health, Ministry of Trade, Ministry of Industry, Ministry of Finance, the Investment Coordinating Board and the Food and Drug Supervisory Agency ("**FDSA**").

The manufacturing, marketing and distribution of food products is subject to governmental regulation that is generally becoming more stringent. Those regulations control matters such as food quality and safety, ingredients, advertising, relations with distributors and retailers, health and safety and the environment. Indofood is also regulated as to its licensing requirements, trade and pricing practices and tax matters. The need to comply with new or revised tax, environmental, food quality and safety or other laws or regulations, new or changed interpretations or enforcement of existing laws or regulations or new requirements from increasing regional autonomy, may have a material adverse effect on Indofood's business and results of operations. Furthermore, if Indofood is found to be non-compliant with applicable laws and regulations in these areas, it could be subject to civil remedies, including fines, injunctions, or recalls, as well as potential criminal sanctions, any of which could have a material adverse effect on its business.

The loss of or failure to obtain, renew or comply with any or all of these licences and permits could adversely affect Indofood's business. Moreover, changes in existing laws aiming to impose more stringent standards may cause Indofood to incur additional compliance costs, which could have an adverse impact on its financial position.

Risks Relating to the Natural Resources Business

Philex's profitability may be affected by volatility of gold and copper prices.

Philex's profitability depends upon the price of gold and copper. Prices for these minerals fluctuate widely and are affected by numerous factors beyond Philex's control. Gold and copper prices are subject to volatile price changes from a variety of factors including fluctuations of global and regional supply and demand and consumption patterns, increased production, exchange rates, inflation rate expectations, international economic and political trends, forward sales by producers and speculators as well as other global or regional political, social or economic events. The behaviour of these prices to a large extent dictates Philex's revenue. If Philex's revenue falls below production costs and remains at such levels for a prolonged period of time, it may not be economically feasible to continue operations. A severe decline in gold and/or copper prices may also require Philex to write down its mineral reserves and resources which would mean shorter operating life and thus lower earnings and profitability. This may require material writedown of Philex's investments in mining properties or accelerated amortisation, reclamation and closure expenses.

Philex's only operating mine, the Padcal mine, has been in operation for 52 years. The average grade of the ore from the Padcal mine is expected to decline as the mine approaches the end of its life, currently declared as mid-2017. As the flexibility of the mine to increase its production output gets further limited by lower ore grade, its ability to cope with significant downswings in metal prices or upswings in operating costs would be consequently affected. There is no assurance that any additional or new ore bodies will be found to augment the existing resource and extend the mine's life beyond 2017.

Mineral exploration and development is inherently speculative.

The exploration for and the development of, mineral deposits are subject to significant risks and hazards inherent in the mining industry which even a combination of careful evaluation, experience and knowledge may not totally eliminate. While the discovery of an ore body could result in substantial rewards, only few properties that are explored ultimately develop into commercially viable

mines. Exploration and production may be hampered by mining and environmental legislation, industrial accidents, industrial disputes, cost overruns, land claims and compensation and other unforeseen contingencies. Success also depends on the delineation of economically recoverable reserves, the availability and cost of required development capital, movement in the price of commodities, securing and maintaining title to mining tenements as well as obtaining all necessary consents and approvals for the conduct of exploration and production activities. The commercial viability of a mineral deposit is also dependent upon a number of factors, some of which are the particular attributes of the deposit (such as size, grade and proximity to infrastructure), metal prices and government regulations (including regulations relating to royalties, allowable production, importing and exporting of minerals, and environmental protection). In addition, upon discovery of a commercial ore body, several years can elapse from the initial phase of drilling until commercial operations are commenced. Most of the above factors are beyond the control of mining companies.

Exploration and production on exploration and mining tenements may prove unsuccessful. Mineable resources become depleted over time resulting in a reduction of the value of the tenements and a diminution in the cash flow and cash reserves of mining companies as well as possible relinquishment of the exploration and mining tenements at such time. Whether income will result from projects undergoing exploration and development depends on the successful establishment of mining operations. The design and construction of efficient processing facilities as well as the availability and reliability of appropriately skilled and experienced consultants also can affect successful project development. Factors including costs, actual mineralisation, consistency and reliability of ore grades and commodity prices, the existence of competent operational management and prudent financial administration affect successful operation.

In relation to Philex, the Silangan Project is still in the process of pre-feasibility study which may or may not come out with positive results. Even if the pre-feasibility study shows that the project is feasible for operation, the definitive or bankable feasibility study may not necessarily reach the same conclusion. Should the bankable feasibility study support mine development, the capital investment required to put the mine into operation is expected to be significant. There is a risk that such capital investment may not be recovered from future operations.

Similarly, Philex's hydrocarbon projects may also require substantial investment to improve their status from exploration to operation. There is no assurance that the exploration activities will lead to the construction of productive wells, nor that these wells, if indeed put into operation, will generate sufficient profits for the recovery of the capital invested.

Mineral resource and ore reserve estimates are based on limited sampling, and actual production may not meet Philex's estimates.

No assurance can be given that the calculated tonnages and grades of ore will be achieved during production or that the indicated level of gold and copper recovery will be realised. Metal price declines, as well as increased production costs or reduced recovery rates, may increase the economical cut-off grade and thus may ultimately result in a downward restatement of ore reserves. Failure to achieve production estimates could have a material and adverse effect on any or all of future cash flows, access to capital, profitability, results of operations and financial condition. Production estimates are dependent on, among other things, the accuracy of mineral reserve and resource estimates, on ore grades and recovery rates, actual ground conditions (including hydrology), physical characteristics of ores (such as hardness and the presence or absence of particular metallurgical characteristics) and the accuracy of estimated rates and costs of mining, ore haulage and processing.

Philex's activities are subject to extensive environmental regulations.

Philex's mining activities are subject to extensive laws and regulations controlling the possible effects of such activities upon the environment. Permits from regulatory authorities are required for many aspects of mine operation. Environmental impact statements may be required for submission and approval thereof by government authorities. Health and safety standards and regulations also impact

upon the design and use of mining methods and equipment. Complying with known standards, existing laws and regulations may entail greater or lesser costs and delays depending on the nature of the activity to be permitted and how stringently the regulations are implemented by the permitting authority. Future legislation and regulations could cause additional expense, capital expenditures, restrictions and delays in the development or operation of mining properties, the extent of which cannot be predicted. Compliance with future laws may also cause delays or require capital outlays in excess of those anticipated.

There is also no assurance that future changes in environmental regulation, if any, will not adversely affect Philex's operations. Philex cannot give any assurance that any breaches of environmental laws (whether inadvertent or not) or the occurrence of environmental pollution will not materially or adversely affect its financial condition and its results of operations.

A Complaint for Injunction with Moral Damages and with Urgent *Ex-Parte* Application for Temporary Environmental Protection Order and/or Environmental Protection Order was filed on 22 June 2010 before the Regional Trial Court of Surigao City, Philippines, Branch 30 ("**RTC**"). Docketed as Civil Case No. 7262, the case is entitled "Anislagan Bantay Kalikasan Task Force, Inc. et al. versus Secretary of the Department of Environment of Natural Resources, et al." The private defendants are Manila Mining Corporation, Kalayaan Copper Gold Resources, Inc., and Silangan Mindanao Mining Company, Inc. ("**Silangan Mining**"). Silangan Mining is a wholly-owned subsidiary of Philex that owns the Silangan Project. The Complaint seeks, among others, the issuance of a Temporary Environmental Protection Order ("**TEPO**") to restrain Silangan Mining from continuing the construction of its training centre in Barangay Anislagan, Placer, Surigao del Norte, Philippines and to restrain private defendants from conducting further exploration activities allegedly to prevent damage to the environment, the plaintiffs and to the residents of Barangay Anislagan. The RTC issued a 72-hour TEPO on 22 June 2010, which Silangan Mining received on 23 June 2010. The application for the extension of the TEPO was heard on 25 June 2010. The hearing will be continued on 22, 29 and 30 July 2010. The 72-hour TEPO was not extended in the meantime, and expired on 26 June 2010. The training centre referred to in the complaint is under construction in Barangay Anislagan and is part of a community livelihood project of Silangan Mining in line with its commitment to corporate social responsibility. There is no assurance that the complaint will be resolved in favour of Silangan Mining.

Further, Philex must comply with various other legal requirements imposed by corporation and securities laws, rule and regulations in the Philippines. Should any of those laws, rules and regulations change over time, the legal requirements to which Philex may be subject could differ materially from current requirements.

TERMS AND CONDITIONS OF THE BONDS

The following (other than the words in italics) is the text of the Terms and Conditions of the Bonds which, subject to modification, will appear on the reverse side of each of the individual certificates evidencing the Bonds:

The issue of the US$300,000,000 7.375 per cent. Secured Bonds due 2017 (the "Bonds") of FPMH Finance Limited (the "Issuer") was authorised by a resolution of the Board of Directors of the Issuer passed on 16 July 2010. The guarantee as set out in the Trust Deed (the "Guarantee") of the Bonds by First Pacific Company Limited ("First Pacific") was authorised by a resolution of the Board of Directors of First Pacific passed on 16 July 2010. The Bonds are constituted and secured by a trust deed (the "Trust Deed") dated on or prior to 23 July 2010 (the "Closing Date") between the Issuer, First Pacific, Metro Pacific Holdings, Inc. ("MPHI"), DB Trustee (Hong Kong) Limited (the "Trustee"), as trustee for the holders of the Bonds and DB Trustee (Hong Kong) Limited (the "Security Trustee") as security trustee for the holders of the Bonds. These terms and conditions (the "Conditions") include summaries of, and are subject to, the detailed provisions of the Trust Deed (which includes the forms of the Bonds in definitive form) and the Security Documents.

An agency agreement dated on or prior to 23 July 2010 (the "Agency Agreement") has been entered into between the Issuer, First Pacific, Deutsche Bank AG, Hong Kong Branch, in its capacity as principal paying agent (the "Principal Paying Agent"), paying agent (the "Paying Agent", together with the Principal Paying Agent, the "Paying Agents"), Deutsche Bank Luxembourg S.A. as registrar ("Registrar") and the Trustee.

Copies of the Trust Deed, the Agency Agreement and the Security Documents (collectively, the "Transaction Documents") are available for inspection during usual business hours at the principal office of the Principal Paying Agent (presently at 48th Floor, Cheung Kong Center, 2 Queen's Road Central, Hong Kong) and the specified offices of the other Paying Agents (if any) for the time being. The holders of the Bonds are entitled to the benefit of, are bound by and are deemed to have notice of all the provisions of the Trust Deed and the Security Documents and are deemed to have notice of those provisions applicable to them of all other Transaction Documents.

All capitalised terms that are not defined in these Conditions shall have the meanings given to them in the Trust Deed.

1 Form, Denomination, Title and Transfer

(a) *Form and denomination*

The Bonds are issued in registered form in denominations of US$100,000 and integral multiples of US$1,000 in excess thereof. The Bonds are represented by registered certificates ("Certificates") and each Certificate shall be numbered serially and represent the entire holding of the Bonds by the same holder.

(b) *Title*

Title to the Bonds shall pass by transfer and registration in the register that the Issuer shall procure to be kept by the Registrar in accordance with the provisions of the Agency Agreement (the "Register"). Except as ordered by a court of competent jurisdiction or as required by applicable law, the holder (as defined below) of any Bond shall be deemed to be and may be treated as its absolute owner for all purposes whether or not it is overdue and regardless of any notice of ownership, trust or an interest in it, any writing on the Certificate representing it or the theft or loss of the related Certificate and no person shall be liable for so treating the holder.

In these Conditions, "Bondholder" means the person in whose name a Bond is registered (or in the case of a joint holding, the first name thereof).

(c) *Transfers*

One or more Bonds may be transferred upon the surrender (at the specified office of the Registrar) of the Certificate representing such Bonds to be transferred, together with the form of transfer endorsed on such Certificate (or other forms of transfer in substantially the same form and containing the same representations and certifications (if any), unless otherwise agreed by the Issuer), duly completed and executed and any other evidence which the Registrar may reasonably require. No transfer of title to any Bond will be valid or effective unless and until entered on the Register. In the case of a transfer of part only of a holding of Bonds represented by one Certificate, a new Certificate shall be issued to the transferee in respect of the part transferred and a further new Certificate in respect of the balance of the holding not transferred shall be issued to the transferor; provided that, in the case of a transfer of Bonds to a person who is already a holder of Bonds, a new Certificate representing the enlarged holding shall only be issued against surrender of the Certificate representing the existing holding.

(d) *Delivery of New Certificates*

Each new Certificate to be issued pursuant to Condition 1(c) shall be available for delivery within three Registrar Business Days of receipt of a duly completed request for exchange or form of transfer or the surrender of the original Certificate for exchange together with satisfaction of any other requirements imposed by these Conditions. Delivery of the new Certificate(s) shall be made at the specified office of the Registrar to whom delivery or surrender of such request for exchange, form of transfer or Certificate shall have been made or, at the option of the holder making such delivery or surrender as aforesaid and as specified in the relevant request for exchange, form of transfer or otherwise in writing, be mailed by uninsured post at the risk of the holder entitled to the new Certificate to such address as may be so specified, unless such holder requests otherwise and pays in advance to the Registrar the costs of such other method of delivery and/or such insurance as it may specify. In this Condition 1(d), "Registrar Business Day" means a day, other than a Saturday or Sunday, on which banks are open for business in the place of the specified office of the Registrar.

(e) *No Charge*

Transfers of Bonds shall be effected without charge by or on behalf of the Issuer or the Registrar but upon payment of any tax or other governmental charges that may be imposed in relation to such transfers (or the giving of such indemnity as the Registrar may require).

(f) *Closed Periods*

No Bondholder may require the transfer of a Bond to be registered (i) during the period of 15 calendar days ending on (and including) the due date for any payment of principal (whether at maturity or upon required repurchase or otherwise) or interest in respect of the Bonds or (ii) during the period of seven calendar days ending on (and including) any Record Date, or (iii) after a Relevant Event Redemption Notice as defined in Condition 6(e) has been deposited in respect of such Bond.

(g) *Regulations*

All transfers of Bonds and entries on the Register will be made subject to the detailed regulations concerning transfer of Bonds scheduled to the Agency Agreement. The regulations may be changed by the Issuer, with the prior written approval of the Trustee and the Registrar. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Bondholder upon request.

2 Status and Guarantee

(a) *Status of the Bonds*

The Bonds constitute direct, unconditional, secured obligations of the Issuer. The Bonds are secured in the manner described in Condition 3 and shall at all times rank *pari passu* and without any preference or priority amongst themselves.

(b) *Guarantee*

First Pacific under the Guarantee has unconditionally and irrevocably guaranteed payment of all sums payable by the Issuer in respect of the Bonds and any other amount payable by the Issuer under the Trust Deed. The Guarantee is set out in the Trust Deed and constitutes direct, unsecured and unsubordinated obligations of First Pacific which will at all times rank at least *pari passu* with all other present and future unsecured and unsubordinated obligations of First Pacific, save for such exceptions as may be provided by applicable laws.

3 Security

(a) *Security*

The obligations of the Issuer under the Bonds and the Trust Deed are secured in favour of the Security Trustee by the following charges and security interests (the "Security"):

(i) a pledge under Philippine law dated on or prior to 23 July 2010 by MPHI (as amended, restated and/or supplemented from time to time, the "Share Pledge") over all its rights, benefit and title in initially [●] common shares (the "Initial MPIC Shares") of Metro Pacific Investments Corporation ("MPIC") (where any common shares in MPIC are "MPIC Shares") and any Additional MPIC Collateral (as defined in Condition 4(d)), and including any additional MPIC Shares which MPHI is entitled to receive as a result of its holding of MPIC Shares pursuant to the Security (including, without limitation, any shares received by way of bonus issue or any warrant, option or stock dividend or as a result of a share split or other similar events);

(ii) an assignment under the laws of the Hong Kong Special Administrative Region of the People's Republic of China ("Hong Kong") dated on or prior to 23 July 2010 by the Issuer by way of continuing security of all its rights, benefit and title in respect of the Escrow Account including, without limitation, all amounts standing to the credit of such account with the Escrow Account Bank (as amended, restated and/or supplemented from time to time, the "Escrow Account Assignment"); and

(iii) any Additional Security with respect to any cash or Cash-equivalent Securities secured pursuant to Condition 4(d).

The property, rights and interest over which the Security is granted is referred to as the "Charged Property".

All dividends and all other income and other cash distributions (including interest, premium and principal) which may accrue to the Issuer or MPHI in respect of the Charged Property may be received by the Issuer or MPHI, provided at any time shall the Issuer not be in compliance with respect to Condition 4(d) which in each case is continuing, the Security Trustee shall have, pursuant to the Trust Deed, the right to receive dividends and all other income and other cash distributions (including interest, premium and principal) made after such non-compliance with respect to the Charged Property which shall be secured as Collateral pursuant to the Additional Security.

Prior to the Security becoming enforceable in accordance with Condition 11(b), the MPIC Shares subject to the Security will remain registered in the name of MPHI and MPHI will be entitled to continue to exercise the voting rights relating to such MPIC Shares. In exercising its voting rights, MPHI may have regard to its own interests to the exclusion of the interests of the Bondholders or any of them in respect thereof except in any manner which is inconsistent with or which prejudices or is likely to prejudice the rights of the Security Trustee.

Details of the Security are more particularly set out in the Trust Deed and the Security Documents.

(b) *Application of Proceeds*

Under the Trust Deed all moneys received by the Security Trustee in connection with the realisation or enforcement of the Security will, regardless of any appropriation of all or part thereof by MPHI, be held by the Security Trustee on trust to apply them in accordance with the Trust Deed.

The Trust Deed and the Security Documents require that the net proceeds resulting from the enforcement of the Security, after the remuneration and expenses of the Security Trustee and the Trustee and any taxes or other amounts required to be paid prior to any such application, be applied first in payments of any interest owing to the Bondholders *pari passu* and rateably, second, in payments of any principal and any other amounts owing to the Bondholders *pari passu* and rateably and third, in payment of any balance to the Issuer for itself or on trust for MPHI.

4 **Covenants**

(a) *Restrictions*

The Issuer has undertaken in the Trust Deed that it shall not, *inter alia,* without the prior written consent of the Trustee:

(i) engage in any business other than on-lending the net proceeds of the Bonds to First Pacific, acquiring and holding the Charged Property, entering into related agreements and transactions and performing any act incidental to or necessary in connection with the issue and operation of the Bonds, the Transaction Documents or any of the foregoing;

(ii) take any action or fail to take any action, if such action or failure to take any action may interfere with the enforcement of any rights under the Transaction Documents or with respect to the Charged Property in any manner which could materially and adversely affect the interests of the Secured Parties (as defined in the Trust Deed);

(iii) amend or alter any of the provisions of its constitution, as amended and restated (the "Constitution") other than of a minor or technical nature or that will not (in the opinion of the Trustee) be materially prejudicial to the Bondholders;

(iv) issue any shares (other than such shares as are in issue at the date of the Trust Deed) or make any distribution to its shareholders; and

(v) incur any other indebtedness for borrowed moneys save for any monies lent by First Pacific to pay for its operating expenses.

(b) *Encumbrances*

The Issuer has undertaken in the Trust Deed that it shall not create or purport to create or permit to subsist any Encumbrance, claims and equities (including, without limitation, rights of set-off or counterclaim) in, over, or in respect of any of its property, assets or revenues or any part thereof, except for:

(i) the security constituted by or arising pursuant to the terms of the Trust Deed and the Security Documents; and/or

(ii) any other Encumbrance created with the Trustee's prior written consent (at the Trustee's sole discretion) or as approved by an ordinary resolution of the Bondholders.

(c) *Escrow Account*

The Issuer has undertaken in the Trust Deed that it shall:

(i) maintain the Escrow Account with the Escrow Account Bank;

(ii) credit US$22,186,500 into the Escrow Account within one Business Day of receiving the net proceeds of the Bonds;

(iii) procure that (a) the credit balance in the Escrow Account at any time prior to the first Interest Payment Date shall be not less than US$22,186,500 and (b) thereafter prior to the last Interest Payment Date shall be not less than the Interest Amount due on all Bonds outstanding on the next immediately succeeding Interest Payment Date (including any additional amounts which may become payable pursuant to Condition 8); and

(iv) procure that the credit balance in the Escrow Account during the five Business Days prior to the next immediately succeeding Interest Payment Date (other than the first and the last Interest Payment Dates) shall include, in addition to the amount set out in (iii)(b) above, an additional amount equal to the Interest Amount due on all Bonds outstanding on that next immediately succeeding Interest Payment Date (including any additional amounts which may become payable pursuant to Condition 8).

Subject to maintaining the credit balance of the Escrow Account in accordance with Conditions 4(c)(iii) and 4(c)(iv), the Issuer shall not be entitled to withdraw any funds from the Escrow Account except (x) withdrawals to pay interest when due under the Bonds and (y) withdrawals of an amount equal to any interest arising on the amounts standing to the credit of the Escrow Account prior to the occurrence of an Event of Default which is continuing. Prior to the occurrence of such an Event of Default which is continuing, the amounts referred to in (x) and (y) above shall belong to the Issuer and shall be paid in accordance with the terms of the Transaction Documents.

(d) *Collateral Value*

On the Closing Date, the Collateral Value shall be at least 200 per cent. of the Reference Amount.

The Issuer has undertaken in the Trust Deed that if at any time and from time to time the Collateral Value is less than 150 per cent. of the Reference Amount, it shall procure that, at the election of the Issuer:

(i) additional MPIC Shares and/or any MPIC ₱6.6 billion 4.5% convertible bonds due 2013 held by MPHI (the "Additional MPIC Collateral"), are pledged pursuant to the Share Pledge, and/or

(ii) cash and/or Cash-equivalent Securities are secured to the Security Trustee as additional security for the Bonds pursuant to the security documents described below ("Additional Security"),

as soon as possible and in any event within 13 Business Days from the occurrence of any non-performance or non-compliance by the Issuer with its obligations under this Condition 4(d), by such document or documents as are, in each case, in form and substance acceptable to the

Security Trustee (acting reasonably), to ensure that the aggregate Collateral Value shall be at least 215 per cent. of the Reference Amount provided that any cash which is provided as Collateral shall be maintained by the Issuer or First Pacific in a separate interest-bearing account in the name of the Issuer or First Pacific.

The Trust Deed provides that the Issuer may, at any time, substitute cash or Cash-equivalent Securities for all or part of the Collateral provided that the aggregate Collateral Value after such substitution is at least 200 per cent. of the Reference Amount.

To the extent that the Collateral Value at any time exceeds 215 per cent. of the Reference Amount, the Issuer may, at any time, cause such reduction in the cash or Cash-equivalent Securities secured as Collateral (such reduction to be made in the amount of cash and/or Cash-equivalent Securities as instructed by, and at the discretion of, the Issuer, with such cash and/or Cash-equivalent Securities to be released and transferred by the Security Trustee as instructed by the Issuer in writing (and a copy of such instruction should be provided to the Trustee)) as will result in the Collateral Value being at least equal to 215 per cent. of the Reference Amount.

In addition, so long as any of the Bonds remain outstanding, the Issuer will provide to the Trustee (i) within 10 Business Days after the close of each fiscal quarter, an Officers' Certificate stating that the Issuer has performed and complied with its obligations under this Condition 4(d) during the fiscal quarter immediately preceding the date of such Officers' Certificate and calculations showing in reasonable detail the aggregate Collateral Value, including the arithmetic computations of each component of the aggregate Collateral Value (including the Market Value of any MPIC Shares), with respect to each Business Day in the fiscal quarter immediately preceding the date of such Officers' Certificate, (ii) as soon as possible and in any event within five Business Days after receipt from the Trustee or Bondholders of at least 25 per cent. in aggregate of the principal amount of the Bonds outstanding by the Issuer of a written demand for an Officers' Certificate showing in reasonable detail the aggregate Collateral Value, including the arithmetic computations of each component of the aggregate Collateral Value (including the Market Value of any MPIC Shares), with respect to each Business Day in the period from the end of the fiscal quarter which is the subject of the last Officers' Certificate to the date of issue of such demand, an Officers' Certificate setting out such details, and (iii) as soon as possible and in any event within three Business Days after the Issuer becomes aware or should reasonably have become aware of the occurrence of its non-performance or non-compliance with its obligations under this Condition 4(d), an Officers' Certificate setting out the details of such non-performance or non-compliance.

The Issuer has undertaken in the Trust Deed, at its own cost and expense to do, execute and deliver, or procure to be done, executed and delivered all such acts and other documents (including legal opinions) in such manner, form, substance as may, in the reasonable opinion of the Security Trustee (relying upon the advice of legal advisers chosen in consultation with the Issuer), be necessary or desirable for protecting or perfecting the Security over the Charged Property within such time as the Security Trustee may, acting reasonably, require.

Neither the Trustee nor the Security Trustee shall be under any obligation to monitor or determine the Collateral Value or the Market Value of any Collateral. The Trustee and the Security Trustee shall not be responsible for investigating, monitoring or supervising the observance or performance of any person in respect of the Security Documents or otherwise.

(e) *Limitation on Sale of Assets and Subsidiary Stock*

First Pacific will not make any Asset Disposition, unless:

(i) First Pacific receives consideration at least equal to the Fair Market Value of the shares and/or assets subject to such Asset Disposition;

(ii) (I) if the Asset Disposition consists wholly of an Asset Swap, First Pacific has first obtained an opinion (a "Fairness Opinion") issued by an accounting, appraisal or investment banking firm of international standing confirming that the consideration relating to such Asset Swap is fair to First Pacific from a financial point of view, or (II) at least 75.0 per cent. of the consideration from such Asset Disposition received by First Pacific is in the form of cash or Cash-equivalent Securities, or (III) if the Asset Disposition consists of an Asset Swap and cash consideration and less than 75.0 per cent. of the total consideration from such Asset Disposition received by First Pacific is in the form of cash or Cash-equivalent Securities, First Pacific has obtained a Fairness Opinion in respect of the Asset Swap component of the transaction; and

(iii) the Asset Disposition does not cause an Event of Default.

(f) *Asset Disposition involving PLDT*

If an Asset Disposition for cash consideration has the effect of, individually or in aggregate, reducing First Pacific's economic interest in PLDT as held on the Closing Date to less than 25 per cent. (save as adjusted for any reduction in First Pacific's economic interest in PLDT as held on the Closing Date attributable to a Dilution Event), First Pacific shall, within 540 days from the later of the date of such Asset Disposition or the receipt of such proceeds, apply such proceeds (net of expenses of such Asset Disposition) in the following manner:

(A) in respect of proceeds attributable to the sale of such number of shares in PLDT as to reduce First Pacific's economic interest in PLDT to a percentage equal to 25.0 per cent. (as adjusted for any reduction in First Pacific's economic interest in PLDT as held on the Closing Date attributable to a Dilution Event), at the discretion of First Pacific;

(B) in respect of proceeds attributable to the sale of such number of shares in PLDT as to reduce First Pacific's economic interest in PLDT from a percentage equal to 25.0 per cent. (as adjusted for any reduction in First Pacific's economic interest in PLDT as held on the Closing Date attributable to a Dilution Event) to a percentage that is less than 25.0 per cent. (as adjusted for any reduction in First Pacific's economic interest in PLDT as held on the Closing Date attributable to a Dilution Event), in the following manner:

(I) 40.0 per cent.: at the discretion of First Pacific; and

(II) 60.0 per cent. (the "Total Net Cash Proceeds"): in the following manner:

(1) to the extent First Pacific elects (or is required by the terms of any indebtedness), to prepay, repay or purchase any indebtedness (excluding any Subordinated Indebtedness); and/ or

(2) to the extent First Pacific elects, to invest in any Permitted Investments.

On the 541st day after the later of the (i) date of an Asset Disposition pursuant to this Condition 4(f) or (ii) the receipt of such cash proceeds from such Asset Disposition, and provided that the Excess Proceeds are greater than US$15,000,000, the Issuer or First Pacific will make a *pro rata* offer to all Bondholders and holders of any other indebtedness (excluding any Subordinated Indebtedness) as required pursuant to the terms of such indebtedness to purchase the principal amount of Bonds, and any such indebtedness (excluding any Subordinated Indebtedness) to which the Asset Disposition offer applies, that may be purchased out of the Excess Proceeds, at an offer price in cash in an amount equal to 100.0 per cent. of the principal amount of the Bonds and such indebtedness (excluding any Subordinated Indebtedness) plus accrued and unpaid interest to the date of purchase.

For the purposes of this Condition 4(f),

"Excess Proceeds" means the Total Net Cash Proceeds less any aggregate proceeds applied in relation to subparagraphs 4(f)(B)(II)(1) and 4(f)(B)(II)(2) above within the time provided. For the avoidance of doubt, the balance of any other cash proceeds received by First Pacific shall not be restricted and may be dealt with at First Pacific's discretion; and

"Subordinated Indebtedness" means any liability of First Pacific howsoever arising for the payment of money the right of payment of which by First Pacific by the terms whereof is, or is expressed to be, subordinated in the event of a winding up of First Pacific to the claims of all or any class of creditors of First Pacific.

(g) *Definitions*

In these Conditions:

"Affiliate" means, with respect to any Person, any other Person (a) directly or indirectly controlling, controlled by, or under direct or indirect common control with, such Person, or (b) who is a director or officer of such Person or any subsidiary of such Person or of any Person referred to in clause (a) of this definition. For purposes of this definition, "control" (including, with correlative meanings, the terms "controlling," "controlled by" and "under common control with"), as applied to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities, by contract or otherwise;

"Asian Region" means any and all countries forming part of the Asia Pacific region, including, for the avoidance of doubt, any and all countries forming part of the Indian sub-continent;

"Asset Disposition" means any Asset Swap or Disposition by First Pacific for cash or non-cash consideration, in each case, with a Fair Market Value in excess of US$15,000,000, including any Disposition by means of a merger, consolidation or similar transaction. Notwithstanding the preceding sentence, the following items shall not be Asset Dispositions:

(a) a Disposition of assets by First Pacific to a Subsidiary or Associate; provided that First Pacific directly or indirectly owns an equal or greater percentage of the common stock, of the transferee than of the transferor;

(b) Dispositions of cash or Cash-equivalent Securities in the ordinary course of business;

(c) a Disposition of inventory, current assets, products or services in the ordinary course of business;

(d) a Disposition of obsolete or worn out equipment or equipment that is no 1onger useful in the conduct of the business of First Pacific (including, without limitation, vehicles, office equipment, furniture and fixtures) and that is disposed of in each case in the ordinary course of business;

(e) the creation of any Asset Pledge and any Disposition in connection with any Asset Pledge;

(f) Dispositions of receivables in connection with the compromise, settlement or collection thereof in the ordinary course of business or in bankruptcy or similar proceedings and exclusive of factoring or similar arrangements;

(g) the licencing or sublicencing of intellectual property or other general intangibles and licenses, leases or subleases of other property in the ordinary course of business which do not materially interfere with the business of First Pacific;

(h) any issue of shares pursuant to any stock dividends, rights issues, warrants, options, open offers, bonus issues, share placements and placements of securities convertible into or exchangeable for shares, any employees' and/or directors' share schemes or other similar schemes or any analogous events; provided in any case that such issues are in compliance with the regulations and listing rules governing the relevant issuer;

(i) any Disposition of assets in a single transaction or series of related transactions, the aggregate U.S. Dollar Value of the Fair Market Value of which is less than US$15,000,000; and

(j) forec1osure on assets.

"Asset Pledge" means, the pledge of shares of Capital Stock of a Material Affiliate or Material Associate to:

(a) secure the Bonds or the Guarantee;

(b) secure indebtedness of First Pacific or any of its Subsidiaries (including any indebtedness created pursuant to any obligation to increase the amount of collateral securing such indebtedness after the date of such indebtedness); or

(c) the extent any indebtedness of First Pacific or any of its Subsidiaries contains provisions that require the value of such Asset Pledge to be increased or such Asset Pledge to be supplemented after the incurrence of such indebtedness, any pledges in connection with such obligation;

"Asset Swap" means the concurrent or substantially concurrent purchase and sale or exchange of Related Business Assets between First Pacific or any of its Material Affiliates or Material Associates and another Person;

"Associate" means a company accounted for as an associate in accordance with Hong Kong Financial Reporting Standards;

"Board of Directors" means the board of directors elected or appointed by the shareholders of First Pacific to manage the business of First Pacific or any committee of such board duly authorised to take the action purported to be taken by such committee;

"Board Resolution" means any resolution of the Board of Directors taking an action which it is authorised to take and adopted at a meeting duly called and held at which a quorum of disinterested members (if so required) was present and acting throughout or adopted by written resolution executed by every member of the Board of Directors;

"Business Day" means, except as used in Condition 7(c), a day (other than a Saturday or Sunday) on which commercial banks are open for business in Hong Kong, Manila and New York City;

"Capital Stock" of any Person means any and all shares, interests, rights to purchase, warrants, options, participation or other equivalents of or interests in (however designated) equity of such Person, including any common stock and preferred stock and limited liability or partnership interests (whether general or limited), but excluding any debt securities convertible into such equity;

"Cash-equivalent Securities" means any of the following:

(i) debt securities of a sovereign nation, or any state, political subdivision, taxing authority, department or agency of a sovereign nation or obligations fully and unconditionally guaranteed by a sovereign nation or any agency of a sovereign nation, in each case, with

(a) a maturity of one year or less, and (b) a rating at the time of which any investment therein is made of "P-3" or higher according to Moody's Investors Service Limited or "A3" or higher according to Standard & Poor's Rating Services, a Division of the McGraw-Hill Companies, Inc., provided that, in case the relevant sovereign nation is the United States of America, the Republic of the Philippines or the Hong Kong Special Administrative Region of the People's Republic of China, the requirement in (b) above shall not be applicable;

(ii) certificates of deposit or commercial paper, maturing not more than 180 days after the date of acquisition thereof, issued by a corporation, bank, trust company or financial institution organised and existing under the laws of the United States of America, any state thereof or any foreign country recognized by the United States of America, with a rating at the time of which any investment therein is made of "P-3" or higher according to Moody's Investors Service Limited or "A3" or higher according to Standard & Poor's Rating Services, a Division of the McGraw-Hill Companies, Inc.; and

(iii) any money market fund that has at least 95 per cent. of its assets continuously invested in investments of the types described in (i) or (ii) above or in time deposits, money market deposits or repurchase obligations with entities rated as in (ii) above;

"Change of Control" means the occurrence of one or more of the following events:

(a) the Permitted Holders are the beneficial owners of less than 20.0 per cent. of the total voting power of the Voting Stock of First Pacific; or

(b) any Person or Related Persons, other than the Permitted Holders, is or becomes the beneficial owner(s) directly or indirectly of more than 30.0 per cent. of the total voting power of the Voting Stock of First Pacific and such voting power exceeds that of the Permitted Holders;

"Collateral" means at any time the Initial MPIC Shares, any Additional MPIC Collateral subject to the Share Pledge and/or cash, if any, and/or Cash-equivalent Securities, if any, subject to the Additional Security;

"Collateral Value" means the Market Value of the Collateral, less the Market Value of the cash and/or Cash-equivalent Securities secured pursuant to the Additional Security, as determined by the Issuer;

"Dilution Event" means any issue of shares pursuant to any stock dividends, rights issues, warrants, options, open offers, bonus issues, share placements and placements of securities convertible into or exchangeable for shares, any employees' and/or directors' share schemes, other similar schemes or any analogous events;

"Disposition" means any sale, lease (other than an operating lease entered into in the ordinary course of business), transfer, issuance or other disposition, or a series of related sales, leases (other than as aforesaid), transfers, issuances or other dispositions that are part of a common plan, of shares of Capital Stock of a Subsidiary (other than directors' qualifying shares or any shares issued pursuant to any employees' and/or directors' share option scheme), property or other assets;

"Encumbrance" includes any mortgage, pledge, lien (otherwise than arising by statute or operation of law), charge, assignment by way of security, hypothecation, security interest, title retention, preferential right or trust arrangement or other arrangement or agreement the effect of which is the creation of security;

"Fair Market Value" means the price that would be paid in an arm's-length transaction between an informed and willing seller under no compulsion to sell and an informed and willing buyer under no compulsion to buy, as determined in good faith by the Board of Directors, whose determination shall be conclusive if evidenced by a Board Resolution;

"Indofood" means PT Indofood Sukses Makmur Tbk;

"Market Value" means:

(a) in respect of each MPIC Share which is the subject of the Share Pledge on any relevant date, the average closing price of such MPIC Share on the PSE for the 10 Trading Days immediately preceding such date as quoted by Bloomberg (or any successor service) or if no quote is available from Bloomberg then the average closing price for the same 10 Trading Day period quoted on such other internationally recognised screen service as determined by the Issuer, provided that: (i) if no such price is quoted, the Market Value of each such MPIC Share shall be determined by the Issuer by calculating the average of three quotations for average closing prices for the MPIC Shares from brokers of international repute licensed to trade on the PSE as selected by the Issuer or, if such quotations are not available in such other manner, as determined by the Issuer; and (ii) if and for so long the MPIC Shares cease to be listed on the PSE or trading in such MPIC Shares has been suspended (save for suspension of trading in shares generally or market failure or disruption affecting the trading of shares generally on the PSE) for a period of more than 10 consecutive Trading Days or more than 15 consecutive Trading Days in the case of a voluntary suspension of trading of the MPIC Shares, the Market Value shall be deemed to be zero;

(b) in respect of any cash, the amount of such cash; and

(c) in respect of any other assets forming part of the Security, such value as determined by the Issuer on the date such assets are secured to the Security Trustee as Additional Security, provided that,

    (A) to the extent that such assets consist of MPIC ₱6.6 billion 4.5% convertible bonds due 2013 held by MPHI, the Market Value of such convertible bonds shall be deemed to be the lower of (1) the face value of such securities, or (2) the value (as determined by reference to (a) above) of the MPIC Shares underlying such convertible bonds assuming a full conversion of the convertible bonds; and

    (B) to the extent that such assets consist of Cash-equivalent Securities, the Market Value shall be deemed to be (1) if such Cash-equivalent Securities are listed on a public exchange or are quoted on an over the counter securities market, the average closing price of such Cash-equivalent Securities for the 10 Trading Days immediately preceding such date as quoted by Bloomberg (or any successor service) or if no quote is available from Bloomberg then the average closing price for the same 10 Trading Day period quoted on such other internationally recognised screen service as determined by the Issuer, provided that: (i) if no such price is quoted, the Market Value of such Cash-equivalent Securities shall be determined by the Issuer by calculating the average of three quotations for average closing prices for such Cash-equivalent Securities from brokers of international repute as selected by the Issuer or (2) if such Cash-equivalent Securities are unlisted or prices are not quoted from issue or three broker quotations are not available, the Fair Market Value (as determined by an investment banking firm of international standing selected by the Issuer); and

in each case, if any Collateral is not denominated in U.S. dollars, the Market Value of such Collateral shall be its U.S. Dollar Value;

"Material Affiliate" means Indofood and MPIC, and any Subsidiary acquired by First Pacific after the Closing Date which at the time of acquisition or subsequently:

(a) has gross revenues or (in the case of a Subsidiary which itself has subsidiaries) consolidated gross revenues, as shown by its latest audited consolidated income statement (calculated pursuant to Hong Kong generally accepted accounting principles) which are at least 10 per cent. of the consolidated gross revenues as shown by the latest published audited consolidated income statement of First Pacific; or

(b) has profit before taxation and extraordinary items or (in the case of a Subsidiary which itself has subsidiaries) consolidated profit before taxation and extraordinary items, as shown by its latest audited consolidated income statement (calculated pursuant to Hong Kong generally accepted accounting principles) is at least 10 per cent. of the consolidated profit before taxation and extraordinary items, as shown by the latest published audited consolidated income statement of First Pacific; or

(c) whose total assets or (in the case of a Subsidiary which itself has subsidiaries) total consolidated assets, as shown by its latest audited consolidated statement of financial position (calculated pursuant to Hong Kong generally accepted accounting principles) is at least 10 per cent. of the consolidated total assets of First Pacific as shown by the latest published audited consolidated statement of financial position of First Pacific,

provided that if any Subsidiary of First Pacific is deemed to be a Material Affiliate in accordance with any of paragraphs (a), (b) or (c) above, its Subsidiaries cannot be deemed to be a Material Affiliate and any Material Affiliate subject to a Disposition after the latest audited financial statements shall cease to be a Material Affiliate;

"Material Associate" means, at any time, PLDT and any Associate acquired by First Pacific after the Closing Date:

(a) where First Pacific's share of net profit before taxation and extraordinary items or (in the case of an Associate which itself has subsidiaries) consolidated net profit before taxation and extraordinary items, as shown by its latest audited consolidated income statement (calculated pursuant to Hong Kong generally accepted accounting principles), is at least 10 per cent. of the consolidated net profit before taxation and extraordinary items, as shown by the latest published audited consolidated income statement of First Pacific; or

(b) where the total carrying value of the investment in the Associate by First Pacific as shown by the latest published audited consolidated statement of financial position of First Pacific is at least 10 per cent. of consolidated total assets of First Pacific as shown by the latest published audited consolidated statement of financial position of First Pacific,

provided that, if any Associate of First Pacific is deemed to be a Material Associate in accordance with paragraph (a) or (b) above, its Subsidiaries (if any) or Associates (if any) cannot be deemed a Material Associate and any Material Associate subject to a Disposition after the latest audited financial statements of First Pacific shall cease to be a Material Associate;

"Officer" means a director of the Issuer, in the case of the Issuer, or one of the executive directors or executive vice presidents of First Pacific, in the case of First Pacific;

"Officers' Certificate" means a certificate signed by two Officers;

"Permitted Holder" means:

(a) Mr. Anthoni Salim; and

(b) any Affiliate of Mr. Anthoni Salim; or

(c) any Person who is a Related Person with respect to those mentioned in (a) or (b) above;

"Permitted Investments" mean investments by First Pacific or any of its Wholly-Owned Subsidiaries, Material Affiliates or Material Associates in:

(a) (1) assets, undertakings and/or operations; and/or

(2) shares or other equity in Persons which own or otherwise have title to assets, undertakings and/or operations,

located in the Asian Region and relating to the telecommunications, natural resources, consumer products or infrastructure sectors; or

(b) any Related Business;

"Person" means any individual, corporation, partnership, limited liability company, joint venture, trust, unincorporated organisation or government or any agency or political subdivision thereof;

"PSE" means the Philippine Stock Exchange, Inc.;

"PLDT" means Philippine Long Distance Telephone Company;

"Reference Amount" means the aggregate principal amount of Bonds outstanding (as defined in the Trust Deed); less the Market Value of the cash and Cash-equivalent Securities secured pursuant to the Additional Security;

"Related Business" means any business which is the same as or related, ancillary or complementary to any of the businesses of First Pacific or any of its Material Affiliates or Material Associates;

"Related Business Assets" means assets used or useful in a Related Business;

"Related Person" with respect to any Person means:

(1) any controlling stockholder or a majority (or more) owned Subsidiary of such Person, or, in the case of an individual, any spouse or immediate family member of such Person, any trust created for the benefit of such individual or such individual's estate, executor, administrator, committee or beneficiaries; or

(2) any trust, corporation, partnership or other entity, the beneficiaries, stockholders, partners, owners or Persons beneficially holding a majority (or more) controlling interest of which consist of such Person and/or such other Persons referred to in the immediately preceding paragraph;

"Security Documents" mean (1) the Share Pledge, (2) the Escrow Account Assignment and (3) other documents, if any, relating to Additional Security;

"SEHK" means The Stock Exchange of Hong Kong Limited;

"Subsidiary" means a company accounted for as a subsidiary in accordance with Hong Kong Financial Reporting Standards;

"Trading Day" means a day on which the HKSE the PSE, or any other exchange on which the relevant securities are listed, as the context so requires, is open for trading of securities;

"U.S. Dollar Value" means at any time, in relation to any amount expressed in a currency other than U.S. Dollars, the amount in U.S. Dollars notionally converted from the relevant amount in such currency at the prevailing Bloomberg spot buying rate for the purchase of U.S. Dollars with such currency;

"Voting Stock" means, with respect to any Person, Capital Stock of any class or kind ordinarily having the power to vote for the election of directors, managers or other voting members of the governing body of such Person; and

"Wholly-Owned" means, with respect to any Subsidiary of any Person, the ownership of 100.0 per cent. of the outstanding Capital Stock of such Subsidiary (other than any director's qualifying shares or investments by foreign nationals mandated by applicable law) by such Person or one or more Wholly-Owned Subsidiaries of such Person.

(h) *Dividends*

The Issuer has undertaken in the Trust Deed, that upon the occurrence of an Event of Default or a Potential Event of Default with respect to Condition 10(b) which in each case is continuing and on the instruction of the Security Trustee, to pay all dividends and all other income and other cash distributions with respect to the MPIC Shares to such account of the Security Trustee as notified by the Security Trustee to the Issuer.

5 Interest

(a) *Interest Amount and Interest Payment Dates*

The Bonds bear interest from and including the Closing Date at the rate of 7.375 per cent. per annum payable semi-annually in arrear on 24 January and 24 July in each year (each an "Interest Payment Date"), except that the first payment of interest, to be made on 24 January 2011, will be in respect of the period from and including 23 July 2010 to but excluding 24 January 2011 and will amount to US$37.080 per US$1,000 in principal amount of Bonds.

(b) *Interest Payments*

Each Bond will cease to bear interest from the due date for redemption unless, upon surrender in accordance with Condition 7, payment of the full amount due is improperly withheld or refused or default is otherwise made in respect of any such payment. In such event, it shall continue to bear interest in accordance with this Condition 5 (both before and after judgment) until whichever is the earlier of (i) the day on which all sums due in respect of such Bond up to that day are received by or on behalf of the relevant Bondholder, and (ii) the day seven days after the Trustee has notified Bondholders of receipt of all sums due in respect of all the Bonds up to the seventh day (except to the extent that there is failure in the subsequent payment to the relevant holders under these Conditions). The amount of interest to be paid on each Bond (the "Interest Amount") shall be calculated by applying the rate of 7.375 per cent. to the principal amount of each Bond. If the Interest Amount is required to be calculated for a period of less than one year, it will be calculated on the basis of a 360-day year consisting of 12 months and 30 days each and, in the case of an incomplete month, the number of days elapsed.

6 Redemption, Purchase and Cancellation

(a) *Final Redemption*

Unless previously redeemed or purchased and cancelled as provided herein, the Bonds shall be redeemed at their principal amount on 24 July 2017 (the "Maturity Date"). The Bonds may not be redeemed at the option of the Issuer other than in accordance with this Condition 6.

(b) *Redemption for Taxation*

The Bonds may be redeemed at the option of the Issuer in whole, but not in part, at any time on giving not less than 30 days' nor more than 60 days' notice to the Bondholders in accordance with Condition 14 (which notice shall be irrevocable), at their principal amount (together with interest accrued to the date fixed for redemption), if (i) the Issuer satisfies the Trustee immediately prior to the giving of such notice that the Issuer or (if the Guarantee were called) First Pacific has or will become required to pay additional amounts as provided or referred to in Condition 8 as a result of any change in, or amendment to, the laws or regulations of the British Virgin Islands, Bermuda or Hong Kong or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the Closing Date and (ii) such obligation cannot be avoided by the Issuer (or First Pacific, as the case may be) taking reasonable measures available to it, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer (or First Pacific as the case may be) would be obliged to pay such additional amounts were a payment in respect of the Bonds (or the Guarantee) then due.

Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver to the Trustee a certificate signed by two directors of the Issuer (or First Pacific as the case may be) stating that the obligation referred to in (i) above cannot be avoided by the Issuer (or First Pacific as the case may be) taking reasonable measures available to it and the Trustee shall be entitled to accept such certificate as sufficient evidence of the satisfaction of the condition set out in (ii) above in which event it shall be conclusive and binding on the Bondholders.

(c) *Redemption of Bonds Upon a Change of Control*

Following the occurrence of a Change of Control (as defined in Condition 4(g)), any Bondholder will have the right, at its option, to require the Issuer to redeem all or a portion of such Bondholder's Bonds on the Relevant Event Redemption Date (as defined in Condition 6(e) below) at a price equal to 101.0 per cent. of the principal amount thereof plus accrued and unpaid interest as notified by the Issuer in writing.

(d) *Redemption of Bonds Upon a Delisting*

In the event that First Pacific shares cease to be listed or admitted to trading on the SEHK (or, if applicable, cease to be listed or admitted to trading on a primary basis on any other stock exchange) (a "Delisting"), except when such Delisting is at the instance or request of First Pacific, any Bondholder will have the right, at its option, to require the Issuer to redeem all or a portion of such Bondholder's Bonds on the Relevant Event Redemption Date (as defined in Condition 6(e) below) at a price equal to 100.0 per cent. of the principal amount thereof plus accrued and unpaid interest as notified by the Issuer in writing.

(e) *Redemption Procedures*

To exercise a right of redemption under Condition 6(c) or Condition 6(d), a relevant Bondholder must complete, sign and deposit, at his own expense, at the specified office of any Paying Agent a duly completed and signed notice of redemption, in the form (for the time being current and

which may, if the Certificate for such Bonds is held in a clearing system, be any form acceptable to the clearing system delivered in any manner acceptable to the clearing system) obtainable from the specified office of any Paying Agent (the "Relevant Event Redemption Notice") together with the Certificate evidencing the Bonds to be redeemed by not later than 30 days following a Change of Control or Delisting, as the case may be. The "Relevant Event Redemption Date" shall be the fourteenth day after the expiry of such period of 30 days as referred to above.

A Relevant Event Redemption Notice, once delivered, shall be irrevocable (and may not be withdrawn unless the Issuer consents to such withdrawal) and the Issuer shall redeem the Bonds the subject of Relevant Event Redemption Notices delivered as aforesaid on the Relevant Event Redemption Date.

The Trustee shall not be required to take any steps to ascertain whether a Change of Control or Delisting, or any event which could lead to the occurrence of a Change of Control or Delisting, has occurred.

The Issuer shall give notice to Bondholders in accordance with Condition 14 by not later than 14 days following the first day on which it becomes aware of the occurrence of a Change of Control or Delisting, as the case may be, which notice shall specify the procedure for exercise by holders of their rights to require redemption of the Bonds pursuant to Condition 6(c) or Condition 6(d), and shall give brief details of the Change of Control or Delisting, as the case may be.

(f) *Purchase of Bonds*

The Issuer or First Pacific or any of their respective Subsidiaries may at any time purchase Bonds in the open market or otherwise at any price. The Bonds so purchased, while held by or on behalf of the Issuer or First Pacific or any such Subsidiary, shall not entitle the holder to vote at any meetings of the Bondholders and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of the Bondholders or for the purposes of these Conditions.

(g) *Cancellation*

All Bonds so redeemed or purchased in accordance with Condition 6(f) will forthwith be cancelled. Certificates in respect of all Bonds cancelled will be forwarded to or to the order of the Registrar and such Bonds may not be resold or reissued.

7 Payments

(a) *Principal and Interest*

Payments of principal will be made by transfer to the registered account of the Bondholder or by U.S. dollar cheque drawn on a bank in New York City mailed to the registered address of the Bondholder if it does not have a registered account. Payments of principal will only be made after surrender of the relevant Certificate at the specified office of any of the Agents.

Interest on the Bonds will be paid on the due date for the payment of interest to the holder shown on the Register at the close of business on the fifteenth day before the due date for any such payment (the "Record Date"). Payments of interest on each Bond will be made by transfer to the registered account of the Bondholder or by U.S. dollar cheque drawn on a bank in New York City mailed to the registered address of the Bondholder if it does not have a registered account.

(b) *Payments subject to laws*

All payments in respect of the Bonds outstanding are subject in all cases to all applicable laws and regulations in the place of payment. No commissions or expenses shall be charged to the Bondholders in respect of such payments.

(c) *Payments on Business Days*

Where payment is to be made on a Bond by transfer to a U.S. dollar account, payment instructions (for value the due date, or, if the due date is not a Business Day, for value the next succeeding Business Day) will be initiated and, where payment is to be made on a Bond by U.S. dollar cheque, the cheque will be mailed (i) (in the case of payments of principal and interest payable on redemption) on the later of the due date of payment and the day on which the relevant Certificate is surrendered (or, in the case of part payment only, endorsed) at the specified office of the Registrar, or a Paying Agent and (ii) (in the case of payments of interest payable other than on redemption) on the due date for payment.

A Bondholder shall not be entitled to any interest or other payment in respect of any delay in payment resulting from (1) the due date for a payment not being a Business Day or (2) a cheque mailed in accordance with this Condition 7 arriving after the due date for payment or being lost in the mail.

In this Condition, "Business Day" means a day (other than a Saturday or Sunday) on which commercial banks are open for business in Hong Kong, New York City and, in the case of presentation of a Certificate, in the place where the Certificate is presented.

(d) *Paying Agents*

The Issuer and First Pacific may at any time (with the prior written approval of the Trustee) vary or terminate the appointment of any Paying Agent and appoint additional or other Paying Agents provided that so long as the Bonds are listed on the Singapore Exchange Securities Trading Limited, they shall appoint a Paying Agent in Singapore prior to the issue of any definitive Bonds.

(e) *Record date*

Each payment in respect of a Bond will be made to the person shown as the Bondholder in the Register at the opening of business in the place of the Registrar's specified office on the Record Date. Where payment in respect of a Bond is to be made by cheque, the cheque will be mailed to the address shown as the address of the Bondholder in the Register at the opening of business on the relevant Record Date.

8 Taxation

All payments by or on behalf of the Issuer or First Pacific in respect of the Bonds or under the Guarantee shall be made free and clear of, and without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within the British Virgin Islands or Bermuda or Hong Kong or any authority therein or thereof having power to tax unless such withholding or deduction is required by law. In the event that the Issuer is required by law in the British Virgin Islands or First Pacific is required by law in Bermuda or Hong Kong, the Issuer or (as the case may be) First Pacific shall pay such additional amounts as will result in receipt by the Bondholders of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable in respect of any Bond:

(a) Other connection: to, or to a person on behalf of a holder who is liable to such taxes, duties, assessments or governmental charges in respect of such Bond by reason of his having some connection with the British Virgin Islands or Bermuda or Hong Kong other than the mere holding of the Bond; or

(b) More than 30 days after the Relevant Date: more than 30 days after the Relevant Date except to the extent that the holder of it would have been entitled to such additional amounts on the last day of such period of 30 days; or

(c) Payment to individuals: where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive; or

(d) Payment by another Paying Agent: by or on behalf of a Bondholder who would have been able to avoid such withholding or deduction by presenting the relevant Bond to another Paying Agent in a Member State of the European Union.

"Relevant Date" means whichever is the later of (i) the date on which such payment first becomes due and (ii) if the full amount payable has not been received in New York City by the Principal Paying Agent or the Trustee on or prior to such due date, the date on which, the full amount having been so received, notice to that effect shall have been given to the Bondholders. Any reference in these Conditions to principal and/or interest shall be deemed to include (i) any premium, or (ii) any additional amounts which may be payable under this Condition 8 or any undertaking given in addition to or substitution for it under the Trust Deed.

9 Prescription

Claims against the Issuer for payment in respect of the Bonds shall be prescribed and become void unless made within 10 years (in the case of principal) or five years (in the case of interest) from the appropriate Relevant Date in respect thereof.

10 Events of Default

If any of the following events (each an "Event of Default") occurs and is continuing, the Trustee at its sole discretion may, and, if so requested in writing by the Bondholders of at least 25 per cent. in aggregate of the principal amount of the Bonds outstanding or if so directed by an Extraordinary Resolution (as defined in the Trust Deed) of the Bondholders, shall (provided that in each case the Trustee shall have been indemnified and/or secured to its satisfaction), give notice (an "Acceleration Notice") to the Issuer (with a copy to the Security Trustee) that the Bonds are immediately due and payable at their principal amount, together with accrued interest:

(a) the Issuer fails to pay any principal or premium (if any) (whether at maturity or upon required repurchase or otherwise) or interest in respect of the Bonds when due, and such failure continues for a period of seven Business Days; or

(b) the Issuer fails to perform or comply with its obligations under Condition 4(d); or

(c) First Pacific fails to perform or comply with its obligations under Condition 4(e); or

(d) the Issuer or First Pacific fails to perform or comply with any one or more of its other obligations under these Conditions, the Trust Deed or the Security Documents which failure is incapable of remedy or, if in the opinion of the Trustee is capable of remedy, is not remedied within 30 days after notice in writing of such failure (giving details of such failure) shall have been given to the Issuer or First Pacific by the Trustee; or

(e) (i) any Indebtedness for Borrowed Money of the Issuer or First Pacific becomes due and payable prior to its stated maturity by reason of an event of default or the like (howsoever described), or (ii) any such Indebtedness for Borrowed Money is not paid when due, or (iii) the Issuer or First Pacific fails to pay when due any amount payable by it under any present or future guarantee for, or indemnity in respect of, any Indebtedness for Borrowed Money, in each of cases (ii) and (iii) after any originally applicable grace period, provided that the aggregate amount of the relevant Indebtedness for Borrowed Money in respect of which one or more of the events mentioned above in this paragraph (e) have occurred equals or exceeds US$15,000,000 (or its U.S. Dollar Value); or

(f) (i) the Issuer, First Pacific or PLDT is unable to pay its debts generally as and when they fall due or is declared insolvent or bankrupt pursuant to a final order of a court of competent jurisdiction or (ii) any of the Issuer, First Pacific or PLDT initiates or consents to proceedings relating to itself and its debts generally under any applicable bankruptcy or insolvency law or makes an assignment for the benefit of, or enters into any composition with, its creditors generally or a moratorium is agreed or declared in respect of its indebtedness generally; or

(g) a liquidator (including a provisional liquidator), receiver, judicial manager, trustee in bankruptcy, administrator, agent or similar officer of the Issuer, First Pacific or PLDT, as the case may be, is appointed with respect to a substantial part of its assets (in the opinion of the Trustee); or

(h) an order of a court of competent jurisdiction is made or an effective resolution passed for the winding-up or dissolution of the Issuer, First Pacific or PLDT, except for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation (i) on terms approved by the Trustee or by an Extraordinary Resolution of the Bondholders, or (ii) in the case of PLDT, by way of a voluntary winding-up or dissolution where there are surplus assets in PLDT and such surplus assets attributable to the First Pacific and/or any other Subsidiary or Associate of First Pacific are distributed to First Pacific and/or any such other Subsidiary or Associate of First Pacific; or

(i) an encumbrancer takes possession of a substantial part of the assets, undertaking, property or revenues of the Issuer, First Pacific or PLDT and such possession is not removed within 14 Business Days thereof; or

(j) the Security or any Security Document (or any material part of them) is terminated or becomes void, illegal, invalid or unenforceable or the Issuer is entitled to terminate, rescind or avoid the Security Documents or (other than as provided herein or in the Trust Deed or the Security Documents) the Charged Property ceases to be subject to the provisions of the Security therein contained or such Security is not of the priority contemplated by such agreements and in each case alternative agreements to the satisfaction of the Trustee are not made within 30 days, or such longer period as the Trustee may agree in its absolute discretion, after notice of such event shall have been given to the Issuer by the Trustee; or

(k) any final judgment or order from which no further appeal or judicial review is permissible for the payment of money shall be rendered against the Issuer, First Pacific or PLDT in an amount in excess of US$15,000,000 (or its U.S. Dollar Value) individually or in the aggregate for all such final judgments or orders against all such Persons (treating any deductibles, self-insurance or retention as not so covered) and shall not be paid or discharged when due; or

(l) a distress, attachment or execution or other legal process is levied, enforced or sued out on or against a substantial part of the properties, assets or revenues of the Issuer, First Pacific or PLDT and is not discharged within 30 days of its occurrence; or

(m) any judicial or other formal step or other formal action under the authority of statute is taken by any Government authority or agency (i) to prevent the Issuer or First Pacific from performing its payment obligations under these Conditions, the Trust Deed, the Guarantee or the Bonds, or (ii) with a view to seizure, compulsory acquisition, expropriation or nationalisation of a substantial part of property of First Pacific; or

(n) the Issuer ceases to be directly Wholly-Owned and controlled by First Pacific; or

(o) the Guarantee is not (or is deemed by First Pacific not to be) in full force and effect or First Pacific denies or disaffirms in writing its obligations under the Trust Deed, the Guarantee or the Bonds; or

(p) any event occurs with respect to the Issuer, First Pacific or PLDT which, under the laws of any relevant jurisdiction, has an analogous effect to any of the events referred to in paragraphs (f) to (k),

provided that in the case of (d), (f)(ii), (l), or (m), the Trustee shall have certified that in its opinion such relevant Event of Default is materially prejudicial to the interests of the Bondholders.

"Indebtedness for Borrowed Money" means any indebtedness (whether being principal, premium, interest or other amounts) for or in respect of any notes, bonds, debentures, debenture stock, loan stock or other securities or any borrowed money.

11 Enforcement

(a) *The Bonds*

At any time after the Bonds shall have become due and payable, the Trustee may, at its discretion and without further notice, take such proceedings (including proceedings against the Issuer) as it may deem appropriate to enforce repayment of the aggregate principal amount under the Bonds outstanding together with accrued interest and, subject to Condition 11(b), to enforce the provisions of the Trust Deed, but it will not be bound to take any such proceedings unless (i) it shall have been so requested in writing by the holders of not less than 25 per cent. in aggregate principal amount of the Bonds outstanding or shall have been so directed by an Extraordinary Resolution of the Bondholders and (ii) it shall have been indemnified and/or secured to its satisfaction.

(b) *Enforceability of Security*

The Security shall become enforceable upon the Bonds becoming immediately due and payable by reason of service of an Acceleration Notice and/or if the Issuer fails to make payment of amounts due and payable under the Bonds on the date on which they are subject to redemption under Condition 6 as applicable, whichever shall be the first to occur.

At any time after the Security becomes enforceable, the Security Trustee may, at its sole discretion without further notice, take such proceedings and/or other actions as it may think fit against or in relation to the Issuer to enforce the Issuer's obligations under the Security Documents and take action to enforce the Security without any liability as to the consequences of such action, but it shall only be bound to take any such proceedings and/or actions if:

(i) so requested in writing by the holders of at least 25 per cent. in aggregate principal amount of the Bonds outstanding; or

(ii) so directed by an Extraordinary Resolution of the Bondholders;

subject to it having been indemnified and/or secured to its satisfaction against all liabilities, proceedings, claims and demands to which it may thereby become liable and all costs, charges and expenses which may be reasonably incurred by it in connection therewith.

(c) *Proceeding against the Issuer or First Pacific*

No Bondholder may proceed directly against the Issuer or First Pacific unless the Trustee or the Security Trustee, having become bound to proceed under this Condition 11, fails to do so within a reasonable time and such failure is continuing.

12 Meetings of Bondholders, Modification, Waiver and Substitution

(a) *Meetings of Bondholders*

The Trust Deed contains provisions for convening meetings of Bondholders to consider matters affecting their interests, including the sanctioning by Extraordinary Resolution of the Bondholders of a modification or a waiver of any of these Conditions or any provisions of the

Trust Deed or other Transaction Documents. Such a meeting may be convened by Bondholders holding not less than 10 per cent. in aggregate principal amount of the Bonds outstanding. The quorum for any meeting convened to consider an Extraordinary Resolution of the Bondholders shall be two or more persons holding or representing a clear majority in aggregate principal amount of the Bonds outstanding or at any adjourned meeting two or more persons being or representing Bondholders, whatever the amount of the Bonds held or represented, unless the business of such meeting includes consideration of proposals, *inter alia,* (i) to amend the dates of maturity or redemption of the Bonds or any date for payment of interest on the Bonds, (ii) to reduce or cancel the principal amount of the Bonds, (iii) to reduce the rate of interest in respect of the Bonds or to vary the method or basis of calculating the rate or amount of interest in respect of the Bonds, (iv) to vary the currency or currencies of payment or denomination of the Bonds, (v) to take any steps that as specified herein may only be taken following approval by an Extraordinary Resolution of the Bondholders to which the special quorum provisions apply, (vi) to modify the provisions concerning the quorum required at any meeting of Bondholders or the majority required to pass the Extraordinary Resolution of the Bondholders, (vii) to amend any term of the Security Documents unless, in the opinion of the Trustee such amendment is of a formal, minor or technical nature, is made to correct a manifest error, or is desirable to protect or perfect the Security, (viii) to modify or cancel the Guarantee, or (ix) to modify the provisions of the Trust Deed concerning this exception in which case the necessary quorum shall be two or more persons holding or representing not less than 66 2/3 per cent. or at any adjourned meeting not less than 25 per cent. in aggregate principal amount of the Bonds outstanding. A resolution in writing signed by or on behalf of the Bondholders holding not less than 90 per cent. of the aggregate principal amount of the Bonds outstanding or consent given by way of electronic consents through the clearing system(s) (in the form satisfactory to the Trustee) by or on behalf of holders of not less than 90 per cent. in the aggregate principal amount of the Bonds outstanding, shall, for all purposes be as valid as an Extraordinary Resolution (as defined in the Trust Deed) passed at a meeting of Bondholders. Any Extraordinary Resolution duly passed by the Bondholders will be binding on all Bondholders (whether or not they were present at any meeting at which such resolution was passed and whether or not they voted on the resolution).

(b) *Modification or Waiver*

The Trustee may agree, without the consent of the Bondholders, to (i) any modification of any of the provisions of the Trust Deed, the Agency Agreement, the Guarantee or any other Transaction Documents that is, in its opinion, of a formal, minor or technical nature or is made to correct a manifest error, and (ii) any other modification (except as mentioned in the Trust Deed), and any waiver or authorisation of any breach or proposed breach, of any of these Conditions or any of the provisions of the Trust Deed, the Agency Agreement, the Guarantee or the other Transaction Documents that is in the opinion of the Trustee not materially prejudicial to the interests of the Bondholders. Any such modification, authorisation or waiver shall be binding on the Bondholders and, if the Trustee so requires, such modification shall be notified to the Bondholders as soon as practicable.

(c) *Substitution*

The Trust Deed contains provisions permitting the Trustee to agree, subject to such amendment of the Trust Deed and such other conditions as the Trustee may require, without the consent of the Bondholders, to the substitution of any other issuer in place of the Issuer, MPHI or First Pacific, or of any previously substituted issuer, as principal debtor or First Pacific under the Trust Deed and as pledgor under the Pledge and all of the Bonds outstanding. In the case of such a substitution, the Trustee may agree, without the consent of the Bondholders, to a change of the law governing the Bonds, the Security Documents, the Guarantee and/or the Trust Deed provided that such change would not in the opinion of the Trustee be materially prejudicial to the interests of the Bondholders.

(d) *Entitlement of the Trustee*

In connection with the exercise of its functions (including but not limited to those referred to in this Condition) the Trustee shall not have regard to the consequences of such exercise for individual Bondholders resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory and the Trustee shall not be entitled to require, nor shall any Bondholder be entitled to claim, from the Issuer or First Pacific any indemnification or payment in respect of any tax consequence of any such exercise upon individual Bondholders.

13 Replacement of Certificates

If any Certificate is lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the Registrar or any Agent subject to all applicable laws or other relevant authority requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer or such Agent may require. Mutilated or defaced Certificates must be surrendered before replacements will be issued.

14 Notices

Notices to Bondholders will be sent to them by first class mail (or its equivalent) or (if posted to an overseas address) by airmail at their respective addresses on the Register. Any such notice shall be deemed to have been given on the fourth day after the day of mailing. In addition, so long as the Bonds are listed on a stock exchange and the rules of such stock exchange so require, notices will also be published in a daily newspaper of general circulation in the place or places required by the rules of such stock exchange. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made.

At all times while any portion of the Bonds remain in global form, any notices furnished pursuant to this Condition 14 shall also be given to the applicable clearing system(s).

15 Indemnification and Obligations of the Trustee and the Security Trustee

The Trust Deed and the Security Documents contain provisions for the indemnification of the Trustee and Security Trustee, and for their relief from responsibility in certain circumstances, including provisions relieving them from any obligation to institute proceedings against the Issuer, MPHI or First Pacific to enforce repayment or to enforce the security constituted by or pursuant to the Trust Deed and Security Documents, as the case may be, unless indemnified and/or secured to their satisfaction in accordance with the provisions set out in the Trust Deed or the Security Documents (as the case may be). The Trustee and the Security Trustee are entitled to enter into business transactions with the Issuer, MPHI or First Pacific or any entity related to them without accounting for any profit. The Trustee and the Security Trustee shall not be responsible for the performance by any other person appointed by the Issuer, MPHI or First Pacific in relation to the Bonds or any other Transaction Document (other than the Trust Deed and the Security Documents) and, unless it has actual knowledge to the contrary, shall assume that the same are being duly performed. The Trustee and the Security Trustee shall not have any responsibility for the administration, management or operation of the Charged Property including the request to release any of the Security from time to time. The Trustee and the Security Trustee shall have neither responsibility for the value of the Charged Property nor any liability of the validity, sufficiency or enforceability thereof. The Trustee and the Security Trustee shall not be liable to any Bondholder or any other person for any action taken by the Bondholders or the Trustee and/or the Security Trustee in accordance with the instructions of the Bondholders. The Security Trustee shall be entitled to rely on any direction, request or resolution of Bondholders which shall be certified by the Trustee to have been duly given by holders of the requisite principal amount of Bonds outstanding or duly passed at a meeting of Bondholders duly convened and held in accordance with the Trust Deed.

16 Contracts (Rights of Third Parties) Act 1999

No rights are conferred on any person under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of the Bonds, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

17 Further Issues

The Issuer and First Pacific may from time to time without the consent of the Bondholders create and issue further notes or bonds (whether in bearer or registered form) ("Additional Bonds") either (a) ranking *pari passu* in all respects (or in all respects save for the first payment of interest thereon) and so that the same shall be consolidated and form a single series with the outstanding notes or bonds of any series (including the Bonds) constituted by the Trust Deed or any supplemental deed or (b) upon such terms as to ranking, interest, conversion, redemption and otherwise as the Issuer and First Pacific may determine at the time of the issue. Any further notes or bonds which are to form a single series with the outstanding notes or bonds of any series (including the Bonds) constituted by the Trust Deed or any supplemental deed shall, and any other further notes or bonds may (with the consent of the Trustee), be constituted by a deed supplemental to the Trust Deed. The Trust Deed contains provisions for convening a single meeting of the Bondholders and the holders of notes or bonds of other series in certain circumstances where the Trustee so decides.

18 Governing Law and Jurisdiction

(a) *Governing Law*

The Trust Deed, the Bonds and any non-contractual obligations arising out of or in connection with such documents are governed by, and shall be construed in accordance with, English law. The Share Pledge and the Powers of Attorney are governed by, and shall be construed in accordance with, Philippine law and the Escrow Account Assignment is governed by, and shall be construed in accordance with, the laws of Hong Kong.

(b) *Jurisdiction*

The courts of England are to have jurisdiction to settle any disputes that may arise out of or in connection with the Trust Deed, the Guarantee and the Bonds (including any disputes relating to any non-contractual obligations which may arise out of or in connection with the Trust Deed, the Guarantee and/or the Bonds) and accordingly any legal action or proceedings arising out of or in connection with the Trust Deed, the Guarantee or the Bonds ("Proceedings") (including any Proceedings relating to any non-contractual obligations which may arise out of or in connection with the Trust Deed, the Guarantee and/or the Bonds) may be brought in such courts. Each of the Issuer and First Pacific has, in the Trust Deed, irrevocably submitted to the jurisdiction of such courts.

(c) *Service of Process*

Each of the Issuer and First Pacific has irrevocably appointed an agent in England to receive, for it and on its behalf, service of process in any Proceedings in England.

SUMMARY OF PROVISIONS RELATING TO THE BONDS IN GLOBAL FORM

*The Global Certificate contains provisions which apply to the Bonds in respect of which the Global Certificate is issued, some of which modify the effect of the terms and conditions of the Bonds (the "**Terms and Conditions**" or the"**Conditions**") set out in this Offering Circular. Terms defined in the Conditions have the same meaning in the paragraphs below. The following is a summary of those provisions:*

Exchange

Owners of interests in the Bonds in respect of which the Global Certificate is issued will be entitled to have title to the Bonds registered in their names and to receive individual definitive certificates ("**Certificates**") if (i) either Euroclear or Clearstream (or any other clearing system (an "**alternative clearing system**") as shall have been designated by the Issuer and approved by the Trustee on behalf of which the Bonds evidenced by the Global Certificate may be held) is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so or (ii) on or following the giving of a default notice pursuant to Condition 10 occurs.

In such circumstances, the Issuer will cause sufficient individual definitive Certificates to be executed and delivered to the Registrar for completion, authentication and despatch to the relevant Bondholders. A person with an interest in the Bonds in respect of which the Global Certificate is issued must provide the Registrar with a written order containing instructions and such other information as the Issuer and the Registrar may require to complete, execute and deliver such individual definitive Certificates.

Meetings

The holder of the Global Certificate shall be treated as two persons for the purposes of any quorum requirements of, or the right to demand a poll at, a meeting of Bondholders and, at any such meeting, as having one vote in respect of each US$1,000 in principal amount of Bonds in respect of which the Global Certificate is issued. The Trustee may allow to attend and speak (but not to vote), at any meeting of Bondholders, any accountholder (or the representative of any such person) of a clearing system entitled to Bonds in respect of which the Global Certificate is issued on confirmation of entitlement and proof of his identity.

Trustee's Powers

In considering the interests of Bondholders, the Trustee may, to the extent it considers it appropriate to do so in the circumstances, (i) have regard to such information as may have been made available to it by or on behalf of the relevant clearing system or its operator as to the identity of its accountholders (either individually or by way of category) with entitlements in respect of Bonds and (ii) consider such interests on the basis that such accountholders were the holders of the Bonds in respect of which the Global Certificate is issued.

Bondholder's Redemption

The Bondholder's redemption option in Conditions 6(c) and 6(d) may be exercised by the holder of the Global Certificate giving notice to the Principal Paying Agent of the principal amount of Bonds in respect of which the option is exercised and presenting the Global Certificate for endorsement or exercise (if required) within the time limits specified in the Conditions.

Redemption at the Option of the Issuer

The option of the Issuer provided for in Condition 6(b) shall be exercised by the Issuer giving notice to the Bondholders within the time limits set out in and containing the information required by the Conditions.

Enforcement

For the purposes of enforcement of the provisions of the Trust Deed against the Trustee, the persons named in a certificate of the holder of the Bonds in respect of which the Global Certificate is issued shall be recognised as the beneficiaries of the trusts set out in the Trust Deed to the extent of the principal amount of their interest in the Bonds set out in the certificate of the holder as if they were themselves the holders of Bonds in such principal amounts.

Purchase and Cancellation

Cancellation of any Bond required by the Conditions to be cancelled following its purchase will be effected by reduction in the principal amount of the Bonds in the register and on the Global Certificate.

Payments

Payments of principal and interest in respect of Bonds represented by the Global Certificate will be made against presentation for endorsement and, if no further payment falls to be made in respect of the Bonds, surrender of the Global Certificate to or to the order of the Principal Paying Agent or such other Paying Agent as shall have been notified to the Bondholders for such purpose.

Each payment will be made to, or to the order of, the person whose name is entered in the Register at the close of business on the Clearing System Business Day immediately prior to the date for payment, where Clearing System Business Day means Monday to Friday inclusive except 25 December and 1 January.

Transfers

So long as the Global Certificate representing the Bonds is held on behalf of one or more clearing systems, transfers of book-entry interests in the Bonds between accountholders of such clearing systems may be made in accordance with the rules of the relevant clearing system.

Notices

So long as the Bonds are represented by the Global Certificate and the Global Certificate is held on behalf of Euroclear or Clearstream, Luxembourg or an alternative clearing system, notices required to be given to Bondholders may be given by their being delivered to the relevant clearing system for communication by it to entitled accountholders in substitution for publication as required by the Conditions, provided that, so long as the Bonds are listed on the SGX-ST and its rules so require, notices shall also be published in a leading newspaper having general circulation in Singapore (which is expected to be *The Business Times*).

USE OF PROCEEDS

The net proceeds from the offering of the Bonds, after deducting underwriting commissions and other expenses, are estimated to be approximately US$294.5 million. The net proceeds will be on-lent by the Issuer to First Pacific who will use the net proceeds primarily for the repayment of its outstanding debts.

CAPITALISATION OF THE ISSUER

Capitalisation of the Issuer

The following table sets forth the unaudited capitalisation of the Issuer as at the date of this Offering Circular, as adjusted to give effect to the Bonds offered hereby.

	As at the date of this Offering Circular	
	Actual	**As Adjusted**
	(US$)	**(US$)**
Long-term borrowings		
The Bonds offered hereby	—	300,000,000
Capital		
Share capital	1	1
Shareholders' equity	1	1
Total capitalisation	1	300,000,001

CAPITALISATION OF FIRST PACIFIC

Capitalisation of First Pacific

The following table sets forth the consolidated capitalisation and cash and cash-equivalents of First Pacific as at 31 December 2009, as adjusted to give effect to the Bonds offered hereby.

	As at 31 December 2009	
	Actual	As Adjusted
	(US$ in millions)	
Cash and cash-equivalents [1][2]	$ 965.8	$1,260.3[5]
Long-term and short-term borrowings:		
Indofood borrowings	$ 1,837.8	$ 1,837.8
MPIC borrowings[3]	926.1	926.1
Head Office borrowings[4]	921.4	921.4[5]
The Bonds	—	300.0
Total borrowings	3,685.3	3,985.3
Capital and reserves:		
Share capital	38.6	38.6
Retained earnings	556.4	556.4
Other components of equity	1,321.2	1,321.2
Equity attributable to owners of the parent	1,916.2	1,916.2
Minority interest	2,122.9	2,122.9
Total equity	4,039.1	4,039.1
Total capitalisation	$ 7,724.4	$ 8,024.4

Notes:

(1) Includes pledged deposits and restricted cash of US$29.2 million.

(2) Of this amount US$269.7 million was held by First Pacific Head Office. In March 2010, MPHI subscribed ₱6.6 billion convertible bonds issued by MPIC. See "Recent Developments — Consolidation of Interests in Meralco".

(3) Includes borrowings of MPIC, a Philippine affiliate of First Pacific pursuant to HKFRS. In March 2010, MPIC repaid a loan with a principal amount of ₱11.2 billion.

(4) Includes borrowings of Two Rivers, a Philippine affiliate of First Pacific pursuant to HKFRS. In January 2010, the Government Service Insurance System of the Philippines provided a vendor financing to Two Rivers of approximately ₱5.4 billion (US$117.3 million) to partially finance the purchase of an approximately 5.9% interest in Philex. In February 2010, Two Rivers repaid another vendor financing with a principal amount of approximately ₱2.1 billion in relation to the purchase of an approximately 9.2% interest in Philex in December 2009.

(5) Net proceeds from the offering of the Bonds, after deducting underwriting commissions and other expenses, and after deducting for contributions made into the Escrow Account, will be used by First Pacific for the repayment of its outstanding debt. The application of the net proceeds as such would serve to reduce each of cash and cash-equivalents and Head Office borrowings by US$272.3 million.

Other than as described above, there has been no material change to First Pacific's capitalisation (excluding cash and cash equivalents) or indebtedness since 31 December 2009.

EXCHANGE RATES

The following tables set forth the exchange rates between pesos and U.S. dollars (in peso per U.S. dollar) since 2005, as stated by the Bangko Sentral Reference Exchange Rate Bulletins published by the Treasury Department of Bangko Sentral ng Pilipinas; Rupiah and U.S. dollars (in Rupiah per U.S. dollar) since 2005, based on Bank Indonesia buying and selling rates and Hong Kong dollars and U.S. dollars (in HK dollar per U.S. dollar) since 2005, based on the noon buying rates in New York City for cable transfers, as certified for customs purposes by the Federal Reserve Bank of New York. The exchange rate as at 9 July 2010 was US$1.00 to HK$7.7736 while the exchange rate as at 15 July 2010 was US$1.00 to ₱46.349 and Rp9,047, respectively. No representation is made that the peso, HK dollar or Rupiah amounts actually represent such U.S. dollar amounts or could have been or could be converted into U.S. dollars at the rates indicated, at any other rate or at all.

₱ per US$ exchange rates

	peso/U.S. dollar exchange rates			
Year	**Period End**	**Average[1]**	**High**	**Low**
2005	53.067	55.086	56.341	53.067
2006	49.132	51.314	53.587	49.132
2007	41.101	46.148	49.156	41.142
2008	47.485	44.475	49.984	40.360
2009	46.356	47.637	49.056	45.947
2010				
January	46.743	46.028	46.743	45.537
February	46.258	46.312	46.610	45.970
March	45.220	45.743	46.104	45.220
April	44.644	44.627	45.043	44.182
May	46.212	45.597	46.983	44.537
June	46.310	46.303	46.792	45.550
July (through 15 July)	46.349	46.580	46.228	46.379

Source: Bangko Sentral ng Pilipinas

(1) The average of the monthly average PDS weighted average rates for the relevant period, and for monthly periods, the monthly average PDS weighted average rates for the relevant month.

Rp per US$ exchange rates

Year	Rupiah/U.S. dollar exchange rates			
	Period End	Average[1]	High[2]	Low[2]
2005	9,830	9,751	10,800	9,133
2006	9,020	9,141	9,795	8,720
2007	9,419	9,164	9,479	8,672
2008	10,950	9,680	12,400	9,051
2009	9,400	10,356	12,065	9,293
2010				
January	9,365	9,263	9,408	9,017
February	9,335	9,348	9,413	9,280
March	9,115	9,174	9,313	9,070
April	9,012	9,027	9,075	9,001
May	9,180	9,183	9,373	9,017
June	9,083	9,148	9,295	9,015
July (through 15 July)	9,047	9,064	9,094	9,047

Source: Bank Indonesia

(1) The average of the middle exchange rate announced by Bank Indonesia on the last day of each month during the period indicated.

(2) The high and low amounts are determined based upon the daily middle exchange rate announced by Bank Indonesia during the period indicated.

HK$ per US$ exchange rates

Year	H.K. Dollar/U.S. dollar exchange rates			
	Period End	Average[1]	High	Low
2005	7.7533	7.7755	7.7999	7.7514
2006	7.7771	7.7685	7.7928	7.7506
2007	7.7984	7.8008	7.8289	7.7497
2008	7.7499	7.7814	7.8159	7.7497
2009	7.7536	7.7513	7.7618	7.7495
2010				
January	7.7665	7.7624	7.7752	7.7539
February	7.7619	7.7670	7.7716	7.7619
March	7.7647	7.7612	7.7648	7.7574
April	7.7637	7.7627	7.7675	7.7565
May	7.7850	7.7856	7.8030	7.7626
June	7.7865	7.7880	7.8040	7.7690
July (through 15 July)	7.7736	7.7884	7.7962	7.7736

Source: Federal Reserve Board of U.S.

(1) The average of noon buying rates in New York on the last day of each month during the period indicated.

THE ISSUER

The Issuer is directly wholly-owned by First Pacific. The Issuer was incorporated on 12 May 2010 as a BVI business company with limited liability under the laws of the British Virgin Islands with company number 1584581. The Issuer has no material assets and, since its date of incorporation, has not conducted, and will not conduct any business, except relating to the offering, sale and issuance of indebtedness and the lending of the net proceeds thereof to First Pacific and any other activities in connection therewith. The registered office of the Issuer is located at P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands.

BUSINESS OF FIRST PACIFIC

OVERVIEW

The First Pacific was founded in May 1981 and was incorporated in Bermuda in May 1988 as a limited liability company. First Pacific is a Hong Kong-based investment holding and management company with its principal business interests in Southeast Asia relating to telecommunications, infrastructure, consumer food products and natural resources.

The principal business activities of the Group and its affiliates and associated companies are as follows:

Telecommunications

PLDT, of which an approximately 26.5% economic interest is held by the Group, is the leading telecommunications service provider in the Philippines. Through its three principal business groups, wireless (operated principally through its wholly-owned subsidiary Smart), fixed line (operated principally through PLDT), and ICT (operated principally through its wholly-owned subsidiary ePLDT), PLDT offers the largest and most diversified range of telecommunications services across the Philippines' most extensive fiber optic backbone and wireless, fixed line, broadband and satellite networks.

Infrastructure

MPIC, an affiliate of First Pacific, of which an approximately 55.6% economic interest is held by the Group, is a diversified infrastructure holding and management company in the Philippines, with interests in the water utilities (including water, sewerage and sanitation services), toll roads, electricity distribution and healthcare sectors.

Consumer Food Products

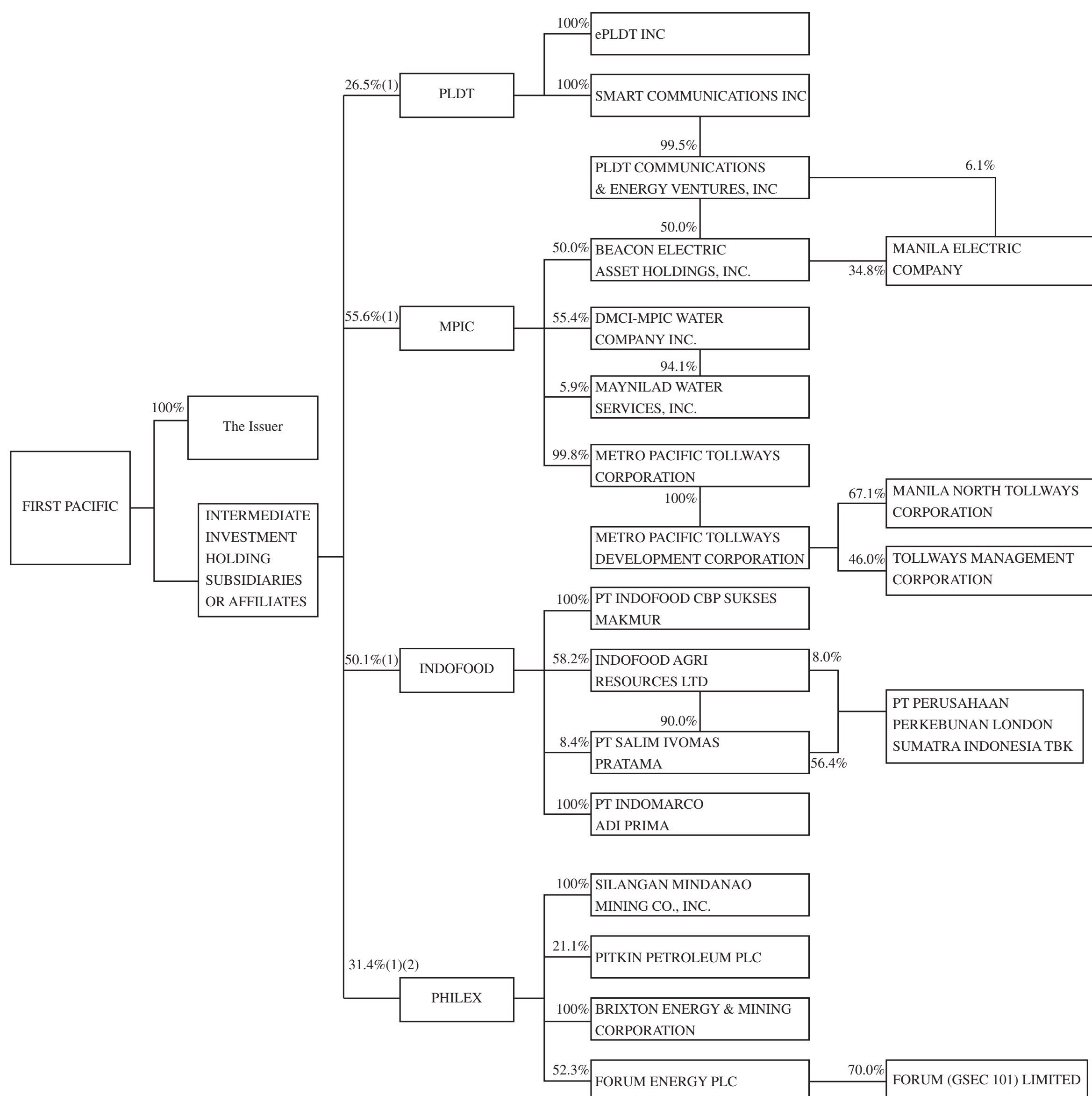
Indofood, a 50.1% owned indirect subsidiary of First Pacific, is a leading processed food company engaged in food manufacturing, processing, marketing and distribution. Through its four complementary business groups, Indofood offers and distributes a wide range of food products throughout Indonesia: CBP (noodles, dairy, food seasonings, snack foods and nutrition & special foods), Bogasari (flour and pasta), agribusiness (oil palm, rubber, sugar cane, cocoa and tea plantations, cooking oils, margarine and shortening) and distribution.

Natural Resources

Philex, of which an approximately 31.4% economic interest is held by the Group, is engaged in the exploration, development and utilisation of mineral resources in the Philippines. Philex also holds selected interests in the oil and petroleum business.

In addition, Two Rivers, a Philippine affiliate of First Pacific, holds an approximately 15.0% interest in Philex.

The following sets out First Pacific's simplified corporate structure, including its principal subsidiaries, affiliates and associated companies, as at the date of this Offering Circular:



Notes:

1. Economic Interest
2. In addition, Two Rivers, a Philippine affiliate of First Pacific, holds a 15.0% interest in Philex.

The major shareholder of First Pacific is Anthoni Salim, who directly or indirectly owned approximately 44.0% of the issued share capital of First Pacific as at the date of this Offering Circular.

First Pacific is listed on the SEHK and maintains an American Depositary Receipt facility in the United States, with a market capitalisation of approximately HK$21.2 billion as at 9 July 2010. For the year ended 31 December 2009, First Pacific reported turnover of US$3,925.6 million and profit attributable to owners of the parent of US$401.6 million.

STRENGTHS

First Pacific believes that it has the following core strengths:

Strong and Consistent Cash Flow

Primarily through its economic interest in PLDT, of which it is the single largest shareholder and exercises significant influence, First Pacific receives strong recurring dividend income. With respect to the financial years ended 31 December 2007, 2008 and 2009, PLDT paid out approximately 100% of its core net income as dividends to its shareholders, resulting in dividend payments of ₱34.8 billion, ₱37.5 billion and ₱40.7 billion, respectively. Through its economic interest in PLDT, First Pacific consequently received cash dividends of the equivalent of approximately US$153 million, US$208 million and US$203 million in the years ended 31 December 2007, 2008 and 2009. Furthermore, Indofood paid out approximately 40% of its net income as dividends to its shareholders in the years ended 31 December 2007, 2008 and 2009. Through its equity interest in Indofood, First Pacific consequently received cash dividends of the equivalent of approximately US$14 million, US$19 million and US$18 million in those years. In May 2010, Indofood declared its final dividend for fiscal year 2009, which is expected to result in a cash dividend income to First Pacific of approximately US$40 million.

Leading Market Position

The Group's main business segments enjoy significant market positions in their respective sectors. PLDT is the leading cellular service and fixed line telecommunications services provider in the Philippines, with approximately 55% and 60% of total reported cellular and fixed line subscribers nationwide, respectively. MPIC's main subsidiaries, Maynilad and MPTC, as well as its associated company, Meralco, are leading infrastructure operating companies in the Philippines. Under concessions expiring in 2037, Maynilad is the exclusive concessionaire to distribute water in the West Zone of Metro Manila and MPTC is the exclusive concessionaire to operate the NLEX toll road while Meralco is the franchised exclusive distributor of electricity in substantially all of its service areas, with the franchise valid until 2028. Indofood is one of the largest integrated total food solutions companies in Indonesia.

Diversified Portfolio of Major Philippine Infrastructure Assets

MPIC, an affiliate of First Pacific, has assembled a diversified portfolio of Philippine infrastructure and utility companies, and has potential for long-term growth and stable cash flows. These include (i) Maynilad, currently the exclusive provider of water utilities services to approximately 7.2 million people in Western Metro Manila, making it the largest water concessionaire by customer base in the Philippines; (ii) MPTC, the operator of the NLEX, SCTEx and Subic Freeport Expressway, which comprise three of the major toll road developments in the Philippines; and (iii) Meralco, the largest private sector electricity distribution utility in the Philippines.

Experienced Management Team

First Pacific considers active management to be a key part of its investment policy and has maintained a strict focus on recruiting and retaining a strong management team. First Pacific's senior management team has significant experience in each of its businesses and a strong track record of maximising profitability, integrating acquisitions and realising synergies within and across First Pacific's businesses. First Pacific's senior management has a developed understanding of local markets and has strong relationships with government and regulatory agencies, international consultants and sources of capital.

STRATEGY

First Pacific's principal business strategy is to promote the continuing growth in profitability across all group companies and associated companies whilst further exploring investment opportunities in the Asian emerging markets, focusing on its existing core businesses across the region. To position itself for better growth, First Pacific will seek to increase its cashflow and implement a capital management programme.

Specific strategies for First Pacific's telecommunications, infrastructure, consumer food products and natural resources operations are set forth below:

Telecommunications

Build on PLDT's Leading Positions in the Wireless Businesses.

PLDT and Smart plan to build on their position as the leading wireless service provider in the Philippines by continuing to introduce new products and services (in particular, broadband services) to increase its subscribers' use of their network for both voice and data, as well as subscribers' reliance on their services. PLDT is currently upgrading its fixed line facilities to the Next Generation Network, and has rolled out a 3G network based on its W-CDMA technology as well as expanding its DSL and wireless broadband facilities.

Capitalise on PLDT's Strength as an Integrated Provider of Telecommunications Services.

PLDT offers the broadest range of telecommunications services among all operators in the Philippines. It plans to capitalise on this position to maximise revenue opportunities by bundling and cross-selling its products and services, and by developing convergent products that feature the combined benefit of voice and data, fixed line, wireless and information and communication technologies services utilising PLDT's network and business platforms. PLDT is also lowering its costs by integrating the operations of its different businesses.

Strengthen PLDT's Leading Position in the Data and Broadband Market.

Leveraging on the strength of its fixed line and wireless businesses, PLDT is committed to further develop its fastest growing business segment — broadband, data and other network services. Consistent with its strategy of introducing innovative products and services using advanced technology, PLDT has launched various products and services that address different market needs.

Infrastructure

Increase Profitability of its Core Infrastructure Assets.

MPIC plans to increase the profitability of its core infrastructure assets, enhance portfolio value and grow dividend flows through prudent management. In the water utilities business, MPIC intends to increase Maynilad's profitability by expanding its water utilities services principally in the West Zone to reach the approximately 2.1 million customers either currently without piped services or underserved in terms of water availability and pressure, increasing per capita water consumption, reducing NRW and improving efficiencies in water delivery and revenue collection. In the toll roads business, MPIC intends to build, expand and operate various toll road facilities and extensions to the NLEX in order to increase traffic volumes and enjoy economies of scale. In its healthcare business, MPIC intends to develop its core holdings into the first nationwide chain of hospitals across the Philippines, featuring superior facilities and quality medical services. In the electricity distribution business, MPIC intends to increase Meralco's profitability by ensuring its performance meets the requirements of the guaranteed service level performance and for Meralco to enjoy a financial return as stipulated in the performance-based regulation for meeting those requirements.

Develop and Maintain a Diverse Set of Infrastructure Assets.

MPIC intends to maintain and continue to develop a diverse portfolio of infrastructure assets. MPIC believes that its existing investments in water utilities, toll roads, electricity distribution and healthcare services should provide strong and stable revenues. It also believes that there are other areas in the infrastructure sector that may provide opportunities for further risk diversification.

Growth Through Further Investments in Attractive Infrastructure Assets.

MPIC is committed to investing through acquisitions and strategic partnerships in prime infrastructure assets with the potential to provide synergies with its existing operations. Accordingly, it intends to monitor closely strategic opportunities in the Philippines. MPIC intends to leverage its sophisticated management team and strong relationships to identify attractive targets in the infrastructure sector and execute its growth plans.

Consumer Food Products

Maintain Market Leadership in Indofood's Key Consumer Branded Products.

Indofood plans to maintain its market leadership by continuing to invest in its brands to strengthen their brand equity with consumers. It intends to continue with advertising and promotion activities that increase awareness and enhance consumer awareness and loyalty. In conjunction with its marketing initiatives, Indofood plans to continue with its rural development programme. Commencing in 2009, the programme is intended to increase the distribution and penetration of its products in rural areas by pulling demand and pushing availability. Furthermore, Indofood plans to continue to meet consumers' changing preferences and ensure its products' relevance through product innovation and rejuvenation.

Further Develop its Agribusiness.

Crude palm oil continues to represent one of the cheapest vegetable oils, with continuing strong demand, especially from emerging countries, and as bio-diesel use increases, particularly in European countries. Indofood intends to capitalise on the long-term prospects of crude palm oil by continuing its strategy of new plantings and improvements in productivity through improved research and development capabilities, continuous improvement of agronomy practices and enhancement of human resources skills. Indofood also plans to continue to expand its operations into sugar production, where shortages in both the domestic and international markets continue to provide opportunities to further expand its sugar operation. Indofood expects sugar to become the second crop of its agribusiness operations and in the future create a significant contribution to Indofood's Agribusiness group.

Natural Resources

Become a Dominant Gold and Copper Producer in the Philippines.

In August 2009, the Padcal mine's operating life was extended from 2014 to 2017. Philex intends to conduct further exploratory drilling in adjacent areas to assess if there are further resources that could be mined in the years ahead. In April 2010, Philex acquired the residual interest and completed a tender offer to acquire full ownership of the Silangan Project. In the medium term, technical and financial resources will be devoted primarily to bringing this project into production as soon as practicable. The Silangan Project combines the development of the Boyongan and Bayugo deposits, which comprise gold, copper and silver. A pre-feasibility study on the Boyongan deposit concluded that based on certain assumptions contained in the report, the Boyongan deposit is technically and financially feasible, with proven mineral reserves of gold and copper. Drilling continues for the Silangan Project to define further the mineralisation limits and to upgrade the Bayugo resource to measured from indicated.

BUSINESS

The following table sets out the turnover and contribution to First Pacific's consolidated recurring profit attributable to owners of the parent for each of PLDT, MPIC, Indofood and Philex for the years indicated:

	Turnover		Contribution to Group recurring profit[(i)]	
	For the year ended 31 December			
	2009	2008	2009	2008
	(US$ millions)			
PLDT[(ii)]	—	—	205.3	211.0
MPIC	336.9	112.8	33.0	7.4
Indofood	3,588.7	3,992.5	89.2	87.6
Philex[(ii)]	—	—	7.7	(1.6)
From Operations	3,925.6	4,105.3	335.2	304.4

Notes:

(i) After taxation and minority interest, where appropriate.

(ii) Associated companies.

TELECOMMUNICATIONS — PLDT

PLDT is the leading telecommunications service provider in the Philippines. Through its three principal business groups — wireless, fixed line and ICT — PLDT offers the largest and most diversified range of telecommunications services to subscribers across the Philippines' most extensive fiber optic backbone and wireless, fixed line, broadband and satellite networks.

Smart, PLDT's wholly-owned subsidiary, is the leading cellular service provider in the Philippines, with approximately 55% of total reported cellular subscribers nationwide as at 31 December 2009 including Pilipino Telephone Corporation's ("**Piltel**") *Talk 'N Text* cellular subscribers, which transferred to Smart on 17 August 2009 upon acquisition by Smart of Piltel's cellular mobile telephone business. PLDT has approximately 60% of the total reported fixed line subscribers throughout the Philippines as at 31 December 2009. PLDT has interests in the ICT sectors, including the operation of PLDT's *Vitro*™ data centre, customer interaction solutions, knowledge processing solutions, and internet and online gaming service businesses.

PLDT's common shares are listed on the PSE, and its American Depositary Shares are listed on the New York Stock Exchange. For the year ended 31 December 2009, PLDT had consolidated service revenues and net income attributable to equity owners of the parent of ₱145.6 billion (US$3,046.7 million) and ₱39.8 billion (US$832.5 million), respectively. For the three months ended 31 March 2010, PLDT had consolidated service revenues and net income attributable to equity owners of the parent of ₱36.0 billion (US$784.0 million) and ₱11.4 billion (US$248.6 million), respectively (calculated on the basis of PFRS). For the year ended 31 December 2009, the earnings before interest, taxes, depreciation and amortisation ("**EBITDA**") of PLDT was ₱86.2 billion (US$1,803.0 million). For the three months ended 31 March 2010, EBITDA of PLDT was ₱21.2 billion (US$461.2 million).

Wireless

PLDT provides cellular, wireless broadband satellite and other services through its wireless business segment.

Cellular service

PLDT's cellular business, which it provides through Smart and Connectivity Unlimited Resource Enterprise, Inc. ("**CURE**") to over 41 million subscribers as at 31 December 2009, approximately 99% of which were prepaid subscribers, is focused on providing wireless voice communications, wireless data communications (primarily through text messaging) and a variety of other value-added services ("**VAS**"), which include: (a) *Smart Money*; (b) specialised content such as ringtones, logos and caller ringback tunes; (c) *Mobile Banking* (banking services delivered over the cellular network); (d) international roaming; and (e) games and other VAS developed on Smart's platform.

Service plans

Smart markets nationwide cellular communications services under the brand names *Smart Buddy*, *Talk 'N Text*, *Smart Gold* and *Smart Infinity*, while CURE offers *Red Mobile*. *Smart Buddy, Talk 'N Text* and *Red Mobile* are prepaid services while *Smart Gold* and *Smart Infinity* are postpaid services, all of which are provided through Smart's digital network.

Smart has focused on segmenting the market by offering sector-specific, value-driven packages for its prepaid subscribers. These include new varieties of top-up services which provide a fixed number of messages with prescribed validity periods and call packages which allow a fixed number of minutes or calls of pre-set duration. Starting out as purely on-network packages, Smart's top-up services now include text message bundles available to all networks.

Smart's 3G services were commercially launched in May 2006. These services include video calling, video streaming, high-speed internet browsing and downloading of special 3G content, offered at rates similar to those of 2G services.

Voice Services

Cellular voice services comprise all voice traffic and voice VAS, such as voice mail and international roaming, and are a significant contributor to wireless revenues. While voice traffic primarily comprises outbound local calls, an increase in the cellular subscriber base in 2009 and the increased usage of unlimited domestic call services resulted in an increase in voice volume in both domestic and international inbound and outbound calls in 2009 as compared to the previous year.

Data Services

Cellular revenues from data services include all text messaging-related services and other data VAS. The Philippines' cellular market is one of the most text messaging-intensive markets in the world, totaling more than a billion text messages per day. Text messaging is extremely popular in the Philippines, particularly on the prepaid platform, as it provides a convenient and inexpensive alternative to voice and e-mail based communications. Text messaging also utilises less network capacity than voice, thereby increasing network efficiency.

The success of text messaging is an indicator of future data usage potential in the Philippines' cellular market.

Smart also offers the following value-added cellular services:

- **Smart Money**, launched in conjunction with MasterCard, enables subscribers to pay for their purchases by transferring money from their bank accounts to their *Smart Money* cards, reload their prepaid cards electronically, as well as download specialised content such as ringtones, logos, caller ringback tunes and games;

- **Mobile Banking**, launched in collaboration with various banks, allows subscribers to execute banking transactions such as balance inquiries and transfers over their mobile telephones; and

- **Smart Padala**, one of the many innovative initiatives from the *Smart Money* platform, is the first cash remittance service through text and is faster and cheaper than traditional remittance arrangements. It was launched initially as an international remittance service for overseas Filipino workers but is now available for domestic remittances as well.

Consistent with Smart's objective to develop new businesses, in 2006, Smart introduced a "fixed wireless" broadband service under the brand *SmartBro* to complement PLDT's DSL in areas that are currently not covered by the fixed line network. *SmartBro* is rapidly increasing network coverage in order to retain "first mover" advantage in areas with limited or no fixed line or broadband coverage. *SmartBro* is also pioneering a shared access model in order to propagate broadband and address affordability barriers.

Wireless Broadband, Satellite and Other Services

PLDT currently provides WiFi access points via *Airborne Access* services, and provides its wireless broadband, satellite and other services through Smart Broadband, Inc. ("**SBI**") and Primeworld Digital System, Inc. ("**PDSI**"), its wireless broadband service providers; *Wolfpac* and *Chikka*, its wireless content operators; and Mabuhay Satellite Corporation and ACeS Philippines Cellular Satellite Corporation ("**ACeS Philippines**").

Airborne Access

Through *Airborne Access*, PLDT provides wireless internet access in hotspots nationwide equipped with *Airborne Access* WiFi access points.

SBI

Through SBI, a wholly-owned subsidiary of Smart, PLDT is engaged in providing wireless broadband and data services under the brand name *SmartBro* to residential consumers as well as small and medium-scale enterprises in the Philippines. *SmartBro* aims to strengthen Smart's position in the wireless data segment and complements PLDT's DSL service in areas where the latter is not available.

PDSI

PDSI, a wholly-owned subsidiary of PLDT, provides a suite of high value IP-based products servicing corporate clients, such as wired and wireless leased line access with security and high availability options, managed services, VoIP and other VAS such as server co-location and data centre services.

Wolfpac

Through *Wolfpac*, PLDT is engaged in the business of consumer mobile applications software development and consumer mobile content development and other allied services.

Chikka

Through *Chikka*, PLDT provides an internet and GSM-based instant messaging facility for mobile users or subscribers. Services include personal computer to mobile instant text messaging and vice versa, text newsletter, text-based promotions, multi-media messaging, subscription-based services, and other mobile VAS.

Mabuhay Satellite

Mabuhay Satellite is engaged in the control and operation of the Agila 2 satellite, the Philippines' first communication satellite. Mabuhay Satellite leases satellite space segments in both the C and Ku-Bands on the Agila 2 satellite. Through the Agila 2 satellite, Mabuhay Satellite also caters to providers of internet backbone access, and video and data broadcasting, and also provides bandwidth on-demand, facilitating communication links between telecommunications, broadcast and other public utility companies operating in the Asia Pacific region.

ACeS Philippines

ACeS Philippines, a subsidiary of PLDT, currently owns approximately 36.99% of ACeS International Limited ("**AIL**"). AIL provides satellite-based communications to users in the Asia-Pacific region through the Garuda I satellite (the "**ACeS System**") and ACeS service. AIL has entered into interconnection agreements and roaming service agreements with PLDT and other major telecommunications operators that allow ACeS service subscribers to access GSM terrestrial cellular systems in addition to the ACeS System.

As part of the integration process of the PLDT Group's wireless business, ACeS Philippines' operations have been integrated into Smart. This operational integration effectively gives Smart the widest service coverage in the Philippines through the combination of the coverage of ACeS Philippines with Smart's cellular service.

Fixed Line

PLDT provides local exchange, international long distance, national long distance, data and other network and miscellaneous services under its fixed line business segment.

PLDT offers postpaid and prepaid fixed line services. Initially intended as an affordable alternative telephone service for consumers under difficult economic conditions, PLDT's prepaid fixed line services now form an important part of its overall churn (the rate at which subscribers switch to a different service provider) and credit risk exposure management strategy. In March 2007, PLDT launched *PLDT Landline Plus*, a postpaid fixed wireless service where subscribers to the service benefit from a text-capable home phone. This service is primarily intended for subscribers in areas where PLDT has no facilities and is expected to increase PLDT's fixed line subscriber base. In March 2008, PLDT introduced the prepaid variant of *PLDT Landline Plus*.

Local Exchange Service

PLDT's local exchange service, which consists of its basic voice telephone business, is provided primarily through PLDT. PLDT also provides local exchange services through its subsidiaries PLDT-Philcom, Inc. ("**Philcom**"), Bonifacio Communications Corporation, PLDT Global Corporation and its subsidiaries ("**PLDT Global**"), PLDT Clark Telecom, Inc. ("**Clarktel**"), PLDT Subic Telecom, Inc. ("**Subictel**") and PLDT-Maratel, Inc. Together, these subsidiaries account for approximately 4% of PLDT's consolidated fixed line subscribers.

International Long Distance Service

PLDT's international long distance service consists of switched voice and packet-based voice and data services that go through its international gateway facilities. PLDT also generates international long distance revenues through access charges paid to PLDT by other Philippine telecommunications carriers for incoming international voice calls that terminate to PLDT's local exchange network. PLDT's packet-based voice and data services are transmitted over its existing traditional circuits, VoIP systems and the network of a consortium of dominant carriers in Asia in which PLDT is a member.

International long distance service historically has been a major source of PLDT's revenue. However, primarily due to the steep decline in inbound termination and collection rates and intense competition, revenues derived from PLDT's international long distance service have been declining significantly.

PLDT has been pursuing a number of initiatives to strengthen its international long distance service business, including: (a) lowering inbound termination rates; (b) identifying and containing unauthorised traffic termination on PLDT's network; (c) being more selective in accepting incoming traffic from second- and third-tier international carriers; and (d) introducing a number of marketing initiatives, including substantial cuts in international direct dialing rates, innovative pricing packages for large accounts and loyalty programmes for customers. In addition, through PLDT Global, PLDT

aggregates inbound call traffic to the Philippines at its points of presence and, using PLDT's capacity in submarine cable systems connected to each point of presence, transmit calls to PLDT's network. PLDT Global is also enhancing the presence of PLDT in other international markets by offering new products and services such as international prepaid cards, mobile services, SMS transit and other global bandwidth services.

National Long Distance Service

PLDT's national long distance services are provided primarily through PLDT. This service consists of voice services for calls made by PLDT's fixed line customers outside of PLDT's local service areas within the Philippines and access charges paid to PLDT by other telecommunications carriers for wireless and fixed line calls carried through PLDT's backbone network and/or terminating to PLDT's fixed line customers.

Cellular substitution and the widespread availability and growing popularity of alternative, more economical non-voice means of communications, particularly e-mailing and cellular text messaging, have negatively affected PLDT's national long distance call volumes, partially offset by higher average revenue per user primarily as a result of ceasing certain promotions on national long distance calling rates. The integration of some of PLDT's local exchanges into a single local calling area, as approved by the NTC, has also negatively affected PLDT's national long distance call volumes, and consequently, its revenues as calls between two exchanges located within the same province are no longer considered national long distance calls but are treated as local calls.

Data and Other Network Services

PLDT's data and other network service revenues include charges for leased lines, IP-based, packet-based and switch-based services. These services are used for domestic and international communications such as private networking, broadband and narrowband internet-based data communications, and packet-based communication.

The continuous upgrading of PLDT's network using Next Generation Network ("**NGN**") facilities and the completion of PLDT's domestic fiber optic backbone has enabled it to offer a growing range of value added and broadband services. With this and other technological upgrades, PLDT's infrastructure has developed from a traditional voice facility to a new packet-switched and IP-based network allowing faster transmission of voice, video and data.

The continued growth in data services revenues can be attributed to the consistent growth of the global data business and domestic data business categories.

ICT

PLDT conducts its ICT businesses through its wholly-owned subsidiary ePLDT. ePLDT is a broad-based integrated information and communications technology company, focusing on infrastructure and solutions for internet applications, IP-based solutions and multimedia content delivery. ePLDT's principal businesses are the operation of: (1) knowledge processing solutions, through SPi Technologies, Inc. and its subsidiaries (the "**SPi Group**"); (2) customer interaction solutions through Vocativ Systems, Inc. ("**Vocativ**"), Parlance Systems, Inc. ("**Parlance**") and ePLDT Ventus, Inc. ("**Ventus**"); (3) an internet data centre under the brand name *Vitro*™; and (4) internet and online gaming through Infocom Technologies, Inc ("**Infocom**"), netGames, Digital Paradise, DigiPar Thailand and Level Up!.

Knowledge Processing Solutions

ePLDT provides knowledge processing solutions through the SPi Group. The knowledge processing solutions business provides services such as: (a) editorial and content production services to the scholarly, scientific, technical and medical journal publishing industry; (b) digital content conversion

services to information organisations; (c) pre-press project management services to book publishers; (d) litigation support services which involve conventional coding and electronic discovery support services for corporations, international law firms, corporate counsels and government agencies; (e) conversion services of medical records/data from handwritten or speech format to electronic format and patient scheduling, coding and compliance assistance, consulting and specialised reporting services; and (f) revenue cycle management services for U.S. medical facilities.

Customer Interaction Solutions

ePLDT has established one umbrella brand name, *ePLDT Ventus*, for all of its customer interaction solutions businesses, including Vocativ and Parlance. Ventus provides offshore, cost-effective contact centre outsourcing solutions specialising in inbound customer care. Vocativ provides customer and technical support to its clients in the Philippines, the U.S. and the U.K., while Parlance provides exclusive customer support and billing requirements to one of the largest direct-to-home satellite television providers in the U.S.

Data Centre and Others

ePLDT operates *Vitro*™, one of the Philippines' first internet data centres that provides co-location, web and server hosting, hardware and software maintenance services, website development and maintenance services, webcasting and webhosting, shared applications, data disaster recovery and business continuity services, intrusion detection and IP security services, as well as firewall and managed firewall and other data services.

Internet and Online Gaming

ePLDT owns a 99.6% equity interest in Infocom, one of the country's leading internet service providers ("**ISP**"). Infocom offers consumer prepaid internet access under the names *WarpSpeed* and *Speed Tipid*, and postpaid internet access; dedicated dial-up and multi-user dial-up corporate leased lines; broadband internet access through DSL and cable; and website consulting, development and hosting. ePLDT also owns a 75% equity interest in Digital Paradise, an internet café business with 132 branches. ePLDT further holds an 80% equity interest in netGames, Inc., a publisher of Massively Multi-player Online Games in the Philippines, and a 60% equity interest in Level Up!, a leading publisher of online games in the Philippines.

Licences, Regulations and Competition

Licences

PLDT, Subictel, Clarktel, Philcom, Smart, Piltel, SBI and CURE provide telecommunications services pursuant to legislative franchises which expire, in the case of PLDT, on 28 November 2028; in the case of Subictel, in 2019; in the case of Clarktel, on 30 June 2024; in the case of Philcom, in November 2019; in the case of Smart, on 27 March 2017; in the case of Piltel, on 14 May 2019; in the case of SBI, on 14 July 2022; and in the case of CURE, on 24 April 2026. A franchise holder is required to obtain operating authority from the NTC to provide specific telecommunications services. These approvals may take the form of a CPCN, or, while an application for a CPCN is pending, a provisional authority to operate. Provisional authorities are typically granted for a period of 18 months. The Philippine Revised Administrative Code of 1987 provides that if the grantee of a licence or permit, such as a CPCN or provisional authority, has made timely and sufficient application for the extension thereof, the existing CPCN or provisional authority will not expire until the application is finally decided upon by the administrative agency concerned.

Material Effects of Regulation on PLDT's Business

Operators of international gateway facilities and cellular telephone operators, pursuant to Executive Order No. 109 of the Philippines, are required to install a minimum number of local exchange lines. Of these new lines, operators are required to install one rural exchange line for every ten urban exchange lines installed. Smart and Piltel were required to install 700,000 and 400,000 rural lines, respectively, and each has received a certificate of compliance from the NTC.

PLDT, Subictel, Clarktel, Philcom, Smart, Piltel, SBI and CURE, are required to pay various permit, regulation and supervision fees to the NTC.

The 13th Philippine Congress considered two bills that relate to the imposition of a franchise tax on telecommunications companies. House Bill No. 1469 proposed to re-impose a 5% franchise tax on gross receipts on telephone and telegraph services in lieu of the VAT. House Bill No. 1560 proposed a franchise tax at the rate of 3.5% on the first year and 7% thereafter on the gross receipts of telecommunications and broadcast companies, in lieu of the VAT. There are also various bills in Congress which proposed to tax telecommunications services, among them, the imposition of a tax on mobile phone companies on all text entries to text games; the imposition of a ₱0.50 specific tax on each SMS to be borne by the cellular phone companies; and the imposition of a 10% ad valorem tax on all cellular phone calls using 3G.

Congress had also deliberated on a bill that sought to prohibit telecommunications companies from imposing fees and/or charges on text messaging between subscribers of the same telecommunications company and provided for free text messages until the prepaid load has been fully consumed. The Philippine Committee on Oversight of Congress has also held discussions on the possibility of linking up the BIR, and NTC with the telecommunications companies through an electronic "metering device". These discussions led to a proposal to impose an additional ₱0.10 tax on text messaging.

The Senate has also considered Senate Bill No. 2402 which proposed to establish a Health and Education Acceleration Programme Fund for special projects on educational development from the proceeds of income tax imposed on telecommunications companies at the rate of 20% of their gross receipts from short messaging service or text sent from and through their networks, which would be remitted to the fund.

The foregoing measures were not approved during the 13th Philippine Congress and will need to be re-filed as new bills, which would have to go through the legislative process anew in the 15th Philippine Congress before such bills can be passed into law. The 15th Philippine Congress will convene on the fourth Monday of July immediately following the Philippine general elections held on 10 May 2010.

The NTC also periodically issues directives and circulars that regulate telecommunications industry and the manner in which PLDT conducts its business.

In order to diversify the ownership base of public utilities, the R.A. 7925, requires a telecommunications entity with regulated types of services to make a public offering through the stock exchanges representing at least 30% of its aggregate common shares within a period of five years from: (a) the date the law became effective; or (b) the entity's first start of commercial operations, whichever date is later. PLDT and Piltel have complied with this requirement. However, Smart has not conducted a public offering of its shares. If Smart is found to be in violation of R.A. 7925, this could result in a revocation of the franchise of Smart and in the filing of a *quo warranto* case against Smart by the Office of the Solicitor General of the Philippines. In August 2004, Senate Bill No. 1418 was filed seeking to amend Section 21 of R.A. 7925. The bill sought to declare that a telecommunications entity shall be deemed to have complied with the requirement of making a public offering of its shares if two-thirds of its outstanding voting stock are owned and controlled, directly or indirectly, by a listed company. Since the 13th Philippine Congress in which Senate Bill No. 1418 was filed has already adjourned, it will have to be refiled before it can be passed into law. There is no certainty that Senate Bill No. 1418 will be refiled in the upcoming 15th Philippine Congress.

Competition

Including PLDT, there are four major LECs and three major cellular service providers in the country. Many new entrants into the Philippine telecommunications market have entered into strategic alliances with foreign telecommunications companies, which provide them access to technological and funding support as well as service innovations and marketing strategies. Consequently, PLDT is facing increasing competition in major segments of the telecommunications industry, particularly data and other network services segments.

INFRASTRUCTURE — MPIC

As at the Date of this Offering Circular, First Pacific held a 55.6% economic interest in its affiliate, MPIC. MPIC is in the business of investing in infrastructure businesses.

MPIC, incorporated in the Philippines in 2006, is based in Makati City, Manila and is listed on the PSE trading under the symbol “MPI”. MPIC is a diversified infrastructure holding and management company in the Philippines, with interests in the water utilities (including water, sewerage and sanitation services), toll roads, electricity distribution and healthcare sectors.

For the year ended 31 December 2009, MPIC had consolidated revenues and net income attributable to the equity owners of the parent of ₱16.1 billion (US$336.9 million) and ₱2.3 billion (US$48.1 million), respectively. For the three months ended 31 March 2010, MPIC had consolidated revenues and net income attributable to the equity owners of the parent of ₱4.3 billion (US$93.8 million) and ₱0.6 billion (US$14.1 million), respectively (calculated on the basis of PFRS). For the year ended 31 December, the EBITDA of MPIC was ₱9.6 billion (US$200.5 million). For the three months ended 31 March 2010, the EBITDA of MPIC was ₱2.1 billion (US$46.5 million).

Water Utilities Operations

MPIC’s subsidiary Maynilad manages and operates water delivery, sewerage and sanitation services under the terms of a concession agreement covering approximately 9.3 million people (7.2 million of whom are currently served) in Western Metro Manila comprising Bacoor, Caloocan, Cavite, Imus, Kawit, Las Pinas, Malabon, Muntinlupa, Navotas, Noveleta, Paranaque, Pasay, Rosario, Valenzuela and parts of Makati, Manila and Quezon City (the “**West Zone**”), making it the largest water concessionaire in the Philippines by customer base.

Under the Water Utilities Concession Agreement, Maynilad has exclusive rights to service the West Zone as an agent and contractor of the MWSS, a government-owned and controlled corporation responsible for waterworks and sewerage services in Metro Manila, Rizal and Cavite. Under the Water Utilities Concession Agreement, Maynilad uses MWSS’s land and operational fixed assets and has the exclusive right to produce and treat raw water, distribute and market water, and collect, transport, treat, dispose and re-utilise wastewater, including reusable industrial effluent discharged by the sewerage system for the West Zone. Maynilad is entitled to recover, over the concession period, its operating, capital maintenance and investment expenditures, business taxes and concession fee payments, and to earn a rate of return, known as the appropriate discount rate (“**ADR**”), for the term of the concession. Maynilad’s ADR for the current regulatory period is 9.3%. See “— Customers — Tariff Structure and Rate Regulation”.

Maynilad has significantly improved water utilities services in the West Zone since being granted the water concession and plans to continue to rehabilitate and expand its water utilities network, reduce the volume of water lost in its distribution system due to leakage, theft from illegal connections and metering errors, also known as NRW levels, ensure an uninterrupted 24-hour water supply, increase water pressure and population coverage, and expand coverage of sanitation and wastewater services.

The Water Utilities Concession Agreement

The Water Utilities Concession Agreement grants Maynilad, as an agent and contractor of MWSS, the use of MWSS’s land and operational fixed assets to provide water and sewerage services in the West Zone (the “**Water Concession**”). The Water Concession took effect on 1 August 1997 for an initial term of 25 years to 6 May 2022. On 10 September 2009, MWSS approved extension of the Water Utilities Concession Agreement for 15 years to 2037. Maynilad has the right to bill and collect for water and sewerage services in the West Zone and, in return, is responsible for the management, operation, repair and refurbishment of MWSS facilities in the West Zone and must provide service in accordance with specific operating and performance targets. The Water Utilities Concession Agreement requires Maynilad to pay MWSS concession fees for (a) payments due under MWSS loans

and costs and cost overruns incurred by MWSS with respect to projects relating to the West Zone, (b) half of the annual budget of MWSS and (c) the establishment of the Regulatory Office. Water tariff rates are adjusted according to mechanisms which relate to inflation, extraordinary events, foreign currency differentials and rate rebasing ("**Rate Rebasing**"), which is a process prescribed by the MWSS every five years to review its contracted water utilities' spending programmes needed to provide water and wastewater services in their franchise area and the corresponding tariff adjustments required to be implemented. MWSS may terminate the Water Utilities Concession Agreement under certain circumstances, including the failure of Maynilad to perform an obligation under the Water Utilities Concession Agreement which in the opinion of the Regulatory Office jeopardises the provision of essential water and sewerage services to all or any significant part of the West Zone. On the expiration of the Water Utilities Concession Agreement, all of the rights, duties and powers of Maynilad automatically revert to MWSS.

Water Operations

The process of supplying water to Maynilad customers generally involves extraction from water sources, subsequent treatment and distribution to customers' premises. In 2009, Maynilad supplied an average of approximately 2,426 MLD of water. In the three months ended 31 March 2010, Maynilad supplied an average of approximately 2,337 MLD of water. As at 31 December 2009, Maynilad had 841,645 total water service or metered connections, a 7% increase from 31 December 2008. As at 31 March 2010, Maynilad had 831,578 total water service or metered connections, a 2% increase from 31 December 2009. Billed volume initiatives such as identifying illegal users, billing of unbilled services and replacing faulty meters also contributed to this growth in connections. Capital investment projects, such as new pipelines for reaching unserved areas and service improvement projects for underserved areas, have also led to increased billed volume.

Water Resources

Under the Water Utilities Concession Agreement, MWSS supplies raw water, free of charge, to Maynilad's distribution system and is required to currently supply a minimum quantity of 2,400 MLD of raw water. The average raw water supplied to Maynilad was 2,441 MLD in 2009 and 2,332 MLD in the three months ended 31 March 2010. Should MWSS fail to supply the minimum quantity, Maynilad is required to distribute available water equitably. Maynilad may recover additional expenses incurred as a result of such a water shortage through an extraordinary price adjustment ("**EPA**") and lost revenues through the Rate Rebasing adjustment to the applicable tariff. See "— Customers — Tariff Structure and Rate Regulation". Maynilad currently receives substantially all of its water from MWSS.

In the Philippines, supervision and control of all water resources rests with the NWRB, a statutory body which grants appropriation rights to and adjudicates conflicts between all water users, including MWSS. The NWRB allocates water through water permits, which may be revoked on grounds of non-use, pollution or other violations. The NWRB may also alter water allocation based on natural disasters and other unforeseen extraordinary events.

Water Production

The following table sets out the treated water produced by Maynilad for the periods indicated:

Year ended 31 December	Surface Water	Wells	Total
		(Average MLD)	
2007	2,257	36	2,293
2008	2,374	31	2,405
2009	2,392	34	2,426
Three months ended 31 March 2010	2,287	50	2,337

Water Utilities

Water is distributed through Maynilad's network of pipelines, pumping stations and mini-boosters. As at 31 March 2010, Maynilad's network consisted of approximately 6,117 kms of total pipeline, consisting of primary, secondary and tertiary pipelines. Maynilad is required to supply water at a minimum pressure of 7 pounds per square inch ("**psi**") to all areas connected by new primary or secondary conveyance pipelines by 2012 and 16 psi by 2016. Under the concession agreement, if Maynilad fails to meet the minimum psi requirements by the relevant deadlines, it is subject to penalties in the amount equal to 25% of the costs needed to meet such requirements. 7 psi is the minimum pressure at which pumped water will travel to the second floor of a building with enough pressure for a person to take a shower. As at 31 December 2009, approximately 79% of households served by Maynilad had a minimum water pressure of 7 psi, and as at 31 March 2010, approximately 77% of households served by Maynilad has a minimum water pressure of 7 psi. A number of factors affect the pressure of water supplied by Maynilad. In general, replacing faulty pipes and adding pumping facilities increases water pressure, while expansion of the system decreases systemwide water pressure.

Non-Revenue Water

NRW refers to the volume of water lost in Maynilad's distribution system due to leakage, theft from illegal connections or metering errors. In 2009 and the three months ended 31 March 2010, Maynilad's average NRW was approximately 60% and 57%, respectively, the majority of which was due to leakage.

Maynilad has established a dedicated team whose sole purpose is to reduce NRW by improving the billing system, replacing meters for commercial and high-usage customers, undertaking comprehensive leak repairs, reducing illegal connections, servicing pipe replacement and rehabilitating distribution lines. The district metered area ("**DMA**") programme, which ensures that piped water is properly metered and billed, is a central part of Maynilad's water service improvement plan. Originally, water service areas were based on political and/or geographic boundaries and could contain two or more entry and outflow points. DMAs have a single water entry and outflow point which enables Maynilad to effectively monitor, control and distribute water. DMAs also facilitate efficient account administration, especially in densely populated areas.

Water Quality

Maynilad believes that its water quality surpasses the Philippine National Standard for Drinking Water set by the Department of Health which is based on World Health Organisation water quality guidelines. During tests conducted in 2009 and the first three months ended 31 March 2010, Maynilad water samples obtained an average bacteriological compliance score which surpassed the threshold of 95% set in the Water Utilities Concession Agreement. Maynilad collects regular samples on a monthly basis for bacteriological examination of treated surface water and ground water sources.

Water at the Maynilad treatment plants undergoes daily bacteriological and physical-chemical analysis. Sampling on deep wells within the coverage area is conducted jointly with the Regulatory Office and undergoes monthly bacteriological analysis.

Sewerage Operations

Maynilad is responsible for the provision of sewerage and sanitation services through the operation of new and existing sewerage systems and a programme of emptying septic tanks in the West Zone.

Sewerage and Sanitation System

Maynilad operates a wastewater system that collects and treats sewage through its sewerage system and sanitation facilities.

Maynilad has expanded its sanitation service business, which consists of desludging septic tanks and disposing of sludge. Philippine law requires individual septic tanks to be utilised in areas not covered by the public sewerage system. Septic tanks require desludging every five to seven years, which is carried out by Maynilad or by private contractors hired by households.

Sewage from sewer lines is treated at Maynilad's treatment facilities prior to disposal. Maynilad has assumed control over and runs four facilities for the treatment and disposal of sewage generated in the West Zone. Maynilad is also rehabilitating the existing sewer systems and will construct new facilities to extend wastewater service coverage.

Maynilad operates 32 desludging tankers, which are used to empty individual septic tanks and deliver septage to transfer stations in Dagat-Dagatan Septage Treatment Plant. In conjunction with the Fertiliser and Pesticide Authority and the Sugar Regulatory Administration, biosolids produced from septage treatment is currently being used as soil conditioner for sugarcane cropland. The development of land-based septage treatment plants is currently ongoing.

Customers

Maynilad manages and operates water utilities services for customers in the West Zone, which had a population of approximately 9.3 million people as at the date of this Offering Circular and spans approximately 540 square kms. It is comprised of the following 12 cities and five municipalities: Bacoor, Caloocan, Cavite, Imus, Kawit, Las Pinas, Malabon, Muntinlupa, Navotas, Noveleta, Paranaque, Pasay, Rosario, Valenzuela and parts of Makati, Manila and Quezon City.

Customer Sales

As at 31 March 2010, Maynilad had 831,578 total water service or metered connections, which were billed directly to Maynilad. Of these directly billed connections, approximately 93% were residential, while the remaining 7% were commercial or industrial. As at 31 March 2010, Maynilad served approximately 776,070 residential connections.

Tariff Structure and Rate Regulation

The Regulatory Office determines Maynilad's water tariffs in accordance with the terms of the Water Utilities Concession Agreement. Different water tariff schedules apply to the four main categories of retail customers: residential, small business, large commercial, and industrial. Each category has its own cost structure, divided into nine consumption bands for residential and small business and 33 bands for large commercial and industrial customers. Industrial, large commercial and small business customers, on average, pay three to four times more than residential customers for the same volume of water consumed.

Maynilad charges all customers (a) a currency exchange rate adjustment ("**CERA**") of ₱1.00 per cubic meter of water consumed, (b) an environmental charge, equivalent to 14.0% of the sum of the (i) basic water tariff (ii) the foreign currency differential adjustment ("**FCDA**") and (iii) CERA, which is meant to cover the costs of desludging septic tanks and expansion of the sewerage system and (c) a flat meter maintenance service charge based on meter size and a 12% value-added tax. Customers who receive sewerage services pay an additional sewerage charge equal to 20.0% of the sum of the (i) basic water tariff (ii) FCDA and (iii) CERA, to cover the cost of wastewater treatment and expansion of sewerage services.

In 2000, the average basic water rate was ₱5.80 per cubic meter. Water tariff rates are adjusted according to the provisions of the Water Utilities Concession Agreement.

Evolution of Tariff Rates

The following table summarises the history of rate adjustments for non-sewered customers (in pesos per cubic meter) over the period indicated:

All-in Charges for Unsewered Services, 2000-1Q2010 Overall Average[(1)] (pesos/cubic meters)	2000	2001	2002	2003	2004	Avg 2005	Avg 2006	Avg 2007	Avg 2008	Avg 2009	Avg January to March 2010
Previous Basic	5.80	6.13	10.79	11.39	11.39	11.39	19.72	21.12	22.47	19.80	27.24
CPI	0.33	0.26	0.60	—	—	—	1.40	1.35	0.58	2.42	0.05
EPA	—	0.19	—	—	—	—	—	—	—	—	—
Average EPA (effective 20 October 2001 AEPA of ₱4.21)	—	4.21	—	—	—	—	—	—	—	—	—
Rate Rebasing	—	—	—	—	—	8.33	—	—	—	5.02	1.00
Basic	6.13	10.79	11.39	11.39	11.39	19.72	21.12	22.47	23.05	27.24	28.29
CERA	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
FCDA	—	—	4.07	4.07	4.07	0.00	0.24	(0.26)	(0.34)	0.05	0.11
STM	—	—	—	—	—	4.23	4.15	3.45	2.07	—	—
Environmental Charge	0.71	1.18	1.65	1.65	1.65	2.50	2.65	2.67	2.58	2.73	4.12
Prepayment Adjustment[(2)]	—	—	—	—	—	—	—	—	—	(2.22)	(2.31)
VAT	0.78	1.30	1.81	1.81	1.81	2.74	3.50	3.52	3.40	3.70	3.75
Payment Incentive Adjustment[(2)]	—	—	—	—	—	—	—	—	—	(1.56)	(1.62)
Total Bill — Unsewered	8.62	14.27	19.92	19.92	19.92	30.19	32.66	32.85	31.76	30.94	33.34

Notes:

(1) MWSS calculates rates based on an assumed customer mix, and therefore does not reflect the actual consumer mix for Maynilad or its effective tariff rates, except for 2009, in which it adjusted the beginning basic tariff to approximate the actual effective tariff as of 2008.

(2) To mitigate the impact of the rate increase, the Regulatory Office required the simultaneous implementation of the Prepayment Adjustment ("**PA**") and the Payment Incentive Adjustment ("**PIA**") within an accelerated period of two years, resulting in a downward adjustment of 8.15% and 5.73% per cubic meter, respectively, based on the 2009 average basic charge for unsewered services.

Compliance by MWSS with the 12% Limit on Return on Rate Base

MWSS' charter imposes a 12% limit on the return on rate base for MWSS. The NWRB, which is mandated to determine the compliance by MWSS with the 12% return on rate base limit, has confirmed that this rate applies to the entire waterworks system, including the income and assets held by MWSS, Manila Water and Maynilad. Pursuant to the Water Utilities Concession Agreement, if the tariff rates determined to be appropriate for Maynilad would cause a breach of the MWSS 12% return on rate base limit, MWSS would have to compensate Maynilad with an expiration payment for expenditures not covered by water and sewerage rates. Maynilad may also agree, in place of an expiration payment, to receive from the Regulatory Office some other benefit, such as an adjustment to one or more of the coverage targets.

Concession Fees

The Water Utilities Concession Agreement requires Maynilad to pay MWSS concession fees for (a) payments due under MWSS loans and costs incurred by MWSS with respect to projects relating to the West Zone, (b) half of the annual budget of MWSS and (c) the establishment of the Regulatory Office.

In accordance with the Water Utilities Concession Agreement, Maynilad paid concession fees of approximately ₱3.7 billion and ₱1.3 billion, respectively, for the years ended 31 December 2008 and 2009, and ₱0.9 billion for the three months ended 31 March 2010.

Capital Expenditure Plans

Capital expenditure has been used to rehabilitate facilities inherited from MWSS, as well as design and plan of various new projects to improve water and wastewater services in order to meet the service obligations under the Water Utilities Concession Agreement. Maynilad plans to continue to rehabilitate and expand its water utilities network, reduce its NRW levels, improve water pressure and water supply management, expand sanitation services and integrate new technology and information technology into the system.

Toll Road Operations

MPIC holds its toll road assets through its subsidiaries MPTC and Metro Pacific Tollways Development Corporation ("**MPTDC**"). MPTDC holds a 67.1% interest in MNTC, which holds the concession rights to construct, operate and maintain the NLEX, and a 46.0% interest in Tollways Management Corporation ("**TMC**"), which is the operator of the NLEX and the SCTEx. MPIC acquired its toll road operations through its purchase of 99.8% of Metro Pacific Tollways (then known as First Philippine Infrastructure, Inc.) from First Philippine Holdings Corporation ("**FPHC**") and Benpres Holdings Corporation on 13 November 2008.

The NLEX

The NLEX is a modern toll expressway that was commissioned by the government in order to replace the aging North Luzon Diversion Road and to facilitate the development of the Subic and Clark Special Economic Zones. The NLEX has been open and operating since February 2005.

The NLEX has 16 exits and interchanges, four toll barriers and ten rest and service areas, and consists of eight lanes through Metro Manila, which narrows to six and then four lanes as it enters the more rural areas to the north. The NLEX also features modern safety and anti-congestion measures, including roadside assistance, emergency telephone lines, closed-circuit televisions for monitoring traffic flows, guardrails and fences, and runaway ramps and weigh scales for trucks and other commercial vehicles.

The NLEX serves as a gateway to travelers going to Central and Northern Luzon from the National Capital Region and vice versa. It starts from Balintawak, Quezon City, passes through the National Capital Region, traverses the agricultural provinces north of Manila, and ends in Sta. Ines, Mabalacat, Pampanga. The majority of NLEX users are Class 1 vehicles (e.g. cars) comprising more than 70% of traffic volume; the rest are made up of Class 2 vehicles (e.g. buses) and Class 3 vehicles (e.g. trucks). See "— Toll Rates and Collection Systems".

Economic activity in the area, toll fees and fuel prices, seasonality, availability of connecting routes and competition are all factors that affect traffic volumes on the NLEX.

The Toll Road Concession

MNTC is the holder of the rights under the toll road concession. MNTC is currently 67.1% owned by MPTDC, 16.5% owned by Globalfund Holdings, Inc., an investment holding firm owned by the SM Investments Corporation, one of the Philippines' largest conglomerates, occupying a dominant position in retail, mall operations and banking, 13.9% owned by Egis of France, one of the world's biggest tollways operators, and 2.5% owned by PNCC, the state-owned construction company that was originally granted the franchise to build and operate the NLEX. MNTC's primary purpose is to carry on a construction and contracting business involving tollways (including the NLEX), toll facilities, interchanges and related works, including the operation and maintenance thereof. MNTC derives substantially all of its revenue from toll collections from the users of the NLEX.

The rights and obligations of MNTC, as concessionaire for the toll road concession, are principally governed by the Supplemental Toll Operation Agreement, among the Philippine government (acting by and through the Toll Regulatory Board) as the grantor, PNCC as franchisee and MNTC. The Toll Road Concession Agreement (as defined under "*Risk Factors — MPIC's Toll Road Concession is subject to a challenge in the Supreme Court of the Philippines*.") is the key material contract to the business of MNTC. The Toll Road Concession Agreement was clarified by the TRB Clarifications dated 5 July 2001.

Toll Rates and Collection Systems

As the source of substantially all of the operating revenue from the NLEX, toll collections are the most important aspect of its operation. The NLEX has two sections: an "open toll" section and a "closed toll" section. The 14-kms open toll section (located within Metro Manila) charges a flat toll per entry based on the class of vehicle. Toll rates for the 70- kms closed toll section are variable, and are calculated according to the distance traveled on the closed toll section and the class of vehicle.

Vehicles using the NLEX are categorised into one of three classes for purposes of assessing appropriate toll rates:

- Class 1 includes "Light Vehicles", such as cars, jeepneys (elongated jeeps with covered roofs and room to seat 16 to 20 passengers) and vans;

- Class 2 includes "Buses", and including tourist, school and public utility buses, as well as two-axle trucks and Class 1 vehicles higher than 7 feet or with more than two axles; and

- Class 3 includes "Heavy Vehicles", including trucks with three or more axles.

MNTC operates a total of 155 toll lanes on the NLEX. Toll fees are collected either in cash, through a manual toll fee payment, or by electronic toll collection system. MNTC has implemented two types of electronic toll collection systems: "EC Tags" and "NLEX Badge/Magnetic Card". The EC Tag system uses an on-board unit or transponder installed in the user's vehicle, which communicates wirelessly with the toll lane equipment. With an EC Tag, a user is able to drive through a toll plaza

without stopping, and toll fees are deducted automatically from the user's account through the transponder. The NLEX Badge/Magnetic Card system allows users to store credits on a magnetic card, which a teller in a toll plaza can swipe through a card reader for instant payment through the electronic deduction of credits from the card.

All toll collection processes and operations are computerised and a global validation and security system is being implemented for the NLEX in order to control leakage and fraud. MNTC has implemented systems and procedures to control toll leakage and fraud in the NLEX operations, including:

- in the closed system, the automatic encoding of transit tickets with entry information, including the location, time and date of ticket delivery;
- surveillance systems for the oversight and verification of the decisions of toll collectors;
- systems that track and confirm toll collections, including manual and automatic checks at multiple levels: (i) at the toll booth; (ii) the plaza computer system at each toll plaza; and (iii) a central toll computer system;
- the production of end-of-shift reports by toll collectors, including checks on the total toll receipts at the end of each shift, which are cross-checked against data collected by automatic vehicle counters, and regular audits of such end-of-shift reports;
- the promotion of cashless electronic toll collection systems;
- the protection of cash receipts in safes located inside mini-buildings on small toll plazas or in strong rooms on larger toll plazas, with daily cash bank deposits delivered by armoured vehicles; and
- surveillance and controls over cash counting, collection and deposit processes.

The following table sets out toll rates for 2007 and 2008 under the Toll Road Concession Agreement for open and closed systems. The 2008 toll rates remain in effect as at the date of this Offering Circular.

Vehicle Class	**1 January 2007 - 30 June 2008**		**1 July 2008 - Present**		**Decrease**	
	Open (peso/ entry)	**Closed (peso/km)**	**Open (peso/ entry)**	**Closed (peso/km)**	**Open**	**Closed**
Class 1	38.00	2.20	36.00	2.13	5.26%	3.14%
Class 2	94.00	5.49	91.00	5.32	3.19%	3.14%
Class 3	113.00	6.59	109.00	6.38	3.54%	3.14%

The Toll Regulatory Board and MNTC agreed to reduce toll rates by an average of 3% in July 2008, an adjustment that was made ahead of an adjustment originally scheduled to take effect in January 2009. The toll rate formula was also revised to remove a foreign currency adjustment mechanism. To mitigate against the risk of foreign currency fluctuations, MNTC entered into cross currency swap transactions relating to its foreign currency-denominated debts between July 2008 and March 2009 in order to hedge its foreign currency exposure.

Value Added Tax ("VAT") on Toll Fees

In September 2005, the Philippine Secretary of Finance, acting through the BIR, issued a Revenue Memorandum Circular that for the first time expressly identified toll road operations as subject to a 10% VAT (which has been adjusted to the current rate of 12%). At the direction of the Toll Regulatory

Board, MNTC and other toll road operators in the Philippines have deferred output VAT. Although MNTC, along with other toll operators, are currently in discussion with the applicable regulatory agencies concerning the issue of VAT assessment and collection, it remains possible that the BIR will determine that MNTC was obligated to collect VAT from motorists, and that MNTC is liable for uncollected output VAT.

Toll Road Rehabilitation, Expansion and Construction

NLEX Projects

From its inception, MNTC has been engaged in the rehabilitation of, and the installation of a toll road collection system on, the NLEX which are carried out in phases.

In March of 2001, MNTC, through a competitive bidding process, was awarded the construction contract for Segments 1, 2 and 3 of Phase I to Leighton Contractors (Asia) Limited ("**LCAL**"). LCAL was the main contractor for the rehabilitation work and Egis, a minority stockholder of MNTC, was the main subcontractor for the toll, telecommunications and traffic management systems. Construction of Phase I started in February 2003. On 26 January 2005, the independent certification engineer responsible for the project issued a "Certificate of Substantial Completion" in respect of Phase I. On 27 January 2005, the Toll Regulatory Board issued a Toll Operation Permit for the operation and maintenance of Phase I (consisting of Segments 1, 2, 3 and 7) in favor of MNTC, which became effective on 8 February 2005. The permit allowed MNTC to commence commercial operations on the NLEX on 10 February 2005.

MNTC began construction of Segment 8.1, the first element of Phase II, in April 2009 and completed construction in June 2010. Segment 8.1 is a two-lane roadway of approximately 2.7 kms, connecting Mindanao Avenue to the NLEX, south of the existing Valenzuela interchange. The project, which will involve the establishment of a toll plaza on Mindanao Avenue, is expected to reduce traffic congestion at the main Balintawak entry point to the NLEX, and thereby facilitate access to the NLEX, particularly during peak hours of traffic. As in Phase I, Segment 8.1 is equipped with toll collection, traffic management and telecommunication systems and other safety features. MNTC obtained the approval of the Toll Regulatory Board for an integrated concession period for Phase I and Segment 8.1, which effectively extended the end of the toll road concession period from 31 December 2030 to 31 December 2037.

Metro Pacific Tollways has completed a pre-feasibility study for the implementation of Segments 9 and 10. As proposed, Segments 9 and 10 will connect the NLEX to the MacArthur Highway in Valenzuela and the port area in Manila, covering a distance of approximately eight kms. The estimated project costs for Segments 9 and 10 are approximately ₱1.3 billion and ₱5.6 billion, respectively.

Repairs

Repair and maintenance of the NLEX are divided into three main categories:

- Routine maintenance of the road and equipment, which consists of the mechanical sweeping of the road surface, the cleaning of drains, gullies and manholes, the removal of debris and grease from the road surface, cleaning up after accidents, the replacement of consumable equipment, minor repairs to pavements and structures, preventive maintenance to various equipment, and the maintenance and replacement of TMC's equipment. These are carried out by TMC as part of its regular functions and are covered by the operator's fees.

- Repairs and replacement, including pavement repair/resurfacing or overlay, repair of drainage network, fences (greater than 15 meters in length), structural foundations, replacement of fixed operating equipment parts, exterior painting of buildings and structures, upgrading of software and hardware, etc. The cost of repairs and replacements are borne by MNTC.

- Improvements and expansions, which include the upgrading of toll plazas and interchanges, including equipping new toll lanes as required. Costs associated with these improvements and expansions are to be borne by MNTC.

The Skyway Project

MPIC is in discussions with its joint venture partners to significantly increase its current minority interest in Citra Tollways. Citra Tollways is the franchise holder for the Skyway project, a planned system of elevated and at-grade roadways extending from Alabang, the terminus of the SLEX to Buendia Avenue in Makati City. However, the terms of this acquisition have not been finalised and there is no assurance that the increase in MPIC's interest will proceed as planned or at all. See "— Recent Developments".

NLEX-Skyway-SLEX Connector Project

Metro Pacific Tollways has completed pre-feasibility study for the NLEX-Skyway-SLEX Connector Project, an elevated, 13 kms, four-lane expressway connecting the terminus of the NLEX at Road C-3 in Caloocan City with the terminus of the Skyway system at Buendia Avenue in Makati City, Metro Manila. By connecting the NLEX with a completed Skyway project, the NLEX-Skyway-SLEX Connector project would provide a direct link between the two major expressway systems. The NLEX-Skyway-SLEX Connector would utilise the existing right-of-way owned by the Philippine National Railways. The proposal for this project has been submitted to the Philippine government. See "— Recent Developments".

Toll Road Operations and Maintenance Services

TMC is the operations and maintenance provider for the NLEX and the SCTEx.

North Luzon Expressway

On 6 July 2001, TMC entered into an Operation and Maintenance Agreement (the "**Toll Road O&M Agreement**") with MNTC to provide toll collection services, money handling, repairs and maintenance, and safety and traffic management in respect of the completed Phase I of the NLEX until 31 December 2037. Pursuant to the Toll Road O&M Agreement, TMC provides MNTC with the following operation and maintenance services with respect to the NLEX:

- collection of tolls from motorists at toll plazas, both in cash and electronic form, including the sale of pre-paid toll cards and electronic toll collection subscription products at point of sale outlets;

- routine maintenance and repairs of the road, toll facilities and related equipment; and

- management of the NLEX in order to, among other things, improve traffic flows, maintain road safety, and enhance the facilities and services along the NLEX.

SCTEx

In December 2007, the concessionaire for the SCTEx, the Bases Conversion and Development Authority ("**BCDA**") selected the consortium of First Philippine Holdings Corporation, Egis Road Operation, and TMC as interim service provider for the six months following the planned opening of the SCTEx in March 2008. The SCTEx is a 94-kms, four-lane expressway north of Manila, connecting

the Subic Bay Freeport Zone in Zambales with the NLEX near the Clark Special Economic Zone in Angeles City and extending to the Central Techno Park in Tarlac City and is the longest toll expressway in the Philippines. Together with the NLEX, the SCTEx significantly reduces travel times between Manila, Subic, Clark and Tarlac.

Under the terms of the SCTEx operation and maintenance agreement, the consortium was tasked with the management and operation of the SCTEx, including toll collections, traffic safety and security, road and facility maintenance, including greenery and landscaping, and management and support services. The operation and maintenance agreement was renewed for an additional six months at the end of the initial six-month term in October 2008, and was subsequently extended for one more year until April 2010. Thereafter, the operation and maintenance agreement was renewed every month pending MNTC's takeover as BCDA's private sector partner for SCTEx. TMC intends to bid to be the long-term service provider for the SCTEx.

On 16 September 2009, MPIC announced that, through its wholly-owned subsidiary MPTDC, it had submitted an unsolicited proposal to the BCDA to acquire all of the BCDA's usufructuary title, rights and interests in the SCTEx, including the right to operate, maintain and collect toll fees from the SCTEx. BCDA chose to conduct a public bidding to select a private sector partner for the SCTEx. MPTDC participated in the public bidding and assigned its subsidiary, MNTC, as the bidding entity. MNTC was awarded the concession on 9 June 2010. Under the terms of the concession contract, BCDA will lease the SCTEx to MNTC and assign to it the concession to manage, operate and maintain the tollway for a period of 25 years, subject to renewal for a further eight years.

Electricity Distribution

Meralco is a Philippine corporation with its shares listed on the PSE. It acts as the buying, billing, collecting and customer service agent for the electricity supply chain and is the largest distributor of electricity in the Philippines with a service area spanning 9,337 square kms, where approximately a quarter of the total Philippine population resides. Meralco's market is categorised into residential, commercial, industrial and streetlights comprising a customer base of approximately 4.7 million. In addition to electrical distribution, Meralco undertakes several related businesses, including operating a fiber optic network and providing leased line connections, metro ethernet connections and disaster recovery transport services.

Between March and May of 2010, MPIC, Piltel, an indirect subsidiary of PLDT, and Beacon Electric Asset Holdings, Inc ("**Beacon**"), a wholly owned special purpose vehicle of MPIC set up with the sole purpose of holding shares in Meralco entered into an omnibus agreement (the "**Omnibus Agreement**") to restructure their shareholdings in Meralco. In addition, MPIC assigned to Beacon a right to be granted a call option in respect of 74.7 million common shares of Meralco (representing an approximately 6.6% interest in Meralco) owned by FPHC. See "*Recent Developments — Consolidation of Interests in Meralco*".

MPIC has developed its position as a strategic shareholder in Meralco with appropriate board and management participation, enable MPIC to equity account for the results of Meralco, and to establish synergies with its existing infrastructure businesses.

The Franchise

On 9 June 2003, then President Gloria Macapagal-Arroyo signed into law Republic Act ("**RA**") No. 9209, otherwise known as the "Manila Electric Company Franchise" which took effect on 28 June 2003 and which granted Meralco a 25-year franchise to construct, operate, and maintain an electric distribution system in the cities and municipalities of Bulacan, Cavite, Metro Manila, and Rizal and certain cities, municipalities, and barangays in Batangas, Laguna, Pampanga, and Quezon.

On 20 October 2008, the Energy Regulatory Commission ("**ERC**") granted Meralco a consolidated CPCN for the operation of electric service within its franchise coverage, effective until 28 June 2028, to coincide with Meralco's congressional franchise.

Distribution System

Service Voltage and Power Supply

Power is received at 230 kV and 115 kV at 15 major delivery points and then delivered to the customers at the primary service voltages of 115 kV, 69 kV, through the 34.5 kV, 13.8 kV, 13.2 kV and 6.24 kV wye-grounded, and secondary service voltages of 460 volts (three-phase) and 230 volts (single-phase or three-phase). System frequency is 60 Hz.

Power Network

As at 31 March 2010, Meralco had a total of 120 substations with a combined capacity of 14,243.43 mega volt ampere distributed power through its 15,883.5 circuit kms of sub-transmission and distribution lines.

Distribution is predominantly through an overhead radial system with provision for interconnection, but there are pockets of underground and secondary network systems.

Call Centre

As at 31 March 2010, Meralco had a call centre that handles operating-related reports, complaints and inquiries, as well as service-related concerns such as billing, payments and service application, reports on power outages, line troubles, defective facilities and streetlights pilferage.

Business Centres

As at 31 March 2010, Meralco's 30 business centres, 7 auxilliary business centres, and 16 extension offices were positioned across its 9,337 square kms of franchise area for delivery of customer services to its 4.7 million customers.

Rate Structure and Regulation

The rates charged by Meralco are subject to approval by the ERC. In 2009, Meralco implemented rates set under a new regime called PBR. PBR, which applies to Meralco and other private distribution utilities ("**DUs**"), has become the new ethic and metric, which governs Meralco's rate setting mechanism.

Under the PBR regime, the ERC evaluates and conducts public consultations on the distribution utility's application on forecasted levels of capital and operating expenditures, prior to approving the rates that the distribution utility will charge for a four-year regulatory period. PBR has replaced the return-on-rate base ("**RORB**") as the methodology for adjusting distribution charges. Whereas RORB was retrospective, PBR is prospective. Under the PBR regime, the ERC evaluates and conducts public consultations on the DU's application on forecasted levels of capital and operating expenditures, prior to approving the rates that the DU will charge for a four-year regulatory period. Under the superseded RORB policy, the DU first undertakes the capital and operating expenditures, seeks recovery of these through a rate petition with the ERC. Thereafter, the ERC decides on a rate adjustment. Meralco was granted rate increases in May 2009 and January 2010. On 18 June 2010, Meralco filed its PBR rate application for the third regulatory period (July 2011-June 2015). Public hearings shall be conducted thereafter.

Aside from a new rate setting regime, the PBR has also introduced the guaranteed service levels scheme (the "**GSL**"), a rewards and fines programme. Under the GSL utilities are required to make cash payments to customers whenever service levels and results fall below standards prescribed by ERC. An allocation of 0.5% is added to the annual revenue requirement and represent the GSL allowance. DUs shall use this additional allocation to pay-out penalty amounts or to effect network and service improvement to avoid penalty payouts.

Industry Reform

Under the Philippine Electric Power Industry Reform Act of 2001 ("**EPIRA**"), the Philippine power industry is undergoing a fundamental restructuring including:

- the deregulation of, and introduction of competition in, power generation and supply activities and pricing;
- the privatisation of the NPC's power generation assets and independent power producers contracts;
- the unbundling of the costs constituting the power supply chain and the reflection of these separate costs in the bills provided to consumers;
- the freedom of customers to choose among electricity suppliers;
- subject to certain conditions, the open and non-discriminatory access in the networks of distribution utilities;
- the implementation of a wholesale electricity spot market; and
- the removal of inter-grid, intra-grid and inter-class cross subsidies.

Industry reforms have and will continue to require significant changes in Meralco's business.

Electricity Rates

Meralco's tariff consists of charges for distribution, supply and metering for different classes of customers. It also bills its customers for certain taxes, subsidies and pass-through components consisting of generation, transmission and system loss charges.

Tariff Categories

Different tariffs are applicable to distinct customer groups categorised by the purpose of use and load characteristics. The tariff will also vary according to voltage level of the electricity consumed.

Residential Service — The residential rate class applies to residential customers using electricity for all domestic purposes in a single family dwelling, to individually metered apartments with facilities for not more than a three family structure or compound which are used in common when connected to the meter serving one of the apartments, to residential family dwellings in a family compound served under a single meter and to temporary service for the construction of a single family dwelling.

General Service — The general service rate class applies to non-industrial and industrial customers with a connected load of less than 40 kilowatts.

General Power — The general power rate class applies to non-industrial and industrial customers with a minimum connected load of 40 kilowatts.

Non-industrial Service — Non-industrial customers are those whose main economic activity is agriculture, construction, trading, transportation operation and administration, communication services, storage and warehousing, waterworks and supply, financial services, real estate, restaurant and hotel services, and other community, social, and personal services.

Industrial Service — Industrial customers are those whose main economic activity is mining and quarrying, manufacturing and processing, electricity generation and distribution, and gas and steam manufacturing.

Government Hospitals, Metered Streetlights and Charitable Institutions — This rate class applies to government-owned metered streetlighting services for public streets, to government-owned hospitals duly registered and certified by the Bureau of Medical Services, to parks under the National Park Development Authority, to facilities of charitable institutions duly registered and certified by the Department of Social Welfare and Development and to all government-owned traffic lights within Meralco's franchise area.

Flat Streetlighting Service — The flat streetlighting rate class applies to street lamps that are installed by Meralco, with such street lamps charged at a fixed monthly rate.

Generation and Transmission Charge

The generation charge is a pass-through component of the Meralco tariff. The level of the generation charge is adjusted on a monthly basis as prescribed by the ERC's "Guidelines for the Automatic Adjustment of Generation Rates and System Loss Rates by Distribution Utilities" ("**AGRA**"), as amended. Generation charge or the price for electricity supply from the power plants, which is the largest bill component, is the main driver of electricity rates.

The transmission charge is another pass-through component of the Meralco tariff. Transmission charges are adjusted on a monthly basis in accordance with the ERC's order prescribing "Guidelines for the Adjustment of Transmission Rates by Distribution Utilities" ("**TRAM**"), as amended.

Ecozone Industrial Rates

The ecozone industrial rates is a special generation rate for high load factor industrial customers accredited by the Philippine Economic Zone Authority ("**PEZA**"). The rate option was initially intended to specifically benefit PEZA-accredited industrial customers, to allow them to become more globally competitive. The 80% high load factor requirement was meant to help the NPC, Meralco's main electricity supplier, identify baseload plants that could guarantee sustained low generation costs that, in turn, could be passed-on to eligible customers with the same load factor within the Meralco franchise. In turn, NPC would be provided committed annual volumes at the wholesale level.

Lifeline Rate

The EPIRA provides for a socialised pricing mechanism for marginalised electricity consumers. In the case of Meralco, residential customers consuming 100 kilowatt hours ("**kWh**") and below enjoy discounts on their electric bills.

The lifeline discount is applied to the generation, transmission, system loss, distribution, supply and metering charge components of a lifeline customer's bill.

Under the current lifeline rate structure, nearly two million of Meralco's residential customers enjoy the lifeline rate and more than 300,000 Meralco residential customers consuming within 20 kWh per month will enjoy a 100% lifeline discount (with the exception of a ₱5 metering charge).

System Loss Charge

The system loss charge recovers the energy costs resulting from system losses. As a pass-through charge mandated by law, it is revenue neutral for Meralco if this is within the system loss cap. Meralco bears loss beyond the mandated system loss cap. The level of system loss charge is adjusted on a monthly basis as prescribed by the ERC under the AGRA. There are two types of system loss:

Technical Loss — Technical loss is inherent in the delivery of electrical energy. It is the energy lost as heat in the conductors and equipment of the distribution system.

Non-technical Loss — Non-technical loss is the electricity lost through theft or pilferage and errors in meter reading and billing.

Beginning January 2010, as a private DU, Meralco is subject to a system loss cap of 8.5% of the total electricity purchased.

Electricity Suppliers

Meralco currently does not operate any electricity generating facilities and is relies on external suppliers for its energy requirements.

The NPC is Meralco's largest electricity supplier, providing approximately 40.7% of Meralco's energy requirements in 2009. Meralco also purchases energy from the Wholesale Electricity Spot Market as well as from a number of independent power producers.

Healthcare

MPIC holds its healthcare assets through its 35.1% ownership interest in Medical Doctors, Inc. ("**MDI**"), its 34.9% interest in Davao Doctors Hospital (Clinica Hilario) Inc. ("**DDH**") and its 51.0% interest in Riverside Medical Center Inc. ("**RMCI**"). Through MDI, MPIC participates in the operation and management of two medical centres in Metro Manila: Makati Medical Center and Cardinal Santos Medical Center. Through its interest in DDH and RMCI, MPIC participates in the management and operation of Davao Doctors Hospital in Mindanao and Riverside Medical Center in Visayas, respectively. MPIC is the single largest shareholder in each of MDI, DDH and RMCI and is well positioned to provide modern professional management skills and expertise to the hospitals, whose other shareholders are largely the doctors who founded the hospitals.

Makati Medical Center

Makati Medical Center is a multi-specialty tertiary medical centre situated in the central business district of Makati, Metro Manila with an authorised bed capacity of 616 beds and with a strong contingent of more than 900 physicians. Its operations and services are complemented and supported by the MMC College of Nursing, Inc. (formerly Remedios T. Romualdez Memorial School Inc.), a wholly-owned subsidiary of MDI operating a comprehensive nursing training facility for approximately 800 nursing students, and Computerized Imaging Institute Inc., a 60% owned subsidiary of MDI providing technologically-advanced medical imaging services.

In December 2008, Makati Medical Center completed a new, ₱2.0 billion 14-storey annex building. The new annex houses all-new operating theatres, birthing and maternity rooms, modern diagnostic and ancillary centers, and other specialty units offering a multi-disciplinary and integrated approach to patient care. Additionally, the annex features basement parking facilities supporting the clients and staff of both the medical centre and the annex.

The average occupancy rate (based on the average number of beds occupied per day) at Makati Medical Center for the year ended 31 December 2009 was approximately 74%.

Cardinal Santos Medical Center

Cardinal Santos Medical Center is a 245-bed tertiary hospital situated in San Juan City, Metro Manila and is owned by the Roman Catholic Archbishop of Manila (RCAM). It is operated and managed by MDI's wholly owned subsidiary, Colinas Verdes Hospital Managers Corporation (CVHMC), by virtue of a 20-year contract awarded by RCAM in February 2009. MDI, through CVHMC, has committed to make significant improvements and upgrades to the centre's facilities and equipment in order to enhance the range and quality of medical services offered.

The average occupancy rate (based on the average number of beds occupied per day) at Cardinal Santos Medical Center for the year ended 31 December 2009 was approximately 60%.

Davao Doctors Hospital

DDH is considered to be the largest and one of the best medical facilities offering state-of-the-art diagnostic, therapeutic and intensive care services in Southern Philippines, with an authorised bed capacity of 250 beds. DDH also owns a teaching institution, Davao Doctors College, which has approximately 2,000 students and offers courses in nursing, radiologic technology, physical therapy, and other health courses.

The average occupancy rate (based on the average number of beds occupied per day) at DDH for the year ended 31 December 2009 was approximately 82%.

Riverside Medical Center Inc.

In May 2010, MPIC completed the acquisition of a 51.0% equity interest in RMCI, the largest hospital in Bacolod City, Negros Occidental, with an authorised bed capacity of 350 beds. RMCI, through its 100%-owned subsidiary — Riverside College, Inc., also runs a nursing school, which currently has 2,800 students.

Ports

In October 2009, the Philippine Ports Authority (the "**PPA**") awarded to MPIC and Harbour Center Port Terminal, Inc. ("**HCPTI**") the development, management, operation and maintenance of the North Harbour for a period of 25 years. Under the contract Manila North Harbour Port, Inc. ("**MNHP**"), the joint venture company incorporated by MPIC and HCPTI, will have the obligation to modernise, operate and maintain the port facilities, in exchange for the right to collect fees from users of the port facility, including stevedoring, arrastre and cranage fees for the handling of cargo, storage fees and terminal fees for passengers. The cost of the proposed North Harbor rehabilitation and expansion project is estimated at ₱14.5 billion, and will involve re-arrangement of the existing ports and expansion of its operational area, from 52 hectares to 70 hectares. Following a series of delays, MNHP took control of the port operations in April 2010. On 28 June 2010, with the prior approval of the PPA, MPIC completed its sale of its entire interest in MNHP, representing 35% of the outstanding capital stock of MNHP, to HCPTI. See "Recent Developments — Divestment of interest in MNHP".

CONSUMER FOOD PRODUCTS — INDOFOOD

First Pacific's consumer food products business is conducted through Indofood, its 50.1% subsidiary.

Indofood is a leading processed food company engaged in food manufacturing, processing, marketing and distribution. Through its four complementary business groups, Indofood offers and distributes a wide range of food products throughout Indonesia: CBP (noodles, dairy, food seasonings, snack foods and nutrition & special foods), Bogasari (flour and pasta), agribusiness (oil palm, rubber, sugar cane, cocoa and tea plantations, cooking oils, margarine and shortening) and distribution.

Indofood's common shares are listed on the Indonesia Stock Exchange. For the year ended 31 December 2009, Indofood had consolidated net sales and net income of Rp37,140.8 billion (US$3,588.7 million) and Rp2,075.9 billion (US$200.6 million), respectively. For the three months ended 31 March 2010, Indofood had consolidated net sales and net income of Rp9,308.6 billion (US$1,033.9 million) and Rp631.9 billion (US$68.1 million), respectively, (calculated on the basis of Indonesia GAAP). For the year ended 31 December 2009, the EBITDA of Indofood was Rp6,623.4 billion (US$640.0 million). For the three months ended 31 March 2010, the EBITDA of Indofood was Rp1,832.6 billion (US$197.6 million).

Consumer Branded Products

Indofood's consumer branded products group (the "**CBP Group**") comprises five separate divisions: noodles, dairy, food seasonings, snack foods and nutrition & special foods, with the dairy division having been added to the CBP Group following the completion of acquisition of PT Indolakto ("**Indolakto**") in December 2008. The CBP Group contributed to 43.4% of Indofood's net sales for the year ended 31 December 2009 and 45.8% of Indofood's net sales for the three months ended 31 March 2010.

In 2009, Indofood restructured the CBP Group, consolidating all consumer branded product subsidiaries into a separate single entity, PT Indofood CBP Sukses Makmur ("**ICBP**"), established in September 2009. In addition, Indofood also integrated the biscuit division (previously under Bogasari group) into ICBP. The restructuring was completed on 17 March 2010. It is proposed that ICBP be spun off and listed on the Indonesia Stock Exchange. As at the date of this Offering Circular, the terms of the proposed spin off have not been finalised and there is no assurance that the proposed spin off will proceed.

Noodles

Indofood is one of the world's largest instant noodle producers, operating 16 production plants in Indonesia and Malaysia with annual capacity in excess of 15 billion packs a year. It offers a variety of noodle products, including instant bag noodles, instant cup noodles, egg noodles and instant vermicelli, under various brands to cater to different market segments. Indofood's major brands include *Indomie*, *Supermi*, *Sarimi*, *Sakura*, *Pop Mie*, *Mi Telur Cap 3 Ayam* and *Pop Bihun*. These major brands are leading household names in Indonesia and most of them have been in existence for many years.

Indofood's food ingredients division, which is a part of its noodle operations, produces food ingredients primarily for Indofood's noodle products and also sells to related and third parties.

Indofood also operates a packaging business as part of its noodles division which produces a wide range of flexible and corrugated packaging for (i) Indofood's food products, including noodles, dairy products, food seasoning products, snack foods, speciality foods for infants and children and milk products for expectant and lactating mothers, (ii) the Indofood group, and (iii) other customers, both in Indonesia and other countries. Indofood's corrugated packaging business is operated through its 60% owned indirect subsidiary PT Surya Rengo Containers, a joint venture with Rengo Company Limited, Japan.

Substantially all of Indofood's noodle sales are instant noodle products sold through its network of distributors.

Dairy

Indofood completed the acquisition of Indolakto in December 2008, enlarging the CBP Group's product portfolio to include dairy products. Indolakto is one of the largest producers of dairy products in Indonesia, producing sweetened condensed milk, ultra high temperature milk, sterilised bottled milk, pasteurised liquid milk and powdered milk, ice cream, yoghurt drink and butter. Indofood's major brands include *Indomilk*, *Cap Enaak*, *Indoeskrim*, *Nice* yogurt and *Orchid* butter.

Food Seasonings

The food seasonings division manufactures a wide range of culinary products, of which chilli sauce and instant seasonings are the most popular. The division also produces soy sauce, tomato sauce and bouillion. Its *Indofood*, *Piring Lombok*, branded products are marketed by PT Nestlé Indofood Citarasa Indonesia, a joint venture company between Indofood and Nestlé. The division also manufactures, markets and sells syrups under the *Indofood* brand.

Snack Foods

The snack foods division produces a range of snack food products including potato chips, traditional Indonesian cassava chips and other extruded snack products, as well as variety of biscuits and sandwich crackers. Their products are marketed under various brands, include *Chitato*, *Qtela* and *Trenz*, as well as brands such as *Lays* and *Cheetos* licensed from Pepsico Inc., an affiliate of Indofood's joint venture partner Seven-up BV. Our snack foods, except biscuits, are produced by our 51% owned subsidiary Indofood Fritolay.

Nutrition & Special Foods

The nutrition & special foods division produces foods for babies and children, as well as milk for expectant and lactating mothers. Growth of the baby food industry has been driven by improvement in domestic economic conditions and increasing public awareness of the nutritional needs of babies.

Bogasari

Bogasari is the largest integrated flour miller in Indonesia. Its flour mills located in Jakarta and Surabaya have a combined annual effective milling capacity of 3.2 million tonnes of wheat flour. It also manufactures pasta for both domestic and international markets. Bogasari runs shipping and packaging businesses to support its core operations. Bogasari accounted for 28.3% of Indofood's net sales for the year ended 31 December 2009 and 24.9% of Indofood's net sales for the three months ended 31 March 2010.

Indofood produces several grades of flour which vary based on protein content and the end-user market. Indofood also produces pasta using semolina flour milled from specially imported durum wheat. In addition, Indofood produces by-products, principally bran, pollard and pellet, which are sold as component ingredients for animal feed for both the domestic and export markets.

Indofood's products are distributed primarily under the *Segitiga Biru*, *Cakra Kembar* and *La Fonte* brands.

Agribusiness

The Agribusiness group consists of three divisions: Plantations, Cooking Oils and Fats and Commodities, which operate through Indofood's 58.2% owned Singapore listed subsidiary Indofood Agri Resources Ltd. ("**IndoAgri**") and IndoAgri's 58.8% owned Indonesia-listed subsidiary, PT PP London Sumatra Indonesia Tbk ("**Lonsum**"). The Agribusiness group is a market leader in Indonesia's branded cooking oil and margarine segment.

The Agribusiness group is a vertically integrated business producing a number of leading brands derived from palm oil. Its operations cover the whole value chain from research and development, oil palm seed breeding and cultivation to milling, refining, branding and marketing of cooking oil, margarine, shortening and other palm oil derivative products. It also operates sugar cane, rubber, coconut, cocoa and tea plantations and owns processing plants for these crops.

The Agribusiness accounted for 20.5% of Indofood's net sales for the year ended 31 December 2009 and 20.3% of Indofood's net sales for the three months ended 31 March 2010.

Plantations

As at 31 December 2009, IndoAgri and Lonsum had a combined planted area of 227,721 hectares. Oil palm is the dominant crop, with a planted area of 193,613 hectares, of which 42% are below the seven year peak yield age for oil palm. The plantation division operates 20 palm oil mills across Sumatra and Kalimantan with a total annual processing capacity of 4.5 million tonnes of fresh fruit bunches per year. It also operates four crumb rubber factories, three sheet rubber factories, a cocoa factory, a tea factory and a sugar factory. A sugar mill is currently under construction in South Sumatra and is expected to commence operations in the second half of 2010.

Cooking Oils and Fats

The cooking oils and fats division manufactures cooking oils and fats, and markets products under various brands for both export and domestic consumption. IndoAgri's main premium branded products, *Bimoli (for cooking oil)* and *Simas Palmia (for margarine)*, have leading market shares in their respective branded segments, respectively, in Indonesia. In 2009, approximately 75% of margarine and shortening sales were in industrial packs supplied to domestic bakeries, snack and biscuit manufacturers.

The division operates four refineries located strategically in major cities across Indonesia: Jakarta, Surabaya, Medan and Bitung. The total current combined refinery capacity is approximately 1 million tonnes per year as of 31 March 2010.

Commodities

The commodities division mainly produces crude coconut oil and derivative products, most of which are exported to the United States, Europe and Asia. The division operates three copra-crushing plants located at Bitung in North Sulawesi, Moutong in Central Sulawesi and Tobelo in North Maluku, with a combined annual production capacity of 270,000 tonnes.

Distribution

The distribution group is a major component of Indofood's integrated chain of operations as it has extensive distribution network in Indonesia. It distributes the majority of Indofood's consumer products and third-party products across the archipelago. Indofood increased its products' market penetration and service standard through its stock points located in areas with a high density of retail outlets, which ensure product availability and product freshness. To further improve product visibility and increase availability, the group engaged merchandisers and canvassers, in conjunction with joint marketing efforts and promotions with its principals. The implementation of a new IT system since 2008 has complemented the distribution strength.

The distribution business accounted for 7.8% of Indofood's net sales for the year ended 31 December 2009 and 9.0% of Indofood's net sales for the three months ended 31 March 2010.

NATURAL RESOURCES — PHILEX

First Pacific, through its 31.4% economic interest in Philex (with Two Rivers, an affiliate of First Pacific also holding a 15.0% interest in Philex), is engaged in the exploration, development and utilisation of mineral resources in the Philippines. Philex has been conducting its mining operations primarily at the Padcal Mine and is also currently aiming to develop the Silangan Project.

Philex's common shares are listed on the PSE. For the year ended 31 December 2009, Philex had consolidated revenues of approximately ₱9.1 billion (US$189.4 million). For the three months ended 31 March 2010, Philex had consolidated revenues of approximately ₱2.4 billion (US$53.0 million) (calculated on the basis of PFRS). For the year ended 31 December 2009, the EBITDA of Philex was ₱4.2 billion (US$87.0 million). For the three months ended 31 March 2010, the EBITDA of Philex was ₱1.0 billion (US$21.3 million).

Padcal Mine

The Padcal Mine, which Philex has been operating since 1958, is the first underground block cave operation in the Far East. The mine produces copper concentrates, containing copper, gold and silver. A majority of the copper concentrates are shipped to Saganoseki, Japan for smelting by Pan Pacific Copper Company Limited, a joint venture company between Nippon Mining Co. Ltd. and Mitsui Mining and Smelting Co., Ltd.

The Padcal Mine is under 12 mineral holdings with an aggregate 95 hectares in Benguet Province, which are subject to royalty agreements with claim owners.

In 2009, the operating life of the Padcal Mine has been extended from 2014 to 2017 based on the proven mineral reserves of 69 million tonnes from a resource of 156 million tonnes.

Silangan Project

Located in Surigao del Norte, Northern Mindanao in the Philippines, the Silangan Project combines the development of the Boyongan and Bayugo deposits, which comprise gold, copper and silver.

In February 2009, Philex consolidated its interest in the Silangan Project by purchasing the remaining 50% equity interest held by Anglo American Exploration BV and Anglo American Exploration (Philippines) Inc. for a consideration of US$55 million.

A pre-feasibility study on the Boyongan deposit in October 2008 concluded that based on certain assumptions contained in the report, the Boyongan deposit is technically and financially feasible, with proven mineral reserves of 65.8 million tonnes containing 1.39 grams of gold and 0.87% copper per tonne.

The preliminary mineral resource estimates for Bayugo were completed in November 2009, with indicated mineral resources of 85.7 million tonnes with 0.88% copper and 0.73 grams per tonne of gold and inferred resources of 32.7 million tonnes with 0.75% copper and 0.63 grams per tonne of gold. Drilling continues for the Silangan Project to define further the mineralisation limits and to upgrade the Bayugo resource to measured from indicated.

Other Operations

Philex holds investments in oil properties owning participation in several service contracts.

In 2007, Philex incorporated Philex Petroleum Corporation ("**PPC**") to engage in the petroenergy business. Forty-nine per cent. of PPC was subsequently acquired by Anatolian Property BV, a Netherlands company. In July 2009, Philex purchased Anatolian Property BV's 49% interest in PPC, giving it full control over PPC. PPC in turn holds 38.8% of Forum Energy plc ("**FEP**"), a UK-based oil exploration company owning participation interests in several service contracts in the Philippines, particularly Service Contract 72 which covers the "Sampaguita" natural gas deposit in the Northwest Palawan province of the Philippines. As FEC Resources, Inc., a 52.0% owned subsidiary of Philex, also owns 25.6% of FEP, the total holdings of Philex in FEP aggregates to 64.4%.

In March 2009, Philex acquired 14 million shares in Pitkin Petroleum Plc ("**Pitkin**") for US$14 million, increasing its interest in Pitkin to 21%. Pitkin is an United Kingdom registered company primarily focused on oil and gas exploration in the Pacific Rim region, with operations in Vietnam, the Philippines, Peru and the United States of America. Pitkin is involved throughout the exploration and production value chain, with equity interests in production, a potential re-development project and operates an active exploration programme.

On 4 June 2010, Philex indicated the possibility of spinning off its hydrocarbon assets (which are held under PPC) and moving away from the mining business. See "Recent Developments - Potential Spin-off of Hydrocarbon Assets".

LEGAL PROCEEDINGS

From time to time, the Group, PLDT and Philex may be involved in litigation or proceedings arising in the ordinary course of business. Other than as disclosed below, First Pacific believes that neither the Group, PLDT nor Philex is involved in any litigation which would have a material adverse effect on the business or financial position of the Group.

PLDT

NTC supervision and regulation fees ("SRF")

Since 1994, following the rejection of PLDT's formal protest against the assessments by the NTC of SRF, PLDT and the NTC had been involved in legal proceedings before the Court of Appeals and the Supreme Court of the Philippines. The principal issue in these proceedings was the basis for the computation of the SRF. PLDT's opinion, which was upheld by the Court of Appeals, but, as set forth below, rejected by the Supreme Court, was that the SRF should be computed based only on the par value of the subscribed or paid up capital of PLDT, excluding stock dividends, premium or capital in excess of par. The Supreme Court, in its decision dated 28 July 1999, ordered the NTC to make a recomputation of the SRF based on PLDT's capital stock subscribed and paid. Subsequently, in February 2000, the NTC issued an assessment letter for the balance of the SRF, but in calculating said fees, the NTC used as a basis not only capital stock subscribed or paid but also the stock dividends. PLDT questioned the inclusion of the stock dividends in the calculation of the SRF and sought to restrain the NTC from enforcing/implementing its assessment until the resolution of the said issue. Prior to the resolution of the issue mentioned above, PLDT paid the SRF due in 2000 together with the balance due from the recalculation of the SRF and had been paying the SRF due in September of each year thereafter, excluding the portion that was based on stock dividends.

The Supreme Court, in a resolution promulgated on 4 December 2007, upheld the NTC assessment of SRF based on outstanding capital stock of PLDT, including stock dividends. In a letter to PLDT in February 2008, the NTC assessed the total amount of SRF due from PLDT to be approximately ₱2.9 billion, which included penalties and interest. On 3 April 2008, PLDT complied with the Supreme Court resolution by paying to the NTC the outstanding principal amount relating to SRF on stock dividends in the amount of approximately ₱0.5 billion, but not including penalties and interest. PLDT believes that it is not liable for penalties and interest, and therefore protested and disputed NTC's assessments in the total amount of approximately ₱2.9 billion which included penalties. In letters dated 14 April 2008 and 18 June 2008, the NTC demanded payment of the balance of its assessment. On 9 July 2008, PLDT filed a Petition for Certiorari and Prohibition with the Court of Appeals (the "**Petition**") praying that the NTC be restrained from enforcing or implementing its assessment letter of February 2008, and demand letters dated 14 April 2008 and 18 June 2008, all demanding payment of SRF including penalties and interests. The Petition further prayed that after notice and hearing, the NTC be ordered to forever cease and desist from implementing and/or enforcing, and annulling and reversing and setting aside, the said assessment letter and demand letters. On 8 September 2008, the Solicitor General, as counsel of, and representing, the NTC, filed its Comment on the Petition. On 22 September 2008, PLDT filed its Reply (to the comment of the NTC).

On 26 January 2010, the Court of Appeals issued a resolution directing the parties to submit their respective memoranda within 15 days from notice thereof. After requesting an extension, PLDT filed its memorandum on 18 February 2010. PLDT, through counsel, received the memorandum of the NTC on 25 February 2010. With the submission of the parties' respective memoranda, the petition is now deemed submitted for resolution.

Matters Relating to a Third Party Aggregator

In late 2009, PLDT informally received a communication which provided a complaint (the "**Draft**"), setting forth a securities class action lawsuit in the United States District Court for the Southern District of New York against PLDT and certain PLDT officers and indicated that such Draft may be filed against PLDT. The Draft alleges that some PLDT officers and employees caused PLDT's subsidiary Smart to enter into contracts with a third-party entity in order to divert long distance telephone traffic and profits to such third-party entity. The Draft further alleges that these officers and employees personally created and controlled the third-party entity and were personally enriched as a result. The Draft alleges that this alleged scheme was accomplished by causing Smart to offer a lower rate for long distance telephone traffic to that third-party entity so that long-distance traffic which

otherwise would have been handled by PLDT at a higher rate was redirected to equipment owned by the third-party entity. The Draft alleges that PLDT failed to disclose material facts regarding the alleged scheme and that, as a result, PLDT misstated its true financial condition in its annual reports from 2002 through 2008.

In light of the nature of the allegations, PLDT's Board of Directors referred the Draft for review by the Audit Committee. The Audit Committee appointed an independent Investigation Committee to oversee an investigation into the allegations contained in the Draft. The Audit Committee retained independent counsel to lead such investigation. To preserve the confidential nature of the inquiry, the investigation was limited to internal sources at PLDT, including current PLDT and Smart employees, internal records, and discrete inquiries and public records searches.

The independent counsel, under the oversight of the Investigation Committee, has concluded on the basis of the evidence within the control of PLDT or otherwise reasonably available, that (i) while the investigation cannot definitively exclude the possibility, the investigation has found no evidence that PLDT's officers and employees were personally involved in the creation of the third-party entity referred to in the Draft and has found no evidence of any improper personal financial benefit or gain by these officers and employees, directly or indirectly from such third party entity; and (ii) while Smart had substantial business relationships with various third-party aggregators of long-distance telephone traffic during the relevant period, including the third-party entity referred to in the Draft (with which Smart ceased doing business in 2008), there is no evidence that the relationship with such third-party entity in fact resulted in a material adverse impact on PLDT's revenues during the relevant period and may have in fact benefited PLDT overall through an increase in overall call volume.

On 7 May 2010, the Audit Committee of PLDT approved the recommendation and conclusion of the independent counsel, as endorsed by the Investigation Committee. No provision has been made related to this matter.

Local Business and Franchise Taxes

PLDT, Smart and Piltel currently face various local business and franchise tax assessments by different local government units.

PLDT, Smart and Piltel believe that under Philippine laws then prevailing, they are exempt from payment of local franchise and business taxes to local government units and are contesting the assessment of these taxes in some of these cases.

Arbitration with Eastern Telecommunications Philippines, Inc. ("ETPI")

Since 1990, PLDT and ETPI have been engaged in legal proceedings involving a number of issues in connection with their business relationship. While they have entered into Compromise Agreements in the past (one in February 1990, and another one in March 1999), these agreements have not settled all issues between the parties. Accordingly, to avoid further protracted litigation and simply improve their business relationship, both PLDT and ETPI have agreed in April 2008 to submit their differences and issues to voluntary arbitration. ETPI initially submitted its claims of about ₱2.9 billion against PLDT in arbitration proceedings; while PLDT, on the other hand, submitted its claims of about ₱2.8 billion against ETPI. Currently, PLDT and ETPI have agreed to suspend the arbitration proceedings between them.

The Gamboa Case

A petition entitled *Gamboa v. Teves* (SC G. R. No. 176579) (the "**Petition**") was filed on or about 28 February 2007 by Wilson Gamboa against Department of Finance Secretary Magarito B. Teves and other members of the Privatization Council, Philippine Securities and Exchange Commission Chairperson Fe Barin, Philippine Stock Exchange President Francis Lim, First Pacific Chairman Anthoni Salim as Director of Metro Pacific Assets Holdings, Inc. ("**MPAH**"), PLDT Chairman Manuel V. Pangilinan as Managing Director of First Pacific and PLDT President Napoleon L. Nazareno. The Petition alleges that:

(i) the 1987 Philippine Constitution intended compliance with the 60%-40% Filipino/foreign ownership requirement it imposes on public utilities in Section 11, Article XII, to be computed based only on an utility company's common voting stock and not on its entire outstanding capital stock, notwithstanding Section 11's reference to "capital" generally, instead of to "voting stock";

(ii) the sale of the Philippine government's 46% interest in Philippine Telecommunications Investment Corporation ("**PTIC**"), which holds approximately 13.8% of the common stock of PLDT, to a foreign company, First Pacific, and its affiliates who already own the other 54% of PTIC will result in First Pacific and its affiliates effectively increasing their PLDT common stockholdings by 6.3%; and

(iii) foreigners already own more than 40% of PLDT's common stock and the sale referred to in (ii) will further increase the foreign ownership, and correspondingly further reduce the Filipino ownership, of PLDT's common stock by 6.3%.

For these reasons, the petitioner asked the Supreme Court to declare that a public utility company's compliance with the 60-40% nationality requirement must be computed based on only its common voting shares, and to annul all sales of PLDT common shares in excess of that 40% foreign ownership limit, and also the sale of the Philippine government's 46% interest in PTIC consisting of 111,415 PTIC shares (the "**PTIC Shares**").

The Petition also asked the Supreme Court of the Philippines to restrain and enjoin the Privatization Council from selling the PTIC Shares. The parties involved in the sale of the PTIC Shares did not receive notice of the Petition by the time the sale of the PTIC Shares was consummated in the morning of 28 February 2007. The respondents have cited both procedural and substantive grounds to justify dismissal of the Petition. The major procedural reason for dismissal is the fact that the Supreme Court is not the appropriate court and does not have jurisdiction over the type of suit filed by the petitioner. The principal substantive ground for dismissal is the absence of any law that would justify the taking of any shares from foreign shareholders in a company engaged in a nationalised or partly nationalised activity, even if the foreign shareholding exceeds the maximum limits imposed by law.

First Pacific has been advised by counsel that the procedural grounds alone cited by the respondents justify the dismissal of the Petition. First Pacific has likewise been advised that the Petition also lacks substantive merit.

INSURANCE

The Group, PLDT and Philex maintain insurance of the types and in amounts which the Group, PLDT and Philex believe to be adequate for their respective businesses in the jurisdictions where such businesses are operating. The Group and Philex do not carry, and PLDT carries only limited, business interruption insurance. For the most part, the coverage under these insurance policies is placed with reputable insurance agents with commercially reasonable deductibles and limits on coverage. Notwithstanding the Group's, PLDT's and Philex's insurance coverage, damage to the Group's,

PLDT's and Philex's buildings, facilities, equipment, or other properties as a result of occurrences such as fire, floods, water damage, explosion, power loss, typhoons and other natural disasters could nevertheless have a material adverse effect on the Group's, PLDT's and Philex's financial condition and results of operations.

ENVIRONMENTAL MATTERS

First Pacific believes that the Group is in compliance in all material respects with applicable environmental regulations in its jurisdictions of operation. First Pacific is not aware of any environmental proceedings or investigations to which it is or might become a party.

EMPLOYEES

As at 31 December 2009, First Pacific had 68,416 employees on a consolidated basis. On a non-consolidated basis, First Pacific had 29 employees, of which six were executives, ten were management/supervisory staff and 13 were support staff.

RECENT DEVELOPMENTS

Increase of interest in Philex

On 28 January 2010, Two Rivers completed its acquisition of an additional interest in Philex of approximately 5.9% at a total consideration of approximately ₱6.0 billion. The consideration is payable in four installments, the first installment of 10% was paid in January 2010 with the remaining 90% payable in three installments of 10%, 10% and 70% in January 2011, January 2012 and January 2013, respectively. The outstanding installment payment accrue interest at an interest rate of 5.5% per annum. The transaction increased Two Rivers' interest in Philex from approximately 9% to approximately 15%. In addition, the Group also holds an approximately 31.4% economic interest in Philex.

Consolidation of Interests in Meralco

On 1 March 2010, MPIC, Piltel (an indirect subsidiary of PLDT) and Beacon (a wholly-owned special purpose vehicle set up with the sole purpose of holding shares in Meralco, which is currently owned by MPIC and Piltel on a joint basis) entered into an Omnibus Agreement to restructure their shareholdings in Meralco. Under the Omnibus Agreement, (a) MPIC and Piltel would consolidate approximately 163.6 million common shares of Meralco (representing an approximately 14.5% interest in Meralco) and 154.2 million common shares of Meralco (representing an approximately 13.7% interest in Meralco), respectively, under Beacon; thus giving Beacon an approximately 28.2% interest in Meralco and (b) Piltel will acquire a 50% interest in Beacon, which will in turn become a 50:50 joint venture between MPIC and Piltel. Under the Omnibus Agreement, MPIC and Piltel have agreed to define their agreement in respect of, amongst other matters, the capitalisation, organisation, conduct of business and the extent of their participation in the affairs of Beacon and through Beacon, their respective involvement in Meralco.

The above transactions involved (a) a sale by MPIC to Beacon of 163.6 million common shares of Meralco at a total consideration of ₱24.5 billion or ₱150 per share, (b) payment of cash by MPIC of ₱6.6 billion to Beacon, (c) a subscription by MPIC of 1,156.5 million common shares of Beacon at a price of ₱20 per share and 801 million preferred shares of Beacon at a price of ₱10 per share at a total consideration of ₱31.1 billion, (d) a sale by Piltel of 154.2 million common shares of Meralco to Beacon at a total consideration of ₱23.1 billion or ₱150 per share, (e) a subscription by Piltel of 1,156.5 million common shares of Beacon at a total consideration of ₱23.1 billion or ₱20 per share and (f) a sale by MPIC of 12,500 common shares of Beacon to Piltel at a consideration of ₱12,500 or ₱1.00 per share. No gain or loss was recorded by the MPIC and Piltel from these transactions.

In addition, MPIC assigned to Beacon a right to be granted a call option in respect of 74.7 million common shares of Meralco (representing an approximately 6.6% interest in Meralco) owned by FPHC. FPHC granted the call option to Beacon on 1 March 2010 in return for ₱3 million consideration. The exercise price for the call option is ₱300 per Meralco share and the call option exercisable at any time from 15 March 2010 to 15 May 2010. On 23 March 2010, the boards of MPIC and Beacon decided to exercise the call option subject to approval by First Pacific's shareholders in a special general meeting. On 30 March 2010, Beacon exercised the call option in full at a total purchase consideration of ₱22.4 billion.

As at the date of this Offering Circular, Beacon held 392.5 million Meralco common shares representing approximately 34.8% equity interest in Meralco.

As at the date of this Offering Circular, MPHI holds ₱6.6 billion convertible bonds issued by MPIC which, if exercised, would result in the Group's economic interest in MPIC increasing to approximately 59.7%.

As a result of the consolidation of the foregoing interests of MPIC and Piltel in Meralco through Beacon, a 50:50 joint venture between MPIC and Piltel, each of MPIC and Piltel accounts for Beacon/Meralco on its respective books using the equity method.

Given the change in business nature of Piltel, its name changed to PLDT Communications and Energy Ventures, Inc.

Proposed Investment in Manila's Skyway Toll Road Project

MPIC is in discussions with its joint venture partners to significantly increase its current minority interest in Citra Tollways. Citra Tollways is the franchise holder for the Skyway project, a planned system of elevated and at-grade roadways extending from Alabang, the terminus of the SLEX, to Buendia. Stage one of the Skyway system, which consists of an elevated, 9.2 kms, six-lane expressway from Bicutan to Buendia and an at-grade 13.8 kms expressway from Magallanes to Alabang, was completed and commenced operations in October 1999. Construction on stage two of the Skyway system, a 7.0 kms elevated toll road extending from Bicutan to Alabang, began in April 2009. Stage two of the Skyway system is projected to commence operations in the first quarter of 2011.

Restructuring of CBP Group for Purpose of Spin-off

In 2009, Indofood restructured the CBP group, consolidating all consumer branded product subsidiaries into a separate single entity, ICBP, established in September 2009. In addition, Indofood also integrated the biscuit division (previously under Bogasari group) into ICBP. The restructuring was completed on 17 March 2010. On 28 June 2010, First Pacific announced that ICBP formally submitted a listing application for the listing of and permission to deal in its shares to the Indonesia Stock Exchange. As at the date of this Offering Circular, the terms of the proposed spin-off have not been finalised and there is no assurance that the proposed spin-off will proceed.

First Pacific Share Buyback Programme

On 1 June 2010, First Pacific announced a programme for the repurchase of up to US$130 million in value of First Pacific's shares from the open market over a 24-month period. Since then, and up to 8 July 2010, First Pacific had spent approximately US$1.3 million to purchase approximately 1.9 million shares, representing approximately 0.05% of issued share capital.

Potential Spin-off of Hydrocarbon Assets

On 4 June 2010, Philex indicated the possibility of spinning off its hydrocarbon assets, including 70% interest of a gas field that may be as large as the Malampaya gas project, which with an estimated reservoir of 2.7 trillion standard cubic foot is the largest gas field in the Philippines. It is proposed that Philex's hydrocarbon assets (which are held under PPC) be spun-off and moving away from the mining business. As at the date of this Offering Circular, the proposed spin off has not been finalised and there is no assurance that the proposed spin off will proceed.

The Connector Road Project

On 5 June 2010, MPIC, through MPTC, announced that it had formally submitted a proposed to link the NLEX with the SLEX to ease traffic flow in Metro Manila's thoroughfare, particularly for vehicles that are only through the metropolis. Under the proposal, connecting the NLEX with the SLEX would take approximately three and a half years after approval of the project. The project is expected to cost ₱17 billion. The proposal would involve the construction of a 13.2 kms elevated road along the railroad tracks between the NLEX at C3 and Skyway 1 at Buendia in Makati. MPTDC was notified in a letter dated 5 June 2010 from the Philippine Department of Public Works and Highways ("**DPWH**") that the proposal submitted was accepted by the DPWH.

Divestment of interest in MNHP

On 28 June 2010, with the prior approval of the PPA, MPIC completed its sale of its entire interest in MNHP, representing 35% of the outstanding capital stock of MNHP to HCPTI. The consideration received from the sale of MPIC's interest in MNHP to HCPTI was ₱350 million (consisting of the equivalent amount ₱245 million in cash consideration and a repayment of a loan in the amount of ₱105 million).

Construction of new terminal at Diosdado Macapagal International Airport in Clark, Pampanga City, Philippines

On 1 July 2010, MPIC disclosed that it has entered into discussions with San Miguel Corporation with regard to the construction of a new terminal at the Diosdado Macapagal International Airport in Clark, Pampanga City, Philippines. As at the date of this Offering Circular, the discussions held are still ongoing between the parties.

DIRECTORS AND SENIOR MANAGEMENT OF FIRST PACIFIC

Board of Directors

Anthoni Salim
Chairman

Age 61, born in Indonesia. Mr. Salim graduated from Ewell County Technical College in London. He is the President and CEO of the Salim Group, President Director and CEO of Indofood, and holds positions as Commissioner and Director in various companies.

Mr. Salim serves on the Boards of Advisors of several multinational companies. He was a member of the GE International Advisory Board, and is currently a member of the Advisory Board of ALLIANZ Group, an insurance company based in Germany. He joined the Asia Business Council in September 2004.

Mr. Salim is the son of Mr. Soedono Salim. He has served as a Director of First Pacific since 1981 and assumed the role of Chairman in June 2003.

Manuel V. Pangilinan
Managing Director and Chief Executive Officer

Age 63, born in the Philippines. Mr. Pangilinan received a BA from Ateneo de Manila University and an MBA from the University of Pennsylvania's Wharton School before working in the Philippines and Hong Kong for the PHINMA Group, Bancom International Limited and American Express Bank. He served as First Pacific's Managing Director after founding First Pacific in 1981, was appointed Executive Chairman in February 1999 and re-assumed the role of Managing Director and CEO in June 2003.

Mr. Pangilinan also served as President and CEO of PLDT since November 1998, and of Meralco since July 2010. He was appointed Chairman of PLDT in February 2004. He is the Chairman of Metro Pacific Investments Corporation, ePLDT, Inc., Smart, Piltel, Maynilad Water Services, Inc., Metro Pacific Tollways, MNTC, Philex, Landco, MDI (Makati Medical Center), Davao Doctors, Inc. and Colinas Verdes Corporation (Cardinal Santos Medical Center), Mediaquest Holdings, Inc., and Associated Broadcasting Corporation (TV 5). Mr. Pangilinan is also the President Commissioner of Indofood and a Director and CEO of Meralco. He is also the CEO for Philex.

In May 2006, the Office of the President of the Philippines awarded Mr. Pangilinan the Order of Lakandula, rank of Komandante in recognition of his contributions to the country. He was named Management Man of the Year 2005 by the Management Association of the Philippines ("**MAP**"). Mr. Pangilinan was awarded Honorary Doctorates in Science by Far Eastern University in 2010, in Humanities by Holy Angel University in 2008, by Xavier University in 2007 and by San Beda College in 2002 in the Philippines. He was a member of the Board of Overseers of The Wharton School, University of Pennsylvania, and holds chairmanship in the Board of Trustees of San Beda College, non-profit organisations Philippine Business for Social Progress ("**PBSP**") and the Philippine Business for Education ("**PBED**"). Mr. Pangilinan is also the President of the Samahang Basketbol Ng Pilipinas (the national association for basketball) and is Chairman of the Amateur Boxing Association of the Philippines (the national association for boxing).

Robert C. Nicholson
Executive Director

Age 54, born in Scotland. Mr. Nicholson qualified as a solicitor in England and Wales in 1980 and in Hong Kong in 1982. He was a Senior Partner of Richards Butler from 1985 to 2001 where he established the corporate and commercial department. He has had wide experience in corporate finance and cross-border transactions, including mergers and acquisitions, regional telecommunications, debt and equity capital markets, corporate reorganisations and the privatisation of state-owned enterprises in the People's Republic of China.

Mr. Nicholson joined First Pacific's Board in June 2003 and was named an Executive Director in November 2003. He was a Senior Advisor to the Board of Directors of PCCW Limited between August 2001 and September 2003. He is an Independent Non-executive Director of QPL International Holdings Limited and Pacific Basin Shipping Limited, a Non-executive Director of India Capital Growth Fund Limited (listed on the AIM market of the London Stock Exchange) since November 2005. Mr. Nicholson serves as a Commissioner of Indofood, and is a Director of MPIC, Philex, Pitkin, Forum Energy Plc and Level Up! International Holdings Pte Ltd.

Edward A. Tortorici
Executive Director

Age 70, born in the United States. Mr. Tortorici received a BS from New York University and an MS from Fairfield University. Mr. Tortorici has served in a variety of senior and executive management positions, including Corporate Vice President for Crocker Bank and Managing Director positions at Olivetti Corporation of America and Fairchild Semiconductor Corporation.

Mr. Tortorici subsequently founded EA Edwards Associates, an international management and consulting firm specialising in strategy formulation and productivity improvement with offices in USA, Europe and Middle East.

In 1987 Mr. Tortorici joined First Pacific as an Executive Director for strategic planning and corporate restructuring, and launched the Group's entry into the telecommunications and technology sectors. Presently, he oversees corporate strategy for First Pacific and guides the Group's strategic planning and corporate development activities. Mr. Tortorici serves as a Commissioner of Indofood; a Director of MPIC, Philex, Maynilad, and Landco and FEC Resources Inc. He also serves as a Trustee of the Asia Society and the Metropolitan Museum of Manila.

Napoleon L. Nazareno
Non-executive Director

Age 60, born in the Philippines. Mr. Nazareno graduated in 1970 from the University of San Carlos in Cebu with a Bachelor of Science degree in Mechanical Engineering. He received a Master's degree in Business Management from the Asian Institute of Management (AIM) in 1973. He also took the INSEAD Executive Programme at the European Institute of Business Administration in Fontainebleau, France in 1983.

In 1973, Mr. Nazareno worked as an Assistant Product Manager at the Flexible Packaging Division in Phimco Industries, Inc. and in 1981, he joined the international firm Akerlund & Rausing as Acting Production Manager. In 1989, he was named President and CEO of Akerlund & Rausing (Philippines). Mr. Nazareno served as President and CEO of Metro Pacific Corporation from 1995 to 1999.

In 1998, Mr. Nazareno became President and CEO of Piltel. He became President and CEO of Smart in 2000 and subsequently assumed the presidency at parent firm PLDT in 2004, positions he continues to hold concurrently. Mr. Nazareno is a Director of Meralco, and also a board member of the GSM Association Worldwide since November 2004. He joined First Pacific's Board in 2008.

Professor Edward K.Y. Chen, GBS, CBE, JP
Independent Non-executive Director

Age 65, born in Hong Kong and educated at the University of Hong Kong and Oxford University. Professor Chen is an Independent Non-executive Director of Asia Satellite Telecommunications and Wharf Holdings Limited, and a Non-executive Director of eBizAnywhere Technologies Limited. He was a trustee for Eaton Vance Management Funds. Formerly, Professor Chen served as President of Lingnan University from 1995 to 2007, and Professor and Director of the Centre of Asian Studies of

the University of Hong Kong; Chairman of Hong Kong's Consumer Council; as an Executive Councillor of the Hong Kong government; and as a Legislative Councillor. Professor Chen is now a Distinguished Fellow of the Centre of Asian Studies at the University of Hong Kong. Professor Chen joined First Pacific's Board in 1993.

Graham L. Pickles
Independent Non-executive Director

Age 53, born in Australia. Mr. Pickles holds a Bachelor of Business degree (majoring in accounting). He is a member of the Certified Practising Accountants of Australia, and is a Fellow of the Australian Institute of Directors. Mr. Pickles has significant experience in the distribution and technology sectors, running several distribution businesses in Asia and Australasia in the IT and telecommunications industries, over a career spanning more than 20 years.

Mr. Pickles serves as a Commissioner of PT Indofood Sukses Makmur Tbk and was appointed Chairman of Asia Pacific Brands India Limited in 2005. He was previously the CEO of Tech Pacific Holdings Limited, a wholly-owned subsidiary of First Pacific Company Limited until Tech Pacific was sold in 1997. Mr. Pickles was also a member of the executive committee of Hagemeyer N.V. in which First Pacific had a controlling interest until 1998. Mr. Pickles joined First Pacific's Board in 2004.

Sir David W.C. Tang KBE, Chevalier de L'Ordre des Arts et des Lettres
Independent Non-executive Director

Age 55, born in Hong Kong. Sir David was educated locally and then Cambridge, London and Beijing, where he taught English and Philosophy at Peking University. Sir David is the founder of Shanghai Tang; the China Clubs in Beijing, Hong Kong and Singapore; China Tang in London and Pacific Cigars. He has been advisor or director to Blackstone, British Airways, Tommy Hilfiger and the Savoy Group of Hotels. Sir David joined First Pacific's Board in 1989.

Jun Tang
Independent Non-executive Director

Age 47, born in China. Mr. Tang is the President and CEO of Fujian New Huadu Industrial Group Company Limited and a Director of Hong Kong-listed Tsingtao Brewery Company Limited.

Mr. Tang was previously the President of Nasdaq-listed Shanda Interactive Entertainment Company Limited and the Honorary President of Microsoft China Company Limited. He served as the President of Microsoft China and the General Manager of Microsoft Global Technology Center from 1997 to 2002. Mr. Tang also served as the CEO of the Wicresoft, a joint venture company between Microsoft and the Shanghai government established in 2002. Mr. Tang joined First Pacific's Board in December 2009.

Ambassador Albert F. del Rosario
Non-executive Director

Age 70, born in the Philippines. The former Ambassador of the Republic of the Philippines to the United States of America from October 2001 to August 2006 earned his Bachelor's Degree in Economics at New York University. He is currently Chairman of Makati Foundation for Education, Philippine Stratbase Consultancy, Inc. and is President of Gotuaco, del Rosario Insurance Brokers, Inc., Philippine Telecommunications Investment Corporation. Ambassador del Rosario serves as Commissioner or Director in numerous companies and non-profit organisations including Indofood, PLDT, MPIC, Philex, BusinessWorld Publishing Corporation, ABC Development Corporation (ABC 5), Metro Pacific Tollways, Metro Pacific Tollways Development Corporation, MNTC, Asia Insurance

(Philippines) Corporation, Landco, Mediaquest Holdings, Inc., Philippine Cancer Society and is a member of the Board of Trustees or Governors of the International Graduate University, Washington, DC, and Asia Society's International Council. He also headed the development of Pacific Plaza Towers, Metro Pacific Corporation's signature project in Fort Bonifacio's Global City.

In September 2004, Ambassador del Rosario was conferred the Order of Sikatuna, Rank of Datu, by H.E. President Gloria Macapagal-Arroyo for his outstanding efforts in promoting foreign relations for the Philippines. He is a recipient of the EDSA II Presidential Heroes Award in recognition of his work in fostering Philippine democracy and the Philippine Army Award from H.E. President Corazon Aquino for his accomplishments as Chairman of the Makati Foundation for Education. He was elevated to the Xavier Hall of Fame in New York City in 2006. Ambassador del Rosario joined First Pacific's Board in June 2003.

Tedy Djuhar
Non-executive Director

Age 58, born in Indonesia. Mr. Djuhar received a Bachelor of Economics degree from the University of New England in Australia. Mr. Djuhar is the Vice President Director of PT Indocement Tunggal Prakarsa Tbk, Director of Pacific Industries and Development Limited, and Director of a number of other Indonesian companies. Mr. Djuhar joined First Pacific's Board in 1981.

Ibrahim Risjad
Non-executive Director

Age 76, born in Indonesia. Mr. Risjad serves as a Commissioner of Indofood. He joined First Pacific's Board in 1981.

Benny S. Santoso
Non-executive Director

Age 52, born in Indonesia. Mr. Santoso graduated from Ngee Ann College in Singapore. He serves as a Commissioner of Indofood and PT Indosiar Karya Mandiri Tbk, a Director of PT Indocement Tunggal Prakarsa Tbk and a member of the Advisory Board of PLDT. Mr. Santoso joined First Pacific's Board in June 2003.

Advisors

Soedono Salim
Honorary Chairman and Advisor to the Board

Age 95, born in China. Mr. Salim served as First Pacific's Chairman from 1981 until February 1999, when he assumed his current titles. He serves as Chairman of the Salim Group.

Sudwikatmono
Advisor to the Board

Age 76, born in Indonesia. Mr. Sudwikatmono served as a Director of First Pacific from 1981 until February 1999, when he assumed his current title. He is a Vice President Commissioner of PT Indocement Tunggal Prakarsa Tbk and holds board positions with a number of other Indonesian companies.

Senior Executives

Richard L. Beacher
Executive Vice President
Group Financial Controller

Age 51, born in United Kingdom. Mr. Beacher received a BA (Hons) in Economics and Accounting from University of Newcastle Upon Tyne, U.K. He is a member of the Institute of Chartered Accountants in England and Wales and a member of the Hong Kong Institute of Certified Public

Accountants. Mr. Beacher moved to Hong Kong in 1984 with PriceWaterhouse and most recently served in financial positions with Hagemeyer Cosa Lieberman and latterly with Siemens Building Technologies as Global Business Line Controller. He joined First Pacific in 2006.

Maisie M.S. Lam
Executive Vice President
Group Human Resources

Age 55, born in Hong Kong. Ms. Lam received a Diploma from the Hong Kong Polytechnic University/Hong Kong Management Association. She joined First Pacific in 1983.

Joseph H.P. Ng
Executive Vice President
Group Finance

Age 47, born in Hong Kong. Mr. Ng received an MBA and a Professional Diploma in Accountancy from the Hong Kong Polytechnic University. He is a member of the Hong Kong Institute of Certified Public Accountants, the Association of Chartered Certified Accountants and the Institute of Chartered Accountants in England and Wales. Mr. Ng joined First Pacific in 1988 from PriceWaterhouse's audit and business advisory department in Hong Kong. Prior to his appointment as Executive Vice President, Group Finance in May 2002, Mr. Ng was Group Treasurer of the First Pacific Group and served in several senior finance positions within the First Pacific Group.

John W. Ryan
Executive Vice President
Group Corporate Communications

Age 45, born in Ireland. Mr. Ryan received his Bachelor of Arts from the University of Connecticut and completed a Master of Philosophy course on Slavonic and East European Studies at St. Antony's College, Oxford University. He helped to build the HK Mercantile Exchange Limited over the course of a year and a half as Head of Corporate Communications. Prior to that, he served as Head of Corporate Communications, Asia Pacific for HSBC's wholesale bank in 2004-2007. He spent several years as a financial journalist, opening and leading Bloomberg's Moscow bureau in the early 1990s and later on joining Dow Jones as Bureau Chief over the period 1998-2004 in Moscow and Hong Kong. He joined First Pacific in 2010.

Richard P.C. Chan
Vice President
Group Finance

Age 40, born in Hong Kong. Mr. Chan received a BBA (Hons) degree from the Hong Kong Baptist University and an MBA from the Chinese University of Hong Kong. He is a Certified Public Accountant (Practising), a CFA charterholder and a Fellow of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. He has experience in auditing, accounting, finance and management spanning a diverse range of business activities. Mr. Chan joined First Pacific in 1996 from KPMG.

Sara S.K. Cheung
Vice President
Group Corporate Communications

Age 46, born in Hong Kong. Ms. Cheung received a BA in Business Economics from UCLA (University of California, Los Angeles) and an MBA from Southern Illinois University, Carbondale. She is responsible for investor relations, corporate communications and media relations. Ms. Cheung is a member of the National Investor Relations Institute and the Hong Kong Investor Relations Association. She joined First Pacific in 1997 from the Public Affairs department of Wharf Limited and Wheelock and Company Limited.

Nancy L.M. Li
Vice President
Company Secretary

Age 52, born in Hong Kong. Ms. Li received a BA from McMaster University in Canada and a MSc in Corporate Governance and Directorship from Hong Kong Baptist University. She is a Fellow of the Hong Kong Institute of Company Secretaries and The Institute of Chartered Secretaries & Administrators of Great Britain. Ms. Li joined First Pacific in 1987 from the Hong Kong Polytechnic University's academic secretariat. Prior to that, she worked in the company secretarial department of Coopers & Lybrand. Ms. Li was appointed as First Pacific's Company Secretary in May 2003.

Peter T.H. Lin
Vice President
Group Tax and Treasury

Age 40, born in Hong Kong. Mr. Lin received an MSc in Management Sciences and BSc in Economics and Statistics from the University of Southampton and Coventry University respectively. He is a Fellow of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. He is also a member of the Institute of Chartered Accountants in England and Wales and the Hong Kong Tax Institute. Mr. Lin joined First Pacific in 1998 from KPMG where he was a Tax Manager specialising in Corporate Tax.

PRINCIPAL SHAREHOLDERS OF FIRST PACIFIC

Interests of Directors in First Pacific and its Associated Companies

At 30 June 2010, the interests and short positions of the Directors and chief executive of First Pacific in the shares of First Pacific, underlying shares and debentures of First Pacific or any associated corporation (within the meaning of Part XV of the Securities and Future Ordinance (Cap. 571) of Hong Kong (the "**SFO**")) which (a) were required to be notified to First Pacific and SEHK pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to Section 352 of the SFO to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("**Model Code**"), to be notified to First Pacific and SEHK were as follows:

Long Positions in Shares in First Pacific

Name	Number of ordinary shares	Approximate percentage of issued share capital (%)	Ordinary share options
Anthoni Salim	1,706,947,154 (C)(1)	43.97	—
Manuel V. Pangilinan	21,405,305 (P)	0.55	51,831,556
Edward A. Tortorici	35,223,557 (P)	0.91	19,183,256
Robert C. Nicholson	12,914 (P)	less than 0.01	28,093,739
Ambassador Albert F. del Rosario	720,000 (P)	0.02	6,324,150
Benny S. Santoso	—	—	6,324,150
Napoleon L. Nazareno	—	—	3,330,000
Graham L. Pickles	—	—	3,330,719
Prof. Edward K.Y. Chen, *GBS, CBE, JP*	—	—	4,743,113
Sir David W.C. Tang, *KBE*	—	—	3,330,719
Jun Tang	—	—	3,330,000

(C) = Corporate interest, (P) = Personal interest

Note:

(1) Anthoni Salim owns 100% of First Pacific Investments (BVI) Limited ("**FPIL-BVI**") and Mega Ring Investments Limited ("**Mega Ring**") which, in turn, are interested in 632,226,599 ordinary shares and 284,491,191 ordinary shares respectively in First Pacific. Anthoni Salim's indirect interests in FPIL-BVI and Mega Ring are held through Salerni International Limited ("**Salerni**") (a company which Anthoni Salim directly holds 100% of the issued share capital). Anthoni Salim also owns 56.8% of First Pacific Investments Limited ("**FPIL-Liberia**") which, in turn, is interested in 790,229,364 ordinary shares in First Pacific. Of this, 10.0% is held by Anthoni Salim directly, and 46.8% by Salerni International Limited. The remaining 43.2% interest in First Pacific Investments Limited is owned as to 30.0% by Sutanto Djuhar**, 10.0% by Tedy Djuhar and 3.2% by a company controlled by Ibrahim Risjad, all of whom are Non-executive Directors of First Pacific.

** Sutanto Djuhar retired from the Board of Directors of First Pacific with effect from 31 May 2010.

Long Positions in Shares in Associated Corporations

- Manuel V. Pangilinan owned 5,242,404 common shares(P) (0.03%)* and 15,000,000 share options in MPIC, 211,033 common shares(P) (0.11%)* in PLDT and 360 preferred shares(P) (less than 0.01%)* in PLDT as beneficial owner and a further 15,417 common shares (0.01%)* in PLDT as nominee, 1,392,500 common shares(P) (0.03%)* and 2,512,500 share options in Philex, as well as 25,000 common shares(P) (less than 0.01%)* in Meralco.

- Edward A. Tortorici owned 69,596 common shares(C) and 660,000 common shares(P) (collectively less than 0.01%)* as well as 10,000,000 share options in MPIC, 104,874 common shares(P) (0.06%)* in PLDT and 100 common shares(P) (less than 0.01%)* in Philex.

- Robert C. Nicholson owned 1,250 common shares(P) (less than 0.01%)* and 3,750,000 share options in Philex.

- Tedy Djuhar owned 15,520,335 shares(C) (0.18%)* in Indofood.

- Ibrahim Risjad owned 6,406,180 shares(C) (0.07%)* in Indofood.

- Anthoni Salim owned 632,370 shares(C) (less than 0.01%)* in Indofood and a direct interest of 2,007,788 shares(C) (0.14%)* in Indofood Agri Resources Ltd ("**IndoAgri**") through his controlled corporations other than First Pacific and an indirect interest of 998,200,000 IndoAgri shares (69.38%)* through First Pacific group companies.

- Ambassador Albert F. del Rosario owned 140,005 common shares(P) (0.08%)* in PLDT, 1,560 preferred shares(P) (less than 0.01%)* in PLDT, 7,966,624 common shares(P) (0.04%)* and 5,000,000 share options in MPIC, 100 common shares(P) (less than 0.01%)* in Philex, 26,700 common shares(P) in Meralco (less than 0.01%)*, 32,231,970 preferred shares (54.9%)* in Prime Media Holdings, Inc. ("**PMH**") as nominee, 4 common shares(P) (less than 0.01%)* in PMH as beneficial owner, 4,922 common shares(P) (2.46%)* in Costa de Madera Corporation, 15,000 common shares(P) (5.0%)* in Metro Pacific Land Holdings Inc., and 80,000 common shares(P) (20.0%)* in Metro Strategic Infrastructure Holdings, Inc.

- Napoleon L. Nazareno owned 6,648 common shares(P) (less than 0.01%)* in MPIC, 13,927 common shares(P) (less than 0.01%)* in PLDT and 495 preferred shares(P) (less than 0.01%)* in PLDT, as well as 110,000 common shares(P) in Meralco (less than 0.01%)*.

(P) = Personal interest, (C) = Corporate interest

* Approximate percentage of the issued capital of the respective class of shares in the respective associated corporation as at 30 June 2010.

Interests of Substantial Shareholders in First Pacific

The register of interests in shares and short positions of substantial shareholders maintained under Section 336 of the SFO shows that at 30 June 2010, First Pacific had been notified that the following persons were interested in 5% or more of First Pacific's issued share capital:

(a) Salerni, which was incorporated in the British Virgin Islands, was interested in 1,706,947,154 ordinary shares of First Pacific (long position), representing approximately 44.0% of First Pacific's issued share capital, by way of its 46.80% interest in FPIL-Liberia, its 100% interest in FPIL-BVI and its 100% interest in Mega Ring Investments Limited. Anthoni Salim beneficially owns the entire issued share capital of Salerni and, accordingly, is taken to be interested in the shares owned by Salerni.

(b) FPIL-Liberia, which was incorporated in the Republic of Liberia, beneficially owned 790,229,364 ordinary shares, representing approximately 20.36% of First Pacific's issued share capital. FPIL-Liberia is owned by Anthoni Salim (the Chairman), Tedy Djuhar (Non-executive Director), Ibrahim Risjad (Non-executive Director) and Sutanto Djuhar. Anthoni Salim is taken to be interested in the shares owned by FPIL-Liberia.

(c) FPIL-BVI, which was incorporated in the British Virgin Islands, beneficially owned 632,226,599 ordinary shares, representing approximately 16.29% of First Pacific's issued share capital. Anthoni Salim beneficially owns the entire issued share capital of FPIL-BVI and, accordingly, is taken to be interested in the shares owned by FPIL-BVI.

(d) Mega Ring, which was incorporated in the British Virgin Islands, beneficially owned 284,491,191 ordinary shares, representing approximately 7.33% of First Pacific's issued share capital, Anthoni Salim beneficially owns the entire issued share capital of Mega Ring and, accordingly, is taken to be interested in the shares owned by Mega Ring.

(e) Marathon Asset Management Limited ("**Marathon**"), a U.K. incorporated company, notified First Pacific that it held 208,871,173 ordinary shares of First Pacific in August 2008, representing approximately 6.48% of First Pacific's issued share capital at that time. Since then, First Pacific has not received any other notification from Marathon of any change to such holding.

(f) Lazard Asset Management LLC ("**Lazard**"), a U.S. incorporated company, notified First Pacific that it held 232,267,400 ordinary shares of First Pacific as at 29 December 2009, representing approximately 6.02% of First Pacific's issued share capital at that time. Since then, First Pacific has not received any other notification from Lazard of any change to such holding.

Related Party Transactions

Significant related party transactions entered into by the Group for the year ended 31 December 2009 are disclosed as follows:

(A) In June 2009, MPIC entered into a sale and purchase agreement with AB Holdings Corporation ("**ABHC**"), Alfred Xerez-Burgos, Jr. ("**AXB**") (together the 49.0% shareholder of Landco Pacific Corporation ("**Landco**")) and Landco, pursuant to which MPIC sold 1.3 million common shares of Landco (representing 17.0% interest in Landco) for a consideration of ₱203 million (approximately US$4.4 million) to ABHC. This transaction also constituted a connected transaction as defined in Chapter 14A of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the "**Listing Rules**").

(B) Asia Link B.V. ("**ALBV**"), a wholly-owned subsidiary company of First Pacific, has a technical assistance agreement with Smart, a wholly-owned subsidiary company of PLDT, for ALBV to provide Smart with technical support services and assistance in the operations and maintenance of cellular mobile telecommunications services for a period of four years from 23 February 2008, subject to renewal upon mutual agreement between the parties. The agreement provides for payments of technical service fees equivalent to 1% of the consolidated net revenue of Smart.

The fee under the above arrangement amounted to ₱634 million (US$13.7 million) for the year ended 31 December 2009 (2008: ₱630 million or US$13.6 million). At 31 December 2009, the outstanding technical service fee payable amounted to ₱188 million (US$4.1 million) (2008: Outstanding prepaid technical service fee of ₱8 million or US$0.2 million).

(C) In the ordinary course of business, Indofood has engaged in trade transactions with certain of its associated companies, joint ventures and affiliated companies, the majority of which are related to the Anthoni Salim and members of his family either through direct and/or common share ownership and common management. Anthoni Salim is the Chairman and a substantial shareholder of First Pacific and is the President Director and Chief Executive Officer of Indofood.

All significant transactions with related parties, whether or not conducted under normal terms and conditions similar to those with non-related parties, are disclosed as follows:

Nature of transactions

	For the year ended 31 December	
	2009	**2008**
	(Consolidated) US$ millions	
Income Statement Items		
Sales of finished goods		
to associated companies and joint ventures	30.3	24.5
to affiliated companies	64.1	60.8
Purchases of raw materials		
from associated companies and joint ventures	44.2	41.5
from affiliated companies	15.6	14.0
Management and technical services fee income and royalty income		
from associated companies and joint ventures	1.0	0.9
from affiliated companies	7.8	7.5
Insurance expenses		
to affiliated companies	2.9	2.8
Rental expenses		
to affiliated companies	1.0	1.2
Transportation and pump services expenses		
to affiliated companies	0.4	0.4

Approximately 3% (2008: 2%) of Indofood's sales and 2% (2008: 2%) of its purchases were transacted with these related companies.

Nature of balances

	As at 31 December	
	2009	2008
	(Consolidated) US$ millions	
Statement of Financial Position Items		
Accounts receivable — trade		
from associated companies and joint ventures	3.3	2.6
from affiliated companies	8.7	13.3
Accounts receivable — non-trade		
from associated companies and joint ventures	—	0.4
from affiliated companies	12.2	8.3
Accounts payable — trade		
to associated companies and joint ventures	6.2	3.6
to affiliated companies	2.6	2.3
Accounts payable — non-trade		
to associated companies and joint ventures	0.2	—
to affiliated companies	30.5	19.2

Certain of the above Indofood's related party transactions also constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules.

(D) For the year ended 31 December 2009, MPIC's subsidiary company, Maynilad, entered into certain construction contracts with DMCI Holdings Inc. ("**DMCI**") (a 44.6% shareholder of DMCI-MPIC Water Co. Inc., Maynilad's parent company) for the latter's construction of water infrastructure for Maynilad. On 23 March 2009, Maynilad formally entered into (i) a framework agreement with D.M. Consunji, Inc. ("**Consunji**"), a subsidiary company of DMCI, in relation to the provision of engineering, procurement and or construction services by Consunji to Maynilad for the period from 23 March 2009 to 31 December 2011 and (ii) a lease agreement with DMCI Project Developers, Inc. ("**DMCIPD**"), a subsidiary company of DMCI, for the renting of certain premises in the Makati City by DMCIPD to Maynilad for the period from 1 February 2009 to 31 January 2012. These related party transactions also constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules.

All significant transactions with DMCI group, whether or not conducted under normal terms and conditions similar to those with non-related parties, are disclosed as follows:

Nature of transactions

	For the year ended 31 December	
	2009	2008[1]
	(Consolidated) US$ millions	
Income Statement Items		
Rental expenses	0.1	—
Capital Expenditure Items		
Construction services for water infrastructure obtained	47.5	22.0

Note:

(1) Information in respect of Maynilad relates to 17 July 2008 (date becoming a subsidiary company of the Group) and after.

Nature of balances

	As at 31 December	
	2009	2008
	(Consolidated) US$ millions	
Statement of Financial Position Items		
Accounts payable — trade	8.0	3.0

(E) For the year ended 31 December 2009, MPIC's subsidiary company, MNTC, collected toll fees through TMC, MPIC's associated company.

All significant transactions with TMC, whether or not conducted under normal terms and conditions similar to those with non-related parties, are disclosed as follows:

Nature of transactions

	For the year ended 31 December	
	2009	**2008[1]**
	(Consolidated) US$ millions	
Income Statement Items		
Operator's fee	28.0	4.2
Management income	1.1	—
Guarantee income	0.4	0.1
Interest income	0.3	—

Note:

(1) Information in respect of MNTC relates to 13 November 2008 (date becoming a subsidiary company of the Group) and after.

Nature of balances

	As at 31 December	
	2009	**2008[1]**
	(Consolidated) US$ millions	
Statement of Financial Position Items		
Accounts receivable — trade	13.7	7.3
Accounts payable — trade	6.1	5.6

SECURITY

The following is a summary of the security arrangements relating to the Bonds which will be more particularly set out in the Trust Deed, the Share Pledge and the Escrow Account Assignment relating to the Bonds to be entered into on or before the Closing Date.

Subject to the completion of the perfection requirements under the Share Pledge and the Escrow Account Assignment, the obligations of the Issuer under the Bonds and the Trust Deed are secured in favour of the Security Trustee by the following charges and security interests which constitute the Security:

1. the Share Pledge, governed by Philippine law dated on or before the Closing Date (as defined in the Conditions) granted by MPHI, over all rights, benefit and title of MPHI in the Initial MPIC Shares and any Additional MPIC Collateral;

2. the Escrow Account Assignment, which is an assignment by way of continuing security under Hong Kong law dated the Closing Date of all rights of the Issuer in respect of the Escrow Account; and

3. any Additional Security with respect to any cash or Cash-equivalent Securities secured pursuant to Condition 3 of the Bonds.

Share Pledge

The Share Pledge provides a collateral security for the payment when due of all amounts (whether of principal, interest, fees or otherwise) which are or may at any time become due from or owing by the Issuer under the Bonds, the Trust Deed or the Agency Agreement.

MPHI, under the Share Pledge, will pledge to the Security Trustee (a) initially common shares in MPIC and (b) any Additional MPIC Collateral. The Collateral Value on the Closing Date will be at least 200% of the Reference Amount. The number of MPIC Shares to be secured initially will be calculated based on their Market Value (as defined in the Conditions) on the Closing Date. For illustrative purposes only, based on a Market Value of US$0.0581 for one MPIC Share on 16 July 2010, approximately 10.33 billion MPIC Shares would be initially subject to the Share Pledge.

Pursuant to the Conditions of the Bonds and the terms of the Trust Deed, if at any time or from time to time the Collateral Value is less than 150% of the Reference Amount, First Pacific or the Issuer (as applicable) shall within thirteen Business Days provide security over Additional MPIC Collateral and/or cash or Cash-equivalent Securities so that the aggregate Collateral Value is at least 215% of the Reference Amount, provided that any cash which is provided as Collateral shall be maintained by the Issuer in a separate interest-bearing account of the Issuer.

The Issuer may at any time substitute cash or Cash-equivalent Securities for all or part of the Collateral provided that the Collateral Value after such substitution is at least 200% of the Reference Amount.

To the extent that the Collateral Value at any time exceeds 215% of the Reference Amount, the Issuer may, at any time, cause such reduction in the cash or Cash-equivalent Securities secured as Collateral (such reduction to be made in the amount of cash and/or Cash-equivalent Securities as instructed by, and at the discretion of, the Issuer, with such cash and/or Cash-equivalent Securities to be released and transferred by the Security Trustee as instructed by the Issuer) as will result in the Collateral Value being at least equal to 215% of the Reference Amount.

Unless an Acceleration Notice (as defined in the Conditions) is served on the Issuer, the Issuer and MPHI will be entitled to exercise all of the rights attached to the Charged Property, including, without limitation, the right to convene and attend meetings of shareholders of MPIC, exercise the votes

attaching to the Pledged Property and to give any consents, waivers and ratifications and in exercising its voting rights, MPHI may have regard to its own interest to the exclusion of the interests of the Bondholders or any of them in respect thereof except in any manner which is inconsistent with or which prejudices or is likely to prejudice the rights of the Security Trustee. On service of an Acceleration Notice, the Security Trustee has the sole and exclusive attorney to exercise all such rights, except voting rights. As a foreign national and as representative of Bondholders who are foreign nationals, the Security Trustee cannot be given voting power over the Pledged Property without violating the Anti-Dummy Law. The Anti-Dummy Law prohibits a foreign national from intervening in the management, operation, administration and control of an entity engaged in a party nationalised business, like MPIC. Notwithstanding the foregoing, the Anti-Dummy Law does not affect the Security Trustee's right to foreclose the pledge, provided that the buyer under foreclosure should be a Philippine national.

Unless an Event of Default with respect to Condition 10 of the Bonds has occurred and is continuing, the Issuer and MPHI may receive all dividends and all other income and other cash distributions from the Charged Property. Upon an Event of Default with respect to Condition 10 of the Bonds which is continuing, pursuant to the Security Documents the Security Trustee may exercise all rights, powers and remedies vested in pledgors for the protection and enforcement of the Security Trustee's rights in respect of the Charged Property, including the powers to cause the sell the Charged Property, negotiate and conclude or terminate any agreement and collect any money due with respect to the Charged Property.

On service of an Acceleration Notice, the Security Trustee may take whatever action it, in its sole discretion and absolute discretion, deems necessary to protect and/or enforce its rights under the Security Documents, including, without limitation: (i) selling the Initial MPIC Shares and/or Additional MPIC Collateral through the PSE using two stock brokers; and/or (ii) as determined and approved by any court of competent jurisdiction (if required) selling the Initial MPIC Shares and/or Additional MPIC Collateral by private sale or by transferring or appropriating to itself in full or partial satisfaction of the obligations of the Issuer under the Bonds and the Trust Deed; provided that the Philippine legal requirement for the conduct of at least two public auctions for the sale of the Initial MPIC Shares and/or Additional MPIC Collateral has been complied with, prior to the foregoing sale or appropriation.

Escrow Account Assignment

The Escrow Account Assignment provides a collateral security for the payment when due of all amounts (whether principal, interest, fees or otherwise) which are or may at any time become due or owing by the Issuer under the Bonds, the Trust Deed or the Agency Agreement.

Pursuant to the terms of the Trust Deed, the Issuer, under the Escrow Account Assignment, will assign to the Security Trustee all of its right, title and interest in and to the Escrow Account held with the Escrow Account Bank.

The Issuer is required to credit an amount equal to:

(A) the credit balance of the Escrow Account at any time prior to the first Interest Payment Date shall be not less that US$22,186,500 and thereafter prior to the last Interest Payment Date shall be not less than the Interest Amount due on all Bonds outstanding on the next immediately succeeding Interest Payment Date (including any additional amounts which may become payable pursuant to Condition 8); and

(B) for the five Business Days prior to the next immediately succeeding Interest Payment Date (except the first and last Interest Payment Date) to credit the Escrow Account with the Interest Amount due on all Bonds outstanding on that Interest Payment Date.

Subject to maintaining the credit balance of the Escrow Account as set out in (A) and (B) above, the Issuer shall not be entitled to withdraw any funds from the Escrow Account except (X) withdrawals to pay interest due on the Bonds and (Y) withdrawals of an amount equal to any interest arising on amounts standing to the credit of the Escrow Account prior to occurrence of an Event of Default which is continuing. Prior to the occurrence of such an Event of Default which is continuing, the amounts referred to in (X) and (Y) above shall belong to the Issuer and shall be paid in accordance with the terms of the Bonds, the Trust Deed or the Agency Agreement.

The Security

Description of MPIC Shares

Authorised common share capital ₱22,688,518,336 (as at 30 June 2010).

Issued share capital .... ₱20,128,654,522 (as at 30 June 2010).

Par Value .... ₱1.0 per share.

Listing .... Listed on the PSE and trading under the symbol "MPI".

For further information on MPIC, please see "Summary Consolidated Financial Information for MPIC" and "Business of First Pacific — Infrastructure — MPIC".

Description of MPIC Convertible Bonds

Issuer .... MPIC

Issue .... ₱6,600,000,000 aggregate principal amount of 4.5% Convertible Bonds due 2013 convertible into common shares of MPIC.

Issue Price .... ₱100.00 per unit

Status.. Senior, unsecured

Interest .... 4.5% per annum, payable semi-annually in arrears.

Closing Date .... 30 March 2010.

Maturity Date .... 30 March 2013.

Conversion Period and Conversion Right...................... At any time from the date immediately following the first anniversary of the Closing Date up to and including the 10th business day immediately preceding the final redemption date.

Conversion Price.......................... The initial conversion price is ₱3.25 per share.

Final Redemption........................ On the third anniversary of the Closing Date and at the final redemption price of ₱103.21 per unit.

Redemption at the Option of MPIC..	At any time from the date immediately following 30 March 2011, MPIC has the right to redeem the Convertible Bonds at the accreted value of the Convertible Bonds plus any accrued interest thereon if (i) the closing price of the MPIC common shares for the 30 consecutive trading days immediately prior to the date upon which notice of such redemption was given was at least 140% of the conversion price then in effect; or (ii) the aggregate principal amount of the Bonds outstanding is less than 10% of the aggregate principal amount of the Convertible Bonds originally issued.

Enforcement of Security and the Guarantee

Enforcement of the Security

The Security shall become enforceable upon the Bonds becoming immediately due and payable by reason of service of an Acceleration Notice and/or if the Issuer fails to make payment of amounts due and payable under the Bonds on the date on which they are subject to redemption under Condition 6 of the Bonds as applicable, whichever shall be the first to occur.

At any time after the Security becomes enforceable, the Security Trustee may, at its sole discretion without further notice, take such proceedings and/or other actions as it may think fit against or in relation to the Issuer to enforce the Issuer's or (as the case may be) MPHI's obligations under the Security Documents and take action to enforce the Security without any liability as to the consequences of such action, but it shall only be bound to take any such proceedings and/or actions if:

(i) so requested in writing by the holders of at least 25% in aggregate principal amount of the Bonds outstanding; or

(ii) so directed by an Extraordinary Resolution of the Bondholders;

subject to it having been indemnified and/or secured to its satisfaction against all liabilities, proceedings, claims and demands to which it may thereby become liable and all costs, charges and expenses which may be reasonably incurred by it in connection therewith.

TAXATION

The following summary of certain British Virgin Islands, Philippines and Hong Kong tax consequences of the purchase, ownership and disposition of the Bonds is based upon applicable laws, regulations, rulings and decisions in effect as at the date of this Offering Circular, all of which are subject to change (possibly with retroactive effect). This discussion does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase, own or dispose of the Bonds and does not purport to deal with consequences applicable to all categories of investors, some of which may be subject to special rules. Persons considering the purchase of the Bonds should consult their own tax advisers concerning the tax consequences of the purchase, ownership and disposition of the Bonds.

Prospective investors should consult their professional advisers on the possible tax consequences of buying, holding or selling any Bonds under the laws of their country of citizenship, residence or domicile.

British Virgin Islands

The Issuer is incorporated in the British Virgin Islands.

The Issuer and all interest, and other amounts (if any), paid by the Issuer to persons who are not persons resident in the British Virgin Islands are exempt from the provisions of the Income Tax Act in the British Virgin Islands, and any capital gains realised by persons who are not persons resident in the British Virgin Islands with respect of any shares, debt obligations or other securities of the Issuer are exempt from all forms of taxation in the British Virgin Islands. As at 1 January 2005, the Payroll Taxes Act, 2004 came into force. It will not apply to the Issuer except to the extent that the Issuer has employees (and deemed employees) rendering services to the Issuer wholly or mainly in the British Virgin Islands. The Issuer at present has no employees in the British Virgin Islands and no intention of having any employees in the British Virgin Islands.

No estate, inheritance, succession or gift tax, rate, duty, levy or other charge is payable by persons who are not persons resident in the British Virgin Islands with respect to any shares, debt obligations, or other securities of the Issuer.

All instruments relating to transfers of property to or by the Issuer and all instruments relating to transactions in respect of the shares, debt obligations, or other securities of the Issuer and all instruments relating to other transactions relating to the business of the Issuer are exempt from the payment of stamp duty in the British Virgin Islands.

There are currently no withholding taxes or exchange control regulations in the British Virgin Islands applicable to the Issuer or its members. However, Council Directive 2003/48/EC adopted by the Council of the European Union on 3 June 2003, known as the "EU Savings Tax Directive" (the "**Directive**") on the taxation of savings income in the form of interest payments took effect from 1 July 2005. Although aimed originally only at EU Member States, the Directive was extended to include also certain overseas territories (including the British Virgin Islands, where the Issuer is incorporated) and a number of non-EU countries (together the "**Applicable States**").

Bondholders who are individuals resident in a Member State of the European Community should be aware that any income realised upon the sale, refund or redemption of their Bonds, together with any income in the form of dividends or other distributions, may become subject to the reporting regime (or the withholding tax regime) imposed by the Directive on taxation of savings income in the form of interest payments, if payment of such income is made by a paying agent established either in another Member State or in certain other jurisdictions which have agreed to introduce an equivalent reporting (or withholding tax) regime in respect of such payments.

However, because these rules are complex and the precise extent of their application has not yet been confirmed by all Member States or other relevant jurisdictions which have agreed to introduce an equivalent reporting (or withholding tax) regime, application of the regime cannot be excluded in all cases and Bondholders who are individuals should consult their own tax advisers in relation to the purchase of the Bonds.

Hong Kong

Withholding tax

No withholding tax in Hong Kong is payable on payments of principal or interest in respect of the Bonds.

Profits tax

Hong Kong profits tax is charged on every person carrying on a trade, profession or business in Hong Kong in respect of assessable profits arising in or derived from Hong Kong from such trade, profession or business.

Under the Inland Revenue Ordinance (Chapter 112 of the Laws of Hong Kong) (the "**Inland Revenue Ordinance**") as it is currently applied, Hong Kong profits tax may be charged on revenue or profits arising on the sale, disposal or redemption of the Bonds where such sale, disposal or redemption is or forms part of a trade, profession or business carried on in Hong Kong.

Interest on the Bonds will be subject to Hong Kong profits tax where such interest has a Hong Kong source, and is received by or accrues to:

(a) a financial institution (as defined in the Inland Revenue Ordinance) and arises through or from the carrying on by the financial institution of its business in Hong Kong, notwithstanding that the moneys in respect of which the interest is received or accrues are made available outside Hong Kong; or

(b) a corporation carrying on a trade, profession or business in Hong Kong by way of interest derived from Hong Kong; or

(c) a person, other than a corporation, carrying on a trade, profession or business in Hong Kong by way of interest derived from Hong Kong and such interest is in respect of the funds of the trade, profession or business.

Stamp duty

No Hong Kong stamp duty will be chargeable upon the issue or transfer (for so long as the register of holders of the Bonds is maintained outside Hong Kong) of a Bond.

EU Directive on the Taxation of Savings Income

The European Union has adopted a directive regarding the taxation of savings income. The directive requires member states to provide to the tax authorities of other member states details of payments of interest and other similar income paid by a person to an individual or to certain other persons in another member state, except that Austria, Belgium and Luxembourg will instead impose a withholding system for a transitional period unless during such period they elect otherwise.

Philippines

The statements made regarding taxation in the Philippines are based on the laws in force to the date hereof and are subject to any changes in law occurring after such date. The following summary does not purport to be a comprehensive description of all of the tax considerations that may be relevant to

a decision to purchase, own or dispose of the Bonds and does not purport to deal with the tax consequences applicable to all categories of investors, some of which (such as banks and dealers in securities) may be subject to special rates. Prospective purchasers of the Bonds are advised to consult their own tax advisers concerning the tax consequences of their ownership of the Bonds.

Income Tax

Resident citizens and domestic corporations are subject to tax on Philippine-source and non-Philippine-source income. Non-resident citizens, aliens and foreign corporations are subject to tax only on Philippine source income.

Interest on the Bonds

Interest on the Bonds is not considered to be Philippine source income. Accordingly, non-resident citizens, aliens and foreign corporations will not be subject to income tax on interest received by them on the Bonds. On the other hand, interest on the Bonds received by resident citizens and domestic corporations generally form part of their gross income for purposes of computing their taxable income (i.e., gross income less allowable deductions) subject to tax at graduated rates of up to 32% in the case of resident citizens, or normal corporate income tax at 30% in the case of domestic corporations. Interest on the Bonds received by domestic corporations also generally from part of their gross income (i.e., gross sales or gross receipts less cost of goods sold, cost of goods manufactured and sold or cost of services) for purposes of computing the 2% minimum corporate income tax ("**MCIT**") which is imposed on the corporation beginning on its fourth taxable year. The domestic corporation pays the MCIT instead of the normal corporate income tax when the MCIT is greater than the normal corporate income tax. The excess of the MCIT over the normal corporate income tax is carried forward and credited against normal corporate income tax for the three immediately succeeding taxable years.

Sale or other disposition of the Bonds

Under the National Internal Revenue Code of the Philippines, gains realised from the sale or exchange or retirement of Bonds, debentures or other certificates of indebtedness with a maturity of more than five years are exempt from income tax.

Since the Bonds have a maturity of more than five years, gains from the sale or other disposition of the Bonds will be exempt from income tax.

Redemption (Tax, Optional or Final)

Please see discussions under "— Interest on the Bonds" and "— Sale or other disposition of the Bonds" for the tax or exemption applicable to accrued interest or any gain from the redemption of the Bonds.

Amounts received by the Bondholder upon the retirement of the Bonds are considered as amounts received in exchange for such Bonds.

Estate and gift taxes

The transfer of the Bonds upon the death of an individual Bondholder to his or her heirs by way of succession, where such Bondholder was a citizen or a resident alien, will be subject to estate tax at progressive rates ranging from 5% to 20% if the net estate is over ₱200,000.

Bondholders that are citizens or domestic corporations who transfer the Bonds by way of gift or donation will be liable for donor's tax at either (a) 30%, if the recipient is a stranger or if the donor is a corporation, or (b) at progressive rates ranging from 2% to 15% if (i) the net gifts made during

the calendar year exceed ₱100,000, and (ii) the recipient is not a stranger. For this purpose, a "**stranger**" is a person who is not a brother, sister (whether by whole or half-blood), spouse, ancestor and lineal descendant or relative by consanguinity in the collateral line within the fourth degree of relationship.

In the case of non-resident aliens and foreign corporations, the transfer of the Bonds by way of succession or by way of gift or donation will be subject to estate tax or donor's tax, as the case may be, if the Bonds are considered to have Philippine situs. The Bonds should not be deemed to have Philippine situs because the business of the Issuer is not located in the Philippines. Even if the Bonds are considered to have Philippine situs, the transfer of the Bonds by way of succession or by way of gift or donation will not be subject to estate tax or donor's tax, as the case may be, if (i) the decedent at the time of his death or the donor at the time of the donation was as citizen and resident of a foreign country, which at the time of his death or donation did not impose a transfer tax of any character, in respect of intangible personal property of citizens of the Philippines not residing in that foreign country; or (ii) the laws of the foreign country of which the decedent or donor was a citizen and resident at the time of his death or donation allows a similar exemption from transfer or death taxes of every character or description in respect of intangible personal property owned by citizens of the Philippines not residing in that foreign country.

As used herein, the following terms shall have the following meanings:-

An "**alien**" refers to an individual who is not a citizen of the Philippines.

A "**citizen**" refers to an individual who is a citizen of the Philippines.

A "**domestic corporation**" refers to a corporation created or organised in the Philippines or under its laws.

A "**foreign corporation**" refers to a corporation that is not a domestic corporation.

A "**non-resident alien**" refers to an alien whose residence is not within the Philippines.

A "**non-resident citizen**" refers to a citizen who (i) establishes to the satisfaction of the Commissioner of Internal Revenue of the Philippines the fact of his physical presence abroad with a definite intention to reside therein, (ii) leaves the Philippines during the taxable year to reside abroad, either as an immigrant or for employment on a permanent basis, or (iii) works and derives income from abroad and whose employment requires him to be physically present abroad most of the time during the taxable year.

A "**non-resident foreign corporation**" refers to a foreign corporation not engaged in trade or business in the Philippines.

A "**resident alien**" refers to an alien whose residence is within the Philippines.

A "**resident citizen**" refers to a citizen whose residence is within the Philippines.

A "**resident foreign corporation**" refers to a foreign corporation engaged in trade or business within the Philippines.

For purposes of this summary, the terms "**resident citizen**", "**non-resident citizen**", "**resident alien**", "**non-resident alien**", "**resident foreign corporation**", and "**non-resident foreign corporation**" are used in the same manner as in the National Internal Revenue Code of the Philippines.

SUBSCRIPTION AND SALE

The Issuer and First Pacific has entered into a subscription agreement with the Lead Manager dated 16 July 2010 (the "**Subscription Agreement**") pursuant to which and subject to certain conditions contained therein, the Issuer agreed to sell to the Lead Manager, and the Lead Manager agreed to subscribe for, or procure subscribers to subscribe for, the aggregate principal amount of the Bonds, and First Pacific agreed, unconditionally and irrevocably to guarantee the Bonds.

The Subscription Agreement provides that each of the Issuer and First Pacific will indemnify the Lead Manager against certain liabilities in connection with the offer and sale of the Bonds. The Subscription Agreement provides that the obligations of the Lead Manager are subject to certain conditions precedent, and entitles the Lead Manager to terminate it in certain circumstances prior to payment being made to the Issuer.

The Lead Manager has entered into certain arrangements with CLSA Exchange Capital, Inc. and First Metro Investment Corporation in connection with the offer and sale of the Bonds in the Philippines.

The distribution of this Offering Circular or any offering material and the offering, sale or delivery of the Bonds is restricted by law in certain jurisdictions. Therefore, persons who may come into possession of this Offering Circular or any offering material are advised to consult with their own legal advisers as to what restrictions may be applicable to them and to observe such restrictions. This Offering Circular may not be used for the purpose of an offer or invitation in any circumstances in which such offer or invitation is not authorised.

The Lead Manager and certain of its affiliates may have performed certain investment banking and advisory services for the Issuer, First Pacific and/or their respective subsidiaries or affiliates from time to time for which they have received customary fees and expenses and may, from time to time, engage in transactions with and perform services for the Issuer, First Pacific and/or their respective subsidiaries or affiliates in the ordinary course of their business.

The Lead Manager or certain of its affiliates may purchase the Bonds and be allocated Bonds for asset management and/or proprietary purposes and not with a view to distribution.

The Lead Manager or certain of its affiliates may purchase the Bonds for its or their own account and enter into transactions, including credit derivatives, such as asset swaps, repackaging and credit default swaps relating to the Bonds and/or other securities of the Issuer or First Pacific or their respective subsidiaries or associates at the same time as the offer and sale of the Bonds or in secondary market transactions. Such transactions would be carried out as bilateral trades with selected counterparties and separately from any existing sale or resale of the Bonds to which this Offering Circular relates (notwithstanding that such selected counterparties may also be purchasers of the Bonds).

1 **General**: No action has been or will be taken in any jurisdiction by the Lead Manager or the Issuer or First Pacific that would permit a public offering of the Bonds, or possession or distribution of the Offering Circular or any other offering or publicity material relating to the Bonds, in any country or jurisdiction where action for that purpose is required. The Lead Manager has agreed to comply with all applicable laws and regulations in each jurisdiction in which it acquires, offers, sells or delivers Bonds or has in its possession or distributes the Offering Circular or any other such other material. The Lead Manager will obtain any consent, approval or permission required by it for, the acquisition, offer, sale or delivery by it of Bonds under the laws and regulations in force in any jurisdiction to which it is subject or in or from which it makes any acquisition, offer, sale or delivery.

2 **United States**: The Bonds have not been and will not be registered under the Securities Act and, subject to certain exceptions, may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. The Lead Manager has represented that it has not offered or sold, and agrees that it will not offer or sell, any Bonds constituting part of its allotment within the United States except in accordance with Rule 903 of Regulation S under the Securities Act. Accordingly, neither it, its affiliates, nor any persons acting on its or their behalf have engaged or will engage in any directed selling efforts with respect to the Bonds. Terms used in this paragraph have the meanings given to them by Regulation S.

3 **United Kingdom**: The Lead Manager has represented, warranted and agreed that:

3.1 it has complied and will comply with all applicable provisions of the Financial Services and Markets Act 2000 (the "**FSMA**") with respect to anything done by it in relation to the Bonds in, from or otherwise involving the United Kingdom; and

3.2 it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Bonds in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer.

4 **Singapore**: The Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore under the Securities and Futures Act (Chapter 289) of Singapore (the "**Securities and Futures Act**"). The Lead Manager has represented, warranted and agreed that the Bonds may not be offered or sold or made the subject of an invitation for subscription or purchase nor may the Offering Circular or any other document or material in connection with the offer or sale or invitation for subscription or purchase of any Bonds be circulated or distributed, whether directly or indirectly, to any person in Singapore other than (a) to an institutional investor pursuant to Section 274 of the Securities and Futures Act, (b) to a relevant person, or any person pursuant to Section 275(1A) of the Securities and Futures Act, and in accordance with the conditions specified in Section 275 of the Securities and Futures Act or (c) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the Securities and Futures Act.

Note:

Where Bonds are subscribed or purchased under Section 275 of the Securities and Futures Act by a relevant person which is:

(a) a corporation (which is not an accredited investor) (as defined in Section 4A of the Securities and Futures Act) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities (as defined in Section 239(1) of the Securities and Futures Act) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within 6 months after that corporation or that trust has acquired the Bonds pursuant to an offer made under Section 275 except:

(i) to an institutional investor or to a relevant person defined in Section 275(2) of the Securities and Futures Act, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the Securities and Futures Act;

(ii) where no consideration is or will be given for the transfer;

(iii) where the transfer is by operation of law; or

(iv) as specified in Section 276(7) of the Securities and Futures Act.

5 **Hong Kong**: The Lead Manager has represented and agreed that:

5.1 it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Bonds other than (i) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance or (ii) in other circumstances which do not result in the document being a prospectus as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and

5.2 it has not issued or had in its possession for the purposes of issue and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Bonds, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Bonds which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the Securities and Futures Ordinance and any rules made under that Ordinance.

6 **The Philippines**: The Bonds being offered or sold have not been and will not be registered with the Philippine Securities and Exchange Commission under the Securities Regulation Code of the Philippines (the "**SRC**"). Any future offer or sale of the Bonds within the Philippines is subject to the registration requirements under the SRC unless such offer or sale is made under circumstances in which the Bonds qualify as exempt securities or qualify as exempt transactions under the SRC.

Any offer or sale of the Bonds within the Philippines is subject to registration unless such offer or sale is made under circumstances in which the Bonds qualify as exempt securities or pursuant to an exempt transaction under the SRC. The offer or sale of the Bonds in the Philippines to (a) "primary institutional lenders" pursuant to Rule 9.2(2) B of the amended implementing rules of the SRC, or (b) persons who are "qualified buyers" pursuant to Section 10.1(l) of the SRC, or (c) not more than nineteen (19) persons who are not "qualified buyers" during any twelve-month period pursuant to Section 10.1(k) of the SRC is exempt from registration. The Issuer has not obtained confirmation from the Philippine Securities and Exchange Commission that the offer and sale of the Bonds within the Philippines qualifies as an exempt transaction. If necessary, the Issuer will file a notice of exemption from registration with the Philippine Securities and Exchange Commission pursuant to SRC Rule 10.1. The Lead Manager and each of the Domestic Managers has represented, warranted and agreed that it has and will not sell or offer for sale or

distribution any Bonds in the Philippines except to "primary institutional lenders" pursuant to Rule 9.2(2) B of the amended implementing rules of the SRC or to "qualified buyers" pursuant to Section 10.1(1) of the SRC. Prospective investors should take note of the transfer restrictions set out in Rule 9.2(2) B of the amended implementing rules of the SRC.

7 **The British Virgin Islands**: The Bonds may not be offered or sold to the public. Accordingly, the Lead Manager has represented, warranted and undertaken that it has not offered or sold, and will not offer or sell any Bonds to the public or any member of the public in the British Virgin Islands, nor has it or will it offer or sell Bonds, directly or indirectly, in the British Virgin Islands or to, or for the account or benefit of the public or any member of the public in the British Virgin Islands.

8 **Bermuda**: The Lead Manager has represented and agreed that it has not offered or sold and will not offer or sell any Bonds to any person, firm or company regarded as a resident of Bermuda for Exchange Control purposes and will procure that any purchaser from it of any Bonds will comply with such prescription.

GENERAL INFORMATION

1. **Clearing Systems**: The Bonds have been accepted for clearance through Euroclear and Clearstream under Common Code number 052819105. The International Securities Identification Number for the Bonds is XS0528191058.

2. **Listing of Bonds**: The Issuer has made an application for the listing of the Bonds on the SGX-ST. The Bonds will be traded on the SGX-ST in a minimum board lot size of US$200,000 for so long as the Bonds are listed on the SGX-ST. For so long as the Bonds are listed on the SGX-ST, the Issuer shall appoint and maintain a paying agent in Singapore, where the Bonds may be presented or surrendered for payment or redemption, in the event that the Global Certificate is exchanged for Certificates in definitive form. In addition, in the event that the Global Certificate is exchanged for Certificates in definitive form, announcement of such exchange shall be made by or on behalf of the Issuer through the SGX-ST and such an announcement will include all material information with respect to the delivery of the Certificates in definitive form, including details of the paying agent in Singapore.

3. **Authorisations**: The Issuer has obtained all necessary consents, approvals and authorisations in connection with the issue of the Bonds and the granting of the Escrow Account Assignment. The issue of the Bonds and the granting of the Escrow Account Assignment was authorised by resolutions of the Board of Directors of the Issuer passed on 16 July 2010. First Pacific has obtained all necessary consents, approvals and authorisations in connection with the provision of the Guarantee. The provision of the Guarantee was authorised by resolutions of the Board of Directors of First Pacific on 16 July 2010. MPIC will obtain all necessary consents, approvals and authorisations in connection with the provision of the Share Pledge. The provision of the Share Pledge is expected to be authorised by resolutions of the Board of Directors of MPHI on 19 July 2010.

4. **No Material Adverse Change**: There has been no material adverse change in the financial or trading position or prospect of the Issuer or First Pacific since 31 December 2009.

5. **Litigation**: Neither the Issuer nor First Pacific is involved in any litigation or arbitration proceedings which are material in the context of the Bonds nor is the Issuer or First Pacific aware that any such proceedings are pending or threatened.

6. **Available Documents**: The audited consolidated financial statements of First Pacific for the year ended 31 December 2009, as well as the Trust Deed and Agency Agreement will be available for inspection, at the specified office of the Issuer at 24/F, Two Exchange Square, 8 Connaught Place, Central, Hong Kong, during normal business hours, so long as any of the Bonds is outstanding.

7. **Auditors**: The audited consolidated financial statements of First Pacific for the year ended 31 December 2009, which are included in this Offering Circular, have been audited by Ernst & Young, Hong Kong, Certified Public Accountants, as stated in their report appearing herein.

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AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF FIRST PACIFIC FOR THE YEAR ENDED 31 DECEMBER 2009

The following is a reproduction of the audited consolidated financial statements of First Pacific for the year ended 31 December 2009 together with the independent auditors' report appearing in the 2009 annual report of First Pacific (the "Annual Report").

References to page numbers in the following financial statements refer to the original page numbers in the Annual Report and cross-references to page numbers are to such original page numbering.

Certain cross-references in the reproduced audited consolidated financial statements of First Pacific are to other sections of the Annual Report not contained in this Offering Circular. For the avoidance of doubt, such cross-referenced information is not incorporated by reference in this Offering Circular.

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UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS OF MPIC FOR THE THREE MONTHS ENDED 31 MARCH 2010

The following is a reproduction of the unaudited consolidated financial statements of MPIC for the three months ended 31 March 2010 together with the independent auditors' report.

References to page numbers in the relevant financial statements refer to the original page number of the unaudited consolidated financial statements.

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AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF MPIC FOR THE YEAR ENDED 31 DECEMBER 2009

The following is a reproduction of the audited consolidated financial statements of MPIC for the year ended 31 December 2009 together with the independent auditors' report appearing in the 2009 annual report of MPIC.

References to page numbers in the following financial statements refer to the original page numbers in the 2009 annual report of MPIC and cross-references to page numbers are to such original page numbering of the audited consolidated financial statements.

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Independent Auditors' Report

TO THE SHAREHOLDERS OF FIRST PACIFIC COMPANY LIMITED
(Incorporated in Bermuda with limited liability)

We have audited the Financial Statements of First Pacific Company Limited set out on pages 88 to 157, which comprise the consolidated and Company statements of financial position as at 31 December 2009, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated and Company statements of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Financial Statements

The Directors of the Company are responsible for the preparation and the true and fair presentation of these Financial Statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the Financial Statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these Financial Statements based on our audit. Our report is made solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the Financial Statements are free from material misstatement.

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

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

Opinion

In our opinion, the Financial Statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2009 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

ERNST & YOUNG
Certified Public Accountants

18th Floor, Two International Finance Centre
8 Finance Street, Central, Hong Kong

23 March 2010

Financial Statements

Consolidated Income Statement

For the year ended 31 December US$ millions	Notes	2009	2008 (Restated)[i]
Turnover	4	**3,925.6**	4,105.3
Cost of sales		**(2,739.9)**	(3,103.4)
Gross Profit		**1,185.7**	1,001.9
Gain on dilutions and divestments		**85.9**	28.7
Distribution costs		**(289.0)**	(273.9)
Administrative expenses		**(286.8)**	(256.8)
Other operating income/(expenses), net		**105.1**	(144.9)
Net borrowing costs	5	**(230.3)**	(150.5)
Share of profits less losses of associated companies and joint ventures		**233.4**	192.9
Profit Before Taxation	6	**804.0**	397.4
Taxation	7	**(143.7)**	(61.4)
Profit for the Year from Continuing Operations		**660.3**	336.0
Profit for the year from a discontinued operation	8	**1.1**	0.6
Profit for the Year		**661.4**	336.6
Attributable to:			
Owners of the parent	9	**401.6**	200.8
Minority interest		**259.8**	135.8
		661.4	336.6
Ordinary Share Dividends	10		
Interim – U.S. 0.51 cent (2008: U.S. 0.38 cent) per share		**16.5**	12.3
Proposed final – U.S. 1.03 cents (2008: U.S. 0.77 cent) per share		**39.6**	24.7
Total		**56.1**	37.0
Earnings Per Share Attributable to Owners of the Parent (U.S. cents)	11		
Basic			
– For profit from continuing operations		**11.64**	5.91
– For profit from a discontinued operation		**0.07**	–
– For profit for the year		**11.71**	5.91
Diluted			
– For profit from continuing operations		**11.28**	5.63
– For profit from a discontinued operation		**0.07**	–
– For profit for the year		**11.35**	5.63

(i) Refer to Note 2(B)

The Notes on pages 96 to 157 form an integral part of the Financial Statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December US$ millions	2009	2008
Profit for the Year	**661.4**	336.6
Other Comprehensive Income/(Loss)		
Exchange differences on translating foreign operations	**298.6**	(337.1)
Realized exchange and capital reserve upon dilution of interest in subsidiary companies	**9.0**	0.2
Realized exchange reserve upon divestment and dilution of interest in associated companies	**–**	(0.3)
Unrealized gains on available-for-sale assets	**16.9**	2.9
Realized gains on available-for-sale assets	**(3.6)**	(0.1)
Unrealized losses on cash flow hedges	**(5.8)**	(8.8)
Realized losses on cash flow hedges	**1.5**	–
Income tax related to cash flow hedges	**1.1**	2.9
Share of revaluation increment of an associated company's assets	**12.7**	–
Other comprehensive income/(loss) for the year, net of tax	**330.4**	(340.3)
Total Comprehensive Income/(Loss) for the Year	**991.8**	(3.7)
Attributable to:		
Owners of the parent	**540.7**	36.4
Minority interest	**451.1**	(40.1)
	991.8	(3.7)

The Notes on pages 96 to 157 form an integral part of the Financial Statements.

Consolidated Statement of Financial Position

At 31 December US$ millions	Notes	2009	2008
Non-current Assets			
Property, plant and equipment	12	**1,059.0**	808.4
Plantations	13	**1,009.2**	744.5
Associated companies and joint ventures	15	**2,068.0**	1,202.3
Goodwill	16	**775.2**	675.6
Other intangible assets	17	**1,728.4**	1,538.5
Accounts receivable, other receivables and prepayments	18	**6.6**	3.0
Prepaid land premiums	19	**183.0**	153.2
Available-for-sale assets	20	**2.1**	1.7
Deferred tax assets	21	**58.3**	38.7
Other non-current assets	22	**305.9**	217.1
		7,195.7	5,383.0
Current Assets			
Cash and cash equivalents	23	**936.6**	625.9
Pledged deposits and restricted cash	24	**29.2**	12.0
Available-for-sale assets	20	**40.4**	56.9
Accounts receivable, other receivables and prepayments	18	**639.1**	435.5
Inventories	25	**549.2**	557.4
Assets held for sale	8	**7.1**	–
		2,201.6	1,687.7
Assets of a disposal group classified as held for sale	8	**–**	128.3
		2,201.6	1,816.0
Current Liabilities			
Accounts payable, other payables and accruals	26	**628.2**	667.4
Short-term borrowings	27	**829.7**	1,207.0
Provision for taxation	28	**68.9**	55.8
Current portion of deferred liabilities and provisions	29	**73.5**	39.4
		1,600.3	1,969.6
Liabilities directly associated with the assets classified as held for sale	8	**–**	106.1
		1,600.3	2,075.7
Net Current Assets/(Liabilities)		**601.3**	(259.7)
Total Assets Less Current Liabilities		**7,797.0**	5,123.3
Equity			
Issued share capital	30	**38.6**	32.1
Retained earnings		**556.4**	196.0
Other components of equity	31	**1,321.2**	902.0
Equity attributable to owners of the parent		**1,916.2**	1,130.1
Minority interest	32	**2,122.9**	1,245.1
Total Equity		**4,039.1**	2,375.2
Non-current Liabilities			
Long-term borrowings	27	**2,855.6**	1,951.7
Deferred liabilities and provisions	29	**507.0**	432.4
Deferred tax liabilities	21	**395.3**	364.0
		3,757.9	2,748.1
		7,797.0	5,123.3

The Notes on pages 96 to 157 form an integral part of the Financial Statements.

On behalf of the Board of Directors

MANUEL V. PANGILINAN
Managing Director and Chief Executive Officer

EDWARD A. TORTORICI
Executive Director

23 March 2010

Company Statement of Financial Position

At 31 December US$ millions	Notes	**2009**	2008
Non-current Assets			
Subsidiary companies	14	**996.2**	996.2
		996.2	996.2
Current Assets			
Cash and cash equivalents	23	**262.2**	45.9
Amounts due from subsidiary companies	14(A)	**2,062.9**	1,889.5
Other receivables and prepayments		**0.1**	0.1
		2,325.2	1,935.5
Current Liabilities			
Amounts due to subsidiary companies	14(B)	**782.4**	832.6
Other payables and accruals		**0.8**	0.6
		783.2	833.2
Net Current Assets		**1,542.0**	1,102.3
Total Assets Less Current Liabilities		**2,538.2**	2,098.5
Equity			
Issued share capital	30	**38.6**	32.1
Retained earnings		**307.9**	344.0
Other components of equity		**1,461.8**	1,182.2
Equity attributable to owners of the parent		**1,808.3**	1,558.3
Non-current Liabilities			
Loans from subsidiary companies	14(C)	**729.9**	540.2
		2,538.2	2,098.5

The Notes on pages 96 to 157 form an integral part of the Financial Statements.

On behalf of the Board of Directors

MANUEL V. PANGILINAN
Managing Director and Chief Executive Officer

EDWARD A. TORTORICI
Executive Director

23 March 2010

Consolidated Statement of Changes in Equity

US$ millions	Notes	Issued share capital	Share premium	Share options issued	Exchange reserve	Unrealized gains/ (losses) on available-for-sale assets	Unrealized gains/ (losses) on cash flow hedges	Income tax related to cash flow hedges	Capital and other reserves	Retained earnings	Total	Minority interest	Total equity
		Equity attributable to owners of the parent											
Balance at 1 January 2008		32.2	971.7	17.6	44.0	10.3	11.0	(3.7)	(2.3)	50.5	1,131.3	991.7	2,123.0
Total comprehensive income for the year		–	–	–	(160.0)	1.5	(8.8)	2.9	–	200.8	36.4	(40.1)	(3.7)
Issue of shares upon the exercise of share options	30(A)	0.1	2.4	(0.9)	–	–	–	–	–	–	1.6	–	1.6
Repurchase and cancellation of shares		(0.2)	–	–	–	–	–	–	0.2	(10.1)	(10.1)	–	(10.1)
Equity-settled share option arrangements		–	–	18.0	–	–	–	–	–	–	18.0	–	18.0
2007 special dividend		–	–	–	–	–	–	–	–	(12.3)	(12.3)	–	(12.3)
2007 final dividend		–	–	–	–	–	–	–	–	(20.6)	(20.6)	–	(20.6)
2008 interim dividend	10	–	–	–	–	–	–	–	–	(12.3)	(12.3)	–	(12.3)
Reserve of a disposal group classified as assets held for sale		–	–	–	–	(0.1)	–	–	0.1	–	–	–	–
Acquisition of subsidiary companies	33(C)	–	–	–	–	–	0.5	–	(2.4)	–	(1.9)	295.1	293.2
Change in attributable interests		–	–	–	–	–	–	–	–	–	–	25.7	25.7
Dividends paid to minority shareholders		–	–	–	–	–	–	–	–	–	–	(27.3)	(27.3)
Balance at 31 December 2008		32.1	974.1	34.7	(116.0)	11.7	2.7	(0.8)	(4.4)	196.0	1,130.1	1,245.1	2,375.2
Balance at 1 January 2009		32.1	974.1	34.7	(116.0)	11.7	2.7	(0.8)	(4.4)	196.0	1,130.1	1,245.1	**2,375.2**
Total comprehensive income for the year		–	–	–	117.2	10.7	(3.9)	1.1	14.0	401.6	540.7	451.1	**991.8**
Issue of shares upon the exercise of share options	30(A)	–	1.2	(0.4)	–	–	–	–	–	–	0.8	–	**0.8**
Issue of shares in respect of rights issue	30(B)	6.5	270.6	–	–	–	–	–	–	–	277.1	–	**277.1**
Equity-settled share option arrangements	35(A)	–	–	8.8	–	–	–	–	–	–	8.8	0.5	**9.3**
2008 final dividend	10	–	–	–	–	–	–	–	–	(24.7)	(24.7)	–	**(24.7)**
2009 interim dividend	10	–	–	–	–	–	–	–	–	(16.5)	(16.5)	–	**(16.5)**
Disposal of a disposal group classified as assets held for sale		–	–	–	–	–	–	–	(0.1)	–	(0.1)	(6.4)	**(6.5)**
Acquisition of minority interest		–	–	–	–	–	–	–	–	–	–	(8.4)	**(8.4)**
Change in attributable interests		–	–	–	–	–	–	–	–	–	–	481.9	**481.9**
Dividends paid to minority shareholders		–	–	–	–	–	–	–	–	–	–	(40.9)	**(40.9)**
Balance at 31 December 2009		**38.6**	**1,245.9**	**43.1**	**1.2**	**22.4**	**(1.2)**	**0.3**	**9.5**	**556.4**	**1,916.2**	**2,122.9**	**4,039.1**

The Notes on pages 96 to 157 form an integral part of the Financial Statements.

Company Statement of Changes in Equity

US$ millions	Notes	Issued share capital	Share premium	Share options issued	Capital redemption reserve	Contributed surplus	Retained earnings	Total
Balance at 1 January 2008		32.2	971.7	17.0	–	173.8	348.1	1,542.8
Profit for the year		–	–	–	–	–	51.2	51.2
Issue of shares upon								
the exercise of share options	30(A)	0.1	2.4	(0.9)	–	–	–	1.6
Repurchase and cancellation of shares		(0.2)	–	–	0.2	–	(10.1)	(10.1)
Equity-settled share option arrangements		–	–	18.0	–	–	–	18.0
2007 special dividend		–	–	–	–	–	(12.3)	(12.3)
2007 final dividend		–	–	–	–	–	(20.6)	(20.6)
2008 interim dividend	10	–	–	–	–	–	(12.3)	(12.3)
Balance at 31 December 2008		32.1	974.1	34.1	0.2	173.8	344.0	**1,558.3**
Profit for the year		–	–	–	–	–	5.1	**5.1**
Issue of shares upon								
the exercise of share options	30(A)	–	1.2	(0.4)	–	–	–	**0.8**
Issue of shares in respect of rights issue	30(B)	6.5	270.6	–	–	–	–	**277.1**
Equity-settled share option arrangements		–	–	8.2	–	–	–	**8.2**
2008 final dividend	10	–	–	–	–	–	(24.7)	**(24.7)**
2009 interim dividend	10	–	–	–	–	–	(16.5)	**(16.5)**
Balance at 31 December 2009		**38.6**	**1,245.9**	**41.9**	**0.2**	**173.8**	**307.9**	**1,808.3**

The Notes on pages 96 to 157 form an integral part of the Financial Statements.

Consolidated Statement of Cash Flows

For the year ended 31 December US$ millions	Notes	2009	2008
Profit Before Taxation			
From continuing operations		**804.0**	397.4
From a discontinued operation		**0.1**	1.3
Adjustments for:			
Interest expenses	5	**257.8**	185.3
Depreciation	6	**94.2**	79.2
Amortization of other intangible assets	17	**83.7**	27.3
Impairment losses recognized	6	**12.4**	43.9
Loss/(gain) on sale of property, plant and equipment	6	**9.6**	(0.6)
Equity-settled share option expense	35(A)	**9.3**	18.0
Recognition of prepaid land premiums	6	**8.1**	7.1
Share of profits less losses of associated companies and joint ventures		**(233.4)**	(192.9)
Gain on dilution of interest in subsidiary companies	6	**(84.7)**	(18.9)
Foreign exchange and derivative (gains)/losses, net	6	**(72.6)**	83.2
Increase in other non-current assets		**(71.0)**	(35.7)
(Gain)/loss on changes in fair value of plantations	6	**(60.2)**	97.7
Interest income	5	**(27.5)**	(34.8)
Realized gain on sale of available-for-sale assets	6	**(3.6)**	(0.1)
(Increase)/decrease in accounts receivable, other receivables and prepayments (Non-current)		**(1.5)**	37.5
Gain on divestment and dilution of interest in an associated company	6	**(1.2)**	(9.8)
Dividend income from available-for-sale assets	6	**(0.1)**	(0.5)
Others		**3.3**	(8.0)
		726.7	676.6
(Decrease)/increase in accounts payable, other payables and accruals		**(229.4)**	69.1
Decrease/(increase) in inventories		**91.2**	(160.3)
Increase in accounts receivable, other receivables and prepayments (Current)		**(155.5)**	(151.6)
Net cash generated from operations[i]		**433.0**	433.8
Interest received		**21.3**	40.7
Interest paid		**(244.3)**	(196.9)
Tax paid	28	**(150.9)**	(112.4)
Net Cash Flows from Operating Activities		**59.1**	165.2

(i) Changes in working capital are stated excluding movements due to acquisition and disposal of subsidiary companies.

continued/...

Consolidated Statement of Cash Flows (continued)

For the year ended 31 December US$ millions	Notes	2009	2008
Dividends received from associated companies	15(B)	**210.6**	211.9
Proceeds from disposal of available-for-sale assets		**43.3**	–
Proceeds from sale of property, plant and equipment		**5.6**	20.8
Proceeds from divestment of interest in an associated company		**2.5**	–
Investments in associated companies	33(A)	**(274.5)**	(140.5)
Increased investments in associated companies	33(B)	**(271.2)**	–
Purchase of property, plant and equipment		**(221.8)**	(163.4)
Investments in other intangible assets		**(99.3)**	(67.8)
Investments in plantations		**(68.7)**	(76.7)
Increased investments in subsidiary companies		**(10.4)**	–
Investments in a joint venture		**(5.3)**	–
Acquisition of available-for-sale assets		**(0.9)**	(38.9)
Acquisition of subsidiary companies		**(0.8)**	(611.8)
Loans and advances to a joint venture, net		**–**	(19.0)
Deposits for increased investments in subsidiary companies		**–**	(12.9)
Net Cash Flows Used in Investing Activities		**(690.9)**	(898.3)
Proceeds from new borrowings		**1,805.4**	1,871.1
Shares issued to minority interest by a subsidiary company		**286.9**	–
Proceeds from rights issue of the Company		**277.1**	–
Proceeds from sale of treasury shares by a subsidiary company		**18.2**	62.1
Proceeds from the issue of shares upon the exercise of share options		**1.5**	1.6
Borrowings repaid		**(1,384.8)**	(1,050.9)
Increase in time deposits with original maturity of more than three months		**(50.9)**	–
Dividends paid to shareholders		**(41.2)**	(45.2)
Dividends paid to minority shareholders by subsidiary companies		**(40.9)**	(27.3)
Increase in restricted cash		**(16.7)**	–
Repurchase of shares		**–**	(10.1)
Repurchase of subsidiary companies' shares		**–**	(7.7)
Net Cash Flows from Financing Activities		**854.6**	793.6
Net Increase in Cash and Cash Equivalents		**222.8**	60.5
Cash and cash equivalents at 1 January		**625.9**	600.8
Exchange translation		**35.2**	(35.4)
Cash and Cash Equivalents at 31 December		**883.9**	625.9
Representing			
Cash and cash equivalents		**936.6**	625.9
Less time deposits with original maturity of more than three months		**(52.7)**	–
Cash and Cash Equivalents at 31 December		**883.9**	625.9

The Notes on pages 96 to 157 form an integral part of the Financial Statements.

1. Corporate Information

First Pacific Company Limited is a Hong Kong-based investment and management company with operations located in Asia. Its principal business interests relate to telecommunications, consumer food products, infrastructure and natural resources.

The Group comprises the Company and its subsidiary companies.

The Company is a limited liability company incorporated in Bermuda. The address of its registered office is Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda.

The Company's ordinary shares are listed on the SEHK. Its shares are also available for trading in the United States through ADRs.

2. Basis of Preparation and Summary of Principal Accounting Policies

(A) Basis of Preparation

The Financial Statements have been prepared in accordance with HKFRSs (which include all HKFRSs, HKASs and Interpretations) issued by the HKICPA, Hong Kong GAAP, the disclosure requirements of the Hong Kong Companies Ordinance and the Listing Rules. The Financial Statements have been prepared under the historical cost convention except for plantations, available-for-sale assets and derivative financial instruments which, as disclosed in the accounting policies below, are stated at fair value. These Financial Statements are presented in United States (U.S.) dollars and rounded to the nearest million (US$ millions) with one decimal place except when otherwise indicated.

(B) Impact of New and Revised HKFRSs

During 2009, the Group adopted the following new and revised HKFRSs issued by the HKICPA for the first time for the current year's financial statements:

HKAS 1 (Revised)	"Presentation of Financial Statements"(i)
HKAS 18 Amendment	"Determining whether an Entity is Acting as a Principal or as an Agent"(i)
HKAS 23 (Revised)	"Borrowing Costs"(i)
HKAS 32 and HKAS 1 Amendments	"Puttable Financial Instruments and Obligations Arising on Liquidation"(i)
HKFRS 1 and HKAS 27 Amendments	"Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate"(i)
HKFRS 2 Amendments	"Vesting Conditions and Cancellations"(i)
HKFRS 7 Amendments	"Improving Disclosures about Financial Instruments"(i)
HKFRS 8	"Operating Segments"(i)
HK(IFRIC)-Int 9 and HKAS 39 Amendments	"Reassessment of Embedded Derivatives" and "Embedded Derivatives"(ii)
HK(IFRIC)-Int 13	"Customer Loyalty Programmes"(iii)
HK(IFRIC)-Int 15	"Agreements for the Construction of Real Estate"(i)
HK(IFRIC)-Int 16	"Hedges of a Net Investment in a Foreign Operation"(iv)
HK(IFRIC)-Int 18	"Transfers of Assets from Customers"(v)
Improvements to HKFRSs	"Improvements to HKFRSs"(vi)

(i) Effective for annual periods commencing on or after 1 January 2009
(ii) Effective for annual periods ending on or after 30 June 2009
(iii) Effective for annual periods commencing on or after 1 July 2008
(iv) Effective for annual periods commencing on or after 1 October 2008
(v) Effective for the transfer of assets from customers received on or after 1 July 2009
(vi) Generally effective for annual periods commencing on or after 1 January 2009, unless otherwise stated in specific HKFRSs

The adoption of the above new and revised HKFRSs has had no effect on both the profit attributable to owners of the parent for the years ended 31 December 2009 and 31 December 2008 and equity attributable to owners of the parent at 31 December 2009 and 31 December 2008, but has only resulted in certain changes to the presentation of financial statements and disclosures.

During 2009, the Group has also early adopted HKAS 32 Amendment "Classification of Rights Issues", which is effective for annual periods beginning on or after 1 February 2010, with early adoption permitted, and has applied it retrospectively. The amendment revises the definition of financial liabilities such that rights issues, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency are equity instruments, provided that the entity offers the rights issues, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. The offer of rights shares by the Company to its shareholders in November 2009, on the basis of one rights share for every five existing shares held at a subscription price of HK$3.40 per one rights share, was accounted for as an equity instrument of the Group in its Financial Statements.

In December 2009, the Company completed the rights issue. The effect of the bonus element included within the rights issue has been included within the calculations of basic and diluted earnings per share for the year, through an adjustment to the weighted average number of ordinary and dilutive potential ordinary shares outstanding. Comparative amounts have been restated on this basis.

(C) Impact of Issued but not yet Effective HKFRSs

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these Financial Statements.

HKAS 24 (Revised)	"Related Party Disclosures"
HKAS 27 (Revised)	"Consolidated and Separate Financial Statements"
HKAS 39 Amendment	"Eligible Hedged Items"
HKFRS 1 (Revised)	"First-time Adoption of Hong Kong Financial Reporting Standards"
HKFRS 1 Amendments	"Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters" and "Additional Exemptions for First-time Adopters"
HKFRS 2 Amendments	"Group Cash-settled Share-based Payment Transactions"
HKFRS 3 (Revised)	"Business Combinations"
HKFRS 9	"Financial Instruments"
HK(IFRIC)-Int 14 Amendments	"Prepayments of a Minimum Funding Requirement"
HK(IFRIC)-Int 17	"Distributions of Non-cash Assets to Owners"
HK(IFRIC)-Int 19	"Extinguishing Financial Liabilities with Equity Instruments"
HK Interpretation 4 (Revised)	"Lease – Determination of the Length of Lease Term in respect of Hong Kong Leases"
Improvements to HKFRSs	"Improvements to HKFRSs" and "Improvements to HKFRSs 2009"

HKAS 24 (Revised) shall be applied for annual periods beginning on or after 1 January 2011. The revised standard clarifies the definition of related parties. It also provides for a partial exemption of related party disclosure to government related entities for transactions with the same government or entities that are controlled, jointly controlled or significantly influenced by a government.

HKAS 27 (Revised) shall be applied for annual periods beginning on or after 1 July 2009. The revised standard replaces the term "minority interest" with "non-controlling interest" and requires changes in a parent's ownership interest in a subsidiary company that do not result in a loss of control to be accounted for as equity transactions.

HKAS 39 Amendment shall be applied for annual periods commencing on or after 1 July 2009. The amendment addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item.

HKFRS 1 (Revised) shall be applied for annual periods beginning on or after 1 July 2009. The revised version has an improved structure but does not contain any changes in accounting treatments.

HKFRS 1 Amendments shall be applied for annual periods beginning on or after 1 January 2010. The amendments exempt (a) entities using the full cost method from retrospective application of HKFRSs for oil and gas assets; and (b) entities with existing leasing contracts from reassessing the classification of those contracts in accordance with HK(IFRIC)-Int 4 "Determining whether an Arrangement contains a Lease" when the application of their other accounting requirements produced the same result.

HKFRS 2 Amendments shall be applied to annual periods beginning on or after 1 January 2010. The amendments provide guidance on how to account for cash-settled share-based payment transactions in the separate financial statements of the entity receiving the goods and services when the entity has no obligation to settle the share-based payment transactions.

HKFRS 3 (Revised) shall be applied prospectively to business combinations for which the acquisition date is on or after the beginning of the annual period beginning on 1 July 2009. The revised standard requires (a) for partial acquisitions, non- controlling interests shall be measured either as their proportionate interests in the net identifiable assets or at fair value; (b) for step acquisitions, goodwill shall be measured as the difference at the acquisition date between the fair value of any investment in the business held before the acquisition, the consideration transferred and the net assets acquired; (c) the recognition of acquisition-related costs as expenses, rather than included in goodwill and (d) the recognition of contingent consideration measured at fair value at the acquisition date.

HKFRS 9 shall be applied for annual periods beginning on or after 1 January 2013. The standard simplifies the many different rules in HKAS 39 into a single approach to determine whether a financial asset is measured at amortized cost or fair value. The approach is based on how an entity manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets.

HK(IFRIC)-14 Amendments be applied for annual periods beginning on or after 1 January 2011. The amendments remove an unintended consequence arising from the treatment of prepayments of future contributions in certain circumstances when there is a minimum funding requirement. The amendments require an entity to treat the benefit of an early payment as a pension asset. The economic benefit available as a reduction in future contributions is thus equal to the sum of (a) the prepayment for future services and (b) the estimated future services costs less the estimated minimum funding requirement contributions that would be required as if there were no prepayments.

HK(IFRIC)-Int 17 shall be applied for annual periods beginning on or after 1 July 2009. This interpretation provides guidance to the entities which distributes assets other than cash (i.e., non-cash assets to its owners acting in their capacity as owners) The interpretation requires entities to (a) recognize the dividend payable when the dividend is appropriately authorized and is no longer at the discretion of the entity; (b) measure the dividend payable at the fair value of the assets to be distributed and (c) recognize the difference between the carrying amount of the assets distributed and the carrying amount of the dividend payable in profit and loss when the entities settle the dividend payable.

HK(IFRIC)-Int 19 shall be applied for annual periods beginning on or after 1 July 2010. This interpretation clarifies that (a) the entity's equity instruments issued to a creditor are part of the consideration paid to extinguish the financial liability; (b) the equity instruments issued are measured at their fair value and (c) the difference between the carrying amount of the financial liability extinguished and the initial measurement amount of the equity instruments issued is included in the entity's profit or loss for the period.

HK Interpretation 4 (Revised) shall be applied for annual periods beginning on or after 1 January 2010. The revised standard has expanded its scope to cover all land leases, including those classified as finance leases. As a result, this Interpretation is applicable to all leases of property accounted for in accordance with HKAS 16 "Property, Plant and Equipment", HKAS 17 "Leases" and HKAS 40 "Investment Property".

Improvements to HKFRSs and Improvements to HKFRSs 2009 sets out certain amendments to HKFRSs made in response to the International Accounting Standards Board's annual improvement projects, which include certain changes that may result in accounting changes for presentation, recognition or measurement purposes. The key amendments are summarized as follows.

HKAS 1 "Presentation of Financial Statements" Amendment shall be applied for annual periods beginning on or after 1 January 2010. The amendment clarifies that the terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments (i.e. for a liability component of a convertible instrument) do not affect its classification as a current liability if there is no unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

HKAS 7 "Statement of Cash Flows" Amendment shall be applied for annual periods beginning on or after 1 January 2010. The amendment clarifies that only expenditures that result in a recognized asset in the statement of financial position are eligible for classification as investing activities.

HKAS 17 "Leases" Amendment shall be applied for annual periods beginning on or after 1 January 2010. The amendment (a) clarifies that an entity should assess the classification of land and building elements as a finance or an operating lease separately in accordance with the requirements set out in HKAS 17; (b) suggests that in determining whether the land element is an operating or a finance lease, an important consideration is that land normally has an indefinite economic life and (c) requires that an entity shall reassess the classification of land elements of unexpired leases at the date it adopts the amendments on the basis of information existing at the inception of those leases.

HKAS 36 "Impairment of Assets" Amendment shall be applied prospectively for annual periods beginning on or after 1 January 2010. The amendment clarifies that for the purpose of impairment testing, each unit or the group of units to which the goodwill is so allocated shall not be larger than an operating segment as defined by HKFRS 8 "Operating Segments" before aggregation.

HKAS 38 "Intangible assets" Amendment shall be applied prospectively for annual periods beginning on or after 1 July 2009. The amendment suggests the techniques may be used for initial measurement of an intangible asset acquired in a business combination if the objective is to estimate fair value and to reflect current transactions and practices in the industry to which the intangible asset belongs. These techniques include (a) discounting estimated future net cash flows from the asset; (b) estimating the costs the entity avoids by owning the intangible asset and not owning it; (c) to license it from another party in an arm's length transaction; or (d) to recreate or replace it.

HKAS 39 "Financial Instruments: Recognition and Measurement" Amendment shall be applied prospectively for annual periods beginning on or after 1 January 2010. The amendment (a) clarifies that the standard shall be applied by all entities to all types of financial instruments except for any forward contracts between an acquirer and a selling shareholder to buy or sell an acquiree that will result in a business combination at a future acquisition date and (b) clarifies that if a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability the associated gains or losses that were recognized in other comprehensive income shall be reclassified from equity to profit or loss as a reclassification adjustment in the same period or periods during which the hedged forecast cash flows affect profit or loss.

HKFRS 2 "Share-based Payment" Amendment shall be applied for annual periods beginning on or after 1 July 2009. The amendment clarifies that an entity shall not apply HKFRS 2 to transactions in which the entity acquires goods (e.g. inventories, plant and equipment, intangible assets and other non-financial assets) as part of the net assets acquired in a business combination as defined by HKFRS 3 "Business Combinations" or the contribution of a business on the formation of a joint venture as defined by HKAS 31 "Interests in Joint Ventures" i.e. HKFRS 2 shall not be applied for an entity's shares issued for business combinations and investments in joint ventures.

HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" Amendments included in "Improvements to HKFRSs" issued in October 2008 shall be applied for annual periods beginning on or after 1 July 2009. The amendments require an entity that is committed to a sale plan involving loss of control of a subsidiary to classify all assets and liabilities of that subsidiary as held for sale when the criteria set out in HKFRS 5 are met. The amendments included in "Improvements to HKFRSs 2009" issued in May 2009 contain certain changes that shall be applied for annual periods beginning on or after 1 January 2010 which (a) specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations and (b) clarifies that disclosures in other HKFRSs do not apply to non-current assets (or disposal groups) classified as held for sale or discontinued operations unless those HKFRSs require: (a) specific disclosures in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations; or (b) disclosures about measurement of assets and liabilities within a disposal group that are not within the scope of the measurement requirement of HKFRS 5 and such disclosures are not already provided in the other notes to the financial statements.

HKFRS 8 "Operating Segments" Amendment shall be applied for annual periods beginning on or after 1 January 2010. The amendment requires that an entity shall report a measure of profit or loss for each reportable segment and a measure of total assets and liabilities for each reportable segment if such amounts are regularly provided to the chief operating officer.

HK(IFRIC)-Int 9 "Reassessment of Embedded Derivatives" Amendment shall be applied prospectively for annual periods beginning on or after 1 July 2009. The interpretation does not apply to embedded derivatives in contracts acquired in (a) a business combination; (b) a combination of entities or business under common control as described in HKFRS 3 (revised 2008); and (c) the formation of a joint venture as defined in HKAS 31 "Interests in Joint Ventures" or their possible reassessment at the date of acquisition.

HK(IFRIC)-Int 16 "Hedges of a Net Investment in a Foreign Operation" Amendment shall be effective for annual periods beginning on or after 1 July 2009. The interpretation clarifies that a derivative or a non-derivative instrument (or a combination of derivative and non-derivative instruments) can be designated as a hedging instrument in a hedge of a net investment in a foreign operation, which can be held by any entity or entities within the group, as long as the designation, documentation and effectiveness requirements of HKAS 39 that relate to a net investment hedge are satisfied.

The Group has not early adopted the above new and revised HKFRSs for the year ended 31 December 2009. The Company has already commenced an assessment of the impact of these new and revised HKFRSs but is not yet in a position to state whether these new and revised HKFRSs would have a significant impact on its results of operations and financial position and presentation of its Financial Statements.

(D) Summary of Principal Accounting Policies

(a) Basis of consolidation

The Financial Statements include the financial statements of the Company and its subsidiary companies for the year ended 31 December 2009. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

A subsidiary company is an entity controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities.

The results of subsidiary companies acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition, being the date on which the Group obtains control, or up to the effective date of disposal, as appropriate. The gain or loss on disposal of a subsidiary company represents the difference between the net proceeds from sale and the Group's share of its net assets, including the attributable carrying amount of goodwill.

The acquisition of subsidiary companies during the year has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity investments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Minority interest represents the interests of minority shareholders not held by the Group in the results and net assets of the Company's subsidiary companies. An acquisition of a minority interest is accounted for using the parent entity extension method whereby the difference between the consideration and the existing carrying amount of the share of the net assets acquired is recognized as goodwill.

For business combinations involving entities or businesses under common control (a business combination in which all of the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory), they are accounted for applying the principles of merger accounting which is consistent with Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the HKICPA. The method requires the combined entity to recognize the assets, liabilities and equity of the combining entities or businesses at the carrying amounts (i.e., existing book values from the controlling parties' perspective) in the consolidated financial statements of the controlling party or parties prior to the common control combination. There is no recognition of any goodwill or excess of the acquirer's interest in the net fair value of the acquiree's identified assets, liabilities and contingent liabilities over the cost at the time of the common control combination to the extent of the controlling party's or parties' interests.

In the Company's statement of financial position, investments in subsidiary companies are stated at cost less any provision for impairment losses. The results of subsidiary companies are accounted for by the Company on the basis of dividends received and receivable.

(b) Cash and cash equivalents

For the purpose of the statements of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short-term highly liquid investments which are readily convertible into known amounts of cash, and are subject to an insignificant risk of changes in value, less bank overdrafts which are repayable on demand and which form an integral part of the Group's cash management.

(c) Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is calculated using the first-in, first-out method, the weighted average method or the moving average method, and in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. The cost of goods purchased for resale includes costs incurred in bringing the goods to their present location. Net realizable value is determined on the basis of current anticipated selling prices less estimates of costs to completion and selling expenses.

(d) Property, plant and equipment

Freehold land is stated at cost and is not depreciated. Other property, plant and equipment is stated at cost less accumulated depreciation and any impairment losses, calculated on the straight-line basis at annual rates estimated to write off their book values to residual values over their expected useful lives. Details of depreciation rates are set out in Note 12(A).

The initial cost of property, plant and equipment comprises its purchase price and any costs directly attributable in bringing the asset to its working condition and location for its intended use. Cost also includes asset retirement obligation, interest on borrowed funds used during the construction period and qualified borrowing costs from foreign exchange losses related to foreign currency denominated liabilities used to acquire such assets. Major costs incurred in restoring property, plant and equipment to their normal working condition are charged to the income statement. Improvements are capitalized and depreciated over their expected useful lives to the Group. When assets are sold or retired, their costs and accumulated depreciation, amortization and impairment losses, if any, are eliminated from the accounts and any gain or loss resulting from their disposal is included in the income statement.

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed periodically to ensure that the periods and method of depreciation are consistent with the expected pattern of economic benefits from items of property, plant and equipment.

(e) Plantations

Plantations, which primarily comprise oil palm and rubber plantations, are stated at fair value less estimated point-of-sale costs. Gains or losses arising on initial recognition of plantations at fair value less estimated point-of-sale costs and from the change in fair value less estimated point-of-sale costs of plantations at each reporting date are included in the income statement for the period in which they arise.

The fair value of the oil palm plantations is estimated by reference to independent professional valuations using the discounted cash flows of the underlying plantations. The expected cash flows from the whole life cycle of the oil palm plantations is determined using the market price of the estimated yield of the fresh fruit bunches (FFB), net of maintenance and harvesting costs, and any costs required to bring the oil palm plantations to maturity. The estimated yield of the oil palm plantations is dependent on the age of the oil palm trees, the location, soil type and infrastructure. The market price of the FFB is largely dependent on the prevailing market prices of crude palm oil (CPO) and palm kernel oil (PKO).

Oil palm trees have an average life that ranges from 20 to 25 years, with the first three to four years as immature and the remaining as mature.

Rubber tress have an average life that ranges from 20 to 25 years, with the first five to six years as immature and the remaining years as mature. Rubber plantations are considered mature when at least 70% of the trees per block are tapable and, the circumference of the trunk of the tree is 45 centimeters or more at the height of 160 centimeters from the ground.

(f) Associated companies

An associated company is an entity, not being a subsidiary company or a joint venture, in which the Group has a long-term interest of generally not less than 20% of the equity voting rights and over whose management the Group is in a position to exercise significant influence, including participation in the financial and operating policy decisions.

Investments in associated companies are accounted for by the equity method of accounting, less any impairment losses. The Group's investments in associated companies include goodwill (net of any accumulated impairment losses) identified on acquisition. The Group's share of its associated companies' post-acquisition profits and losses is recognized in the consolidated income statement, and its share of post-acquisition movements in reserves is recognized in consolidated reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Income from associated companies is stated in the consolidated income statement as the Group's share of profits less losses of associated companies. For the share of associated companies' post acquisition movements in reserves recognized in the Group's consolidated reserves, the Group will disclose it, when applicable in the consolidated statement of changes in equity.

Equity accounting is discontinued when the carrying amount of the investment in an associated company reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associated company.

(g) Joint ventures

The Group recognized its interests in joint ventures using the equity method of accounting. Under the equity method of accounting, such interests are stated at cost plus post-acquisition changes in the Group's share in the net assets of the joint ventures, less any impairment losses. The income statement reflects the Group's share of the results of operations of the joint ventures from the date of incorporation of the joint ventures.

(h) Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired from business combinations is initially recognized at fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment loss. The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. The Group's concession assets represent the fair value of concessions of right granted by governments to charge users of public services provided. The concession assets are amortized using the straight-line method over the term of the concessions. The Group's brands represent the brands for its various milk-related products. The brands are amortized using the straight-line method over their estimated useful lives.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortized. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

(i) Asset retirement obligations

The net present value of legal obligations associated with the retirement of an item of property, plant and equipment that resulted from the acquisition, construction or development and the normal operation of property, plant and equipment is recognized in the period in which it is incurred.

(j) Income tax

Income tax comprises current and deferred taxes. Income tax relating to items recognized outside profit or loss is recognized either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amounts are those that are enacted or substantively enacted, by the end of the reporting period, in the countries where the Group operates and generates taxable income.

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

Deferred tax liabilities are recognised for all taxable temporary differences (with limited exceptions) while deferred tax assets are recognized for all deductible temporary differences, carryforward of unused tax assets and unused tax losses (with limited exceptions). The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Conversely, previously unrecognized deferred tax assets are recognized to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

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

(k) Provisions and contingent liabilities

A provision is recognized when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. When the effect of discounting is material, the amount recognized for a provision is the present value, at the end of the reporting period, of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount, arising from the passage of time, is included in net borrowing costs in the income statement.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote.

(l) Impairment of assets

An assessment is made at the end of each reporting period as to whether there is any indication of impairment of assets including property, plant and equipment, certain investments, goodwill and other long-lived assets, or whether there is any indication that an impairment loss previously recognized for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's fair value less costs to sell and value in use.

An impairment loss is recognized only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, then the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognized impairment loss of all assets other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of the asset. However, this is limited and will not give rise to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortization) had no impairment loss been recognized for the asset in prior years.

A reversal of such an impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

(m) Accounting for acquisition and disposal

(I) Results

The results of subsidiary or associated companies acquired or disposed of are accounted for from or to the effective date of acquisition or disposal.

(II) Fair value adjustments

On the acquisition of a subsidiary company or an interest in an associated company, the acquisition cost is allocated to the fair values of the identifiable assets, liabilities and contingent liabilities acquired.

(III) Goodwill

Goodwill represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets, liabilities and contingent liabilities acquired as at the date of acquisition. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is not amortized but reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired and its amount will be written down for impairment when it is considered necessary. A previously recognized impairment loss for goodwill is not reversed.

Any excess of the Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of the acquisition, after reassessment, is recognized immediately in the consolidated income statement.

In the case of associated companies and joint ventures, goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated statement of financial position.

(n) Foreign currencies

(I) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (functional currency). The Financial Statements are presented in the currency of United States dollars, which is the Company's functional and presentation currency.

(II) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement (except for those which will be refunded or billed to customers through billings as approved by governments under service concession arrangements). Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

(III) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each statement of financial position presented are translated at the closing rate at the end of the reporting period;

(ii) income and expenses for each income statement are translated at the average exchange rates; and

(iii) all resulting exchange differences are recognized in other comprehensive income. On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to other comprehensive income. When a foreign operation is sold, such exchange differences are recognized in the income statement as part of the gain or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and are translated at the closing rate.

(IV) Statement of cash flows

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiary companies are translated into United States dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries and jointly-controlled entities which arise throughout the year are translated into United States dollars at the average exchange rates of the year.

(o) Turnover and revenue recognition

Turnover represents the amounts received and receivable from the sale of goods and the rendering of services to third parties, falling within the ordinary activities of the Group's businesses. Turnover from sales is recognized when the ownership of goods sold has been transferred to the buyer. Turnover from services is recognized when it can be measured reliably by reference to stages of completion for the rendering of the said services.

Construction revenue is recognized by reference to the stages of completion. Dividend income is recognized when the Group's right to receive payment has been established. Interest income is recognized as it accrues taking into account the principal amount outstanding and the effective interest rate.

(p) Segmental information

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the Group), whose operating results are regularly reviewed by the Group's chief operating decision-maker who make decisions about how resources are to be allocated to the segment and to assess its performance, and for which discrete financial information is available.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. They are determined before intragroup balances and intragroup transactions are eliminated as part of the consolidation process.

(q) Leases

Leases, where substantially all of the risks and rewards of ownership of assets remain with the lessor, are accounted for as operating leases. Where the Group is the lessee, rentals payable under operating leases are recorded in the income statement on the straight-line basis over the lease terms.

Prepaid land premiums for land lease payments under operating leases are initially stated at cost and subsequently recognized as expenses on the straight-line basis over the lease terms.

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalized at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Finance lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. A finance lease gives rise to a depreciation expense for the asset as well as a borrowing cost for each period. Finance charges are charged directly to current operations. The depreciation policy for leased assets is consistent with that for depreciable assets that are owned by the Group.

(r) Employee benefits

(I) Pension obligations

The Group operates defined contribution and defined benefit retirement schemes.

Contributions to defined contribution schemes by the Group and employees are calculated as a percentage of the employees' basic salaries. The Group's contributions to defined contribution schemes are expensed as incurred and are reduced by contributions forfeited by those employees who leave the schemes prior to the contributions vesting fully.

Contributions to defined benefit schemes are determined based on the value of the retirement scheme assets and estimates of the effects of future events on the actuarial present value of accrued pension obligations, and are determined on the basis of actuarial valuations using the projected unit credit method. The costs of defined benefit schemes are charged against profit on a systematic basis so as to be spread over the expected remaining service lives of the employees affected. Actuarial gains and losses are recognized immediately in the income statement as and when they occur.

(II) *Long service payments*

Certain of the Group's employees are eligible for long service payments in the event of the termination of their employment. A provision is recognized in respect of the probable future long service payments expected to be made. The provision is the best estimate of the probable future payments that have been earned by the employees from their service to the Group at the end of the reporting period.

(III) *Equity-settled transactions*

The cost of equity-settled transactions with employees is measured by reference to the fair value of the share options at the date at which they are granted. Fair value is determined using an option pricing model.

The cost of equity-settled transactions is recognized, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled. The cumulative expense recognized for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the number of awards that will ultimately vest, based on the best available estimate.

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

Where the terms of an equity-settled award are modified, an expense, as a minimum, is recognized as if the terms had not been modified if the original terms of the award are met. An expense is recognized for any increase in the value of the transactions as a result of the modification, as measured at the date of modification.

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

(IV) *Cash-settled transactions*

The Group's associated companies grant share appreciation rights (SARs) to eligible key executives and advisors, and recognize the services received and the liability to pay for those services, as the eligible key executives and advisors render services during the vesting period. The liability is measured, initially and at the end of each reporting period until settled, at the fair value of the SARs, by applying an option valuation model, taking into account the terms and conditions on which the SARs were granted, and the extent to which the eligible key executives and advisors have rendered service to date. Until settled, any changes in fair value at each reporting date will be recognized in the income statement.

(V) *Paid leave carried forward*

The Group provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the end of the reporting period is permitted to be carried forward and utilized by the respective employees in the following year. An accrual is made at the end of the reporting period for the expected future cost of such paid leave earned during the year by the employees and carried forward.

(s) Borrowing costs

Borrowing costs are interest and other costs incurred in connection with the borrowing of funds. Other costs include exchange differences on foreign currency borrowings. Exchange differences arising from foreign currency borrowings are included in borrowing costs to the extent that they are regarded as an adjustment to interest costs.

Borrowing costs are expensed in the income statement in the year in which they are incurred, except to the extent that they are capitalized as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to prepare for its intended use or sale.

(t) Financial assets and financial liabilities

The Group recognizes a financial asset or a financial liability in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument and derecognizes a financial asset when the Group no longer controls the contractual rights to the cash flows that comprise the financial instrument, which is normally the case when the instrument is sold, or all the cash flows attributable to the instrument have already expired or are passed through to an independent third party. A financial liability (or a part of a financial liability) is derecognized when the obligation is extinguished. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the end of the reporting period. In the case of a regular way purchase or sale of financial assets, recognition or derecognition, as applicable, is done using the trading date accounting, which means the accounting based on the date that the Group commits to purchase or sell the asset.

Financial assets within the scope of HKAS 39 "Financial Instruments: Recognition and Measurement" are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held to maturity when the Group has the positive intention and ability to hold to maturity. Available-for-sale financial assets are non-derivative financial assets in listed and unlisted equity securities that are designated as available for sale or are not classified in any of the other three categories.

A financial asset or financial liability can be designated as a financial asset or financial liability at fair value through profit or loss only upon its initial recognition. The Group may use this designation only in the case of a contract containing one or more embedded derivatives (as described below) or when doing so results in more relevant information, because either

(i) it eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on a different basis; or

(ii) a group of financial assets, financial liabilities or both are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the Group's key management personnel.

For a contract containing one or more embedded derivatives, the Group may designate the entire hybrid (combined) contract as a financial asset or financial liability at fair value through profit or loss unless:

(i) the embedded derivative(s) does not significantly modify the cash flows that otherwise would be required by the contract; or

(ii) it is clear with little or no analysis when a similar hybrid (combined) instrument is first considered that separation of the embedded derivative(s) is prohibited, such as a prepayment option embedded in a loan that permits that holder to prepay the loan for approximately its amortized cost.

Financial assets or financial liabilities are recognized initially at fair value. Transaction costs are included in the initial measurement of all financial assets and liabilities, except for financial instruments measured at fair value through profit or loss. Fair value is determined by reference to the transaction price or other market prices. If such market prices are not reliably determinable, the fair value of the consideration is estimated as the sum of all future cash payments or receipts, discounted using the prevailing market rates of interest for similar instruments with similar maturities.

After initial recognition, the following financial assets and liabilities are measured at amortized cost using the effective interest method: (i) loans and receivables; (ii) held-to-maturity investments; and (iii) financial liabilities other than liabilities measured at fair value through profit or loss, whereas available-for-sale assets are measured at fair value with gains or losses being recognized in other comprehensive income until the investment is derecognized or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in other comprehensive income is included in the income statement. Amortized cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Amortized cost for held-to-maturity investments is computed as the amount initially recognized minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initially recognized amount and the maturity amount.

Investments in unquoted equity securities and derivatives linked thereon are measured at cost.

Amortization of discounts and premiums is taken directly to the consolidated income statement. Changes in the fair value of financial assets and liabilities measured at fair value of (i) all derivatives (except for those eligible for hedge accounting); (ii) other items intended to be actively traded; and (iii) any item designated as "at fair value through profit or loss" at origination, are taken directly to the income statement. Changes in the fair value of available-for-sale financial assets are recognized as other comprehensive income, except for the foreign exchange fluctuations on available-for-sale debt securities and the interest component which is taken directly to net profit or loss for the period based on the asset's effective yield.

Financial assets and liabilities include financial instruments which may be a primary instrument, such as receivables, payables and equity securities, or a derivative instrument, such as financial options, futures and forwards, interest rate swaps and currency swaps.

A financial instrument is classified as a financial liability or a financial asset or an equity in accordance with the substance of the contractual arrangement. Financial instruments that contain both liability and equity elements are classified separately as financial liabilities, or equity instruments. Interest, dividends, gains and losses relating to a financial instrument or a component that is a financial liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity. Financial instruments are offset when the Group has a legally enforceable right to offset and the Group intends to settle either on a net basis or to realize the asset and settle the liability simultaneously.

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset is impaired.

(I) *Assets carried at amortized cost*

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognized in the income statement.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance amount. If a future write-off is later recovered, the recovery is credited to the income statement.

(II) *Assets carried at cost*

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

(III) *Available-for-sale financial assets*

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in the income statement, is removed from other comprehensive income and recognized in the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement.

(u) Derivative instruments

The Group uses derivative financial instruments such as long-term currency swaps, foreign currency options, interest rate swaps and forward currency contracts to hedge its risks associated with foreign currency and interest rate fluctuations. Such derivative financial instruments are stated at fair value.

The criteria for a derivative instrument to be classified as a hedge include: (i) the hedge transaction is expected to be highly effective in offsetting changes in fair value or cash flows attributable to the hedged risk, (ii) the effectiveness of the hedge can be reliably measured, (iii) there is adequate documentation of the hedging relationships at the inception of the hedge, and (iv) for cash flow hedges, the forecast transaction, which is the subject of the hedge, must be highly probable and must present an exposure to variations in cash flows that could ultimately affect profit or loss.

For the purpose of hedge accounting, hedges are classified as either fair value hedges where they hedge the exposure to changes in the fair value of a recognized asset or liability and firm commitment; or cash flow hedges where they hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a forecasted transaction.

In relation to fair value hedges which meet the conditions for special hedge accounting, any gain or loss from remeasuring the hedging instrument at fair value is recognized immediately in the income statement. Any gain or loss on the hedged item attributable to the hedged risk is adjusted against the carrying amount of the hedged item and recognized in the income statement.

In relation to cash flow hedges, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized directly as other comprehensive income in the hedging income and the ineffective portion is recognized in the consolidated income statement in borrowing costs. The gains or losses that are accumulated in other comprehensive income are transferred to the income statement in the same period in which the hedged item affects the profit or loss.

For derivatives that do not qualify for hedge accounting, any gains or losses arising from changes in fair value are taken directly to the income statement.

(v) Dividends

Final dividends proposed by the Directors are recognized as a liability when they have been approved by the shareholders and declared in an annual general meeting.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and bye-laws grant the Directors the authority to declare interim dividends. Consequently, interim dividends are recognized immediately as a liability when they are proposed and declared.

(w) Related parties

A party is considered to be related to the Group if:

(I) directly, or indirectly through one or more intermediaries, the party (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(II) the party is an associate;

(III) the party is a joint venture in which the entity is a venturer;

(IV) the party is a member of the key management personnel of the Group;

(V) the party is a close member of the family of any individual referred to in (I) or (IV);

(VI) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (IV) or (V); or

(VII) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

(x) Non-current assets or disposal groups held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sales transaction rather than through continuing use. For this to be the case, the asset or disposal group must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets or disposal groups and its sale must be highly probable. Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell.

3. Significant Accounting Judgments and Estimates

The preparation of the Group's Financial Statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

(A) Judgments

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have significant effect on the amounts recognized in the Financial Statements:

(a) Classification of financial assets and financial liabilities

The Group determines the classification of certain of assets and liabilities as financial assets and financial liabilities by judging whether they meet the definition of financial assets and financial liabilities set out in HKAS 39. Accordingly, the financial assets and financial liabilities are accounted for in accordance with the Group's accounting policies set out in Note 2(D)(t).

(b) Service concession arrangements

In applying HK(IFRIC)-Int 12 for the service concession arrangements of Maynilad Water Services, Inc. (Maynilad) and Manila North Tollways Corporation (MNTC), the Group has made judgments that these arrangements qualify for the application of the intangible asset model. Details of the Group's accounting policy in respect of intangible assets (other than goodwill) are set out in Note 2(D)(h).

(B) Estimation Uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Estimating useful lives and residual values of property, plant and equipment

The Group estimates the useful lives and residual values of its property, plant and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives and residual values of the property, plant and equipment are reviewed annually and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. In addition, the Group's estimation of the useful lives and residual values of its property, plant and equipment is based on its collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in those estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives and residual values of the Group's property, plant and equipment would increase its recorded depreciation expenses and decrease its non-current assets.

(b) Estimating useful lives of brands

The Group estimates the useful lives of the brands for its various milk-related products. The estimated useful lives of the brands are reviewed annually and are updated if expectations differ from previous estimates due to changes in market situations or other limits. It is possible, however, that future results of operations could be materially affected by changes in those estimates brought about by changes in the factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of the Group's brands would increase its recorded amortization expenses and decrease its other intangible assets.

(c) Assets impairment

Hong Kong GAAP requires that an impairment review should be performed when certain impairment indication is present. In case of goodwill, such assets are subject to yearly impairment test and whenever there is an indication that such assets may be impaired.

Purchase accounting requires extensive use of accounting estimates to allocate the purchase price to the fair market values of the assets and liabilities purchased, including intangible assets and contingent liabilities. The Group's business acquisitions have resulted in goodwill, which is subject to a periodic impairment test.

Determining the fair value of property, plant and equipment, plantations, and intangible assets (other than goodwill) at the date of acquisition of business, which requires the determination of future cash flows expected to be generated from the continued use (i.e., value in use) and ultimate disposition of such assets, requires the Group to make estimates and assumptions that can materially affect its consolidated financial statements. Future events could cause the Group to conclude that property, plant and equipment associated with an acquired business is impaired. Any resulting impairment loss could have a material adverse impact on its financial condition and results of operations.

The preparation of estimated future cash flows involves significant estimations. While the Group believes that its assumptions are appropriate and reasonable, significant changes in its assumptions may materially affect its assessment of recoverable values and may lead to future additional impairment charges under Hong Kong GAAP.

(d) Deferred tax assets

The Group reviews the carrying amounts at the end of each reporting period and reduces deferred tax assets to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. However, there is no assurance that the Group will generate sufficient taxable profit to allow all or part of its recognized deferred tax assets to be utilized.

(e) Financial assets and liabilities

Hong Kong GAAP requires that the Group carries certain of its financial assets and liabilities at fair value, which requires extensive use of accounting estimates. While significant components of fair value measurement were determined using verifiable objective evidence (i.e., foreign exchange rates and interest rates), the amount of changes in fair value would differ if the Group utilized different valuation methodologies. Any changes in fair value of these financial assets and liabilities would affect directly the Group's consolidated profit or loss and equity.

(f) Estimating allowances for accounts receivable

The Group estimates the allowance for accounts receivable based on two methods. The amounts calculated using each of these methods are combined to determine the total amount it provides. Firstly, the Group evaluates specific accounts where it has information that certain customers are unable to meet their financial obligations. In these cases, the Group uses judgment, based on the best available facts and circumstances, including but not limited to, the length of its relationship with the customer and the customer's current credit status based on third party credit reports and known market factors, to record specific provisions for customers against amounts due to reduce its receivable amounts that the Group expects to collect. These specific provisions are re-evaluated and adjusted as additional information received affects the amounts estimated. Secondly, a provision is established as a certain percentage of receivables. This percentage is based on a collective assessment of historical collection, write-off, experience and changes in its customer payment terms.

The amounts and timing of recorded expenses for any period would differ if the Group utilized different estimates. An increase in the Group's allowance for accounts receivable would increase its recorded operating expenses and decrease its assets.

(g) Estimating allowances for inventories

The Group estimates the allowance for inventories based on the best available facts and circumstances, including but not limited to, the inventories' own conditions (i.e., whether they are damaged or become wholly or partially obsolete), their market selling prices, estimated costs of completion and estimated costs to be incurred for their sale. The provisions are re-evaluated and adjusted as additional information received affects the amount estimated.

(h) Pension and other retirement benefits

The determination of the Group's obligation and cost for defined benefits is performed by independent actuaries engaged by the Group and dependent on the selection of certain assumptions used by them in calculating such amounts. Those assumptions include among others, discount rates, expected returns on plan assets, rates of salary and pension increase and average remaining working lives of employees. In accordance with Hong Kong GAAP, actual results that differ from the Group's assumptions are recognized immediately in the income statement as and when they occur. While the Group believes that the actuaries' assumptions are reasonable and appropriate, significant differences in the Group's actual experience or significant changes in the Group's assumptions may materially affect its pension and other retirement obligations.

(i) Measurement of fair value of plantations

Hong Kong GAAP requires that the Group carries its plantations at fair value less estimated point-of-sale costs, which requires extensive use of accounting estimates. The determination of such fair value less estimated point-of-sale costs is performed by independent valuers engaged by the Group. Significant components of fair value measurement were determined using assumptions including the average life of plantations, yield per hectare, plantation area and discount rates. The amount of changes in fair value would differ if the Group utilized different assumptions. Any changes in fair value of these plantations would affect directly the Group's profit or loss and equity.

(j) Equity-settled share option expense

Hong Kong GAAP requires that the Group measures its share options at fair value at the date at which they are granted, which requires extensive use of accounting estimates. The determination of such fair value is performed by an independent valuer engaged by the Group. Significant components of fair value measurement were determined using assumptions including expected volatility and dividend yield and the average risk-free interest rate. The amount of fair value determined at the date of which the options are granted would differ if the Group utilized different assumptions. Any changes in fair value of the share options determined at the date of which they are granted would affect directly the Group's profit or loss in subsequent periods when these fair values are recognized as expenses over the share options' vesting period.

4. Turnover and Segmental Information

US$ millions	2009	2008
Turnover		
Sale of goods	**3,511.8**	3,896.9
Rendering of services	**413.8**	208.4
Total	**3,925.6**	4,105.3

Segmental Information

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the Group), whose operating results are regularly reviewed by the Group's chief operating decision maker who makes decisions about how resources are to be allocated to the segment and assesses its performance, and for which discrete financial information is available to him.

The Board of Directors considers the business from both product or service and geographical perspectives. From the product or service perspective, the Group business interests are divided into four main segments, which are telecommunications, infrastructure, consumer food products and natural resources. Geographically, the Board of Directors considers the businesses of the Group are operating in the Philippines and Indonesia. Details of the Group's principal investments are provided on the inside back cover.

The Board of Directors assesses the performance of the operating segments based on a measure of recurring profit. This measurement basis measures the profit attributable to owners of the parent excluding the effects of foreign exchange and derivative gains/losses, gain/loss on changes in fair value of plantations and non-recurring items. Non-recurring items represent certain items, through occurrence or size, which are not considered as usual operating items.

The revenue, results and other information for the years ended 31 December 2009 and 2008, and total assets and total liabilities at 31 December 2009 and 2008 regarding the Group's reportable businesses are as follows.

By Principal Business Activity – 2009

For the year ended/at 31 December US$ millions	The Philippines Telecom–munications	Infrastructure	Natural Resources	Indonesia Consumer Food Products	Head Office	2009 Total
Revenue						
Turnover	–	336.9	–	3,588.7	–	**3,925.6**
Results						
Recurring profit	205.3	33.0	7.7	89.2	(48.6)	**286.6**
Assets and Liabilities						
Associated companies and joint ventures	1,050.8	568.8	441.2	3.7	3.5	**2,068.0**
Other assets	–	2,214.1	–	4,882.1	233.1	**7,329.3**
Total assets	1,050.8	2,782.9	441.2	4,885.8	236.6	**9,397.3**
Borrowings	–	926.1	–	1,837.7	921.5	**3,685.3**
Other liabilities	–	571.4	–	1,008.7	92.8	**1,672.9**
Total liabilities	–	1,497.5	–	2,846.4	1,014.3	**5,358.2**
Other Information						
Depreciation and amortization	–	68.8	–	108.7	0.4	**177.9**
Interest income	–	10.5	–	15.6	1.4	**27.5**
Interest expenses	–	(83.9)	–	(149.0)	(24.9)	**(257.8)**
Share of profits less losses of associated companies and joint ventures	210.9	9.1	12.5	0.3	0.6	**233.4**
Taxation	–	1.0	–	(132.5)	(12.2)	**(143.7)**
Additions to non-current assets (other than financial instruments and deferred tax assets)	–	162.2	–	363.4	2.3	**527.9**

By Principal Business Activity – 2008

For the year ended/at 31 December US$ millions	The Philippines Telecom- munications	 Infrastructure	 Natural Resources	Indonesia Consumer Food Products	Head Office	2008 Total
Revenue						
Turnover	–	112.8	–	3,992.5	–	4,105.3
Results						
Recurring profit	211.0	7.4	(1.6)	87.6	(65.2)	239.2
Assets and Liabilities						
Associated companies and joint ventures	1,040.5	48.0	95.1	15.4	3.3	1,202.3
Other assets	–	1,940.6	–	4,039.9	16.2	5,996.7
Total assets	1,040.5	1,988.6	95.1	4,055.3	19.5	7,199.0
Borrowings	–	677.7	–	1,696.6	784.4	3,158.7
Other liabilities	–	745.0	–	862.7	57.4	1,665.1
Total liabilities	–	1,422.7	–	2,559.3	841.8	4,823.8
Other Information						
Depreciation and amortization	–	(29.4)	–	(76.6)	(0.5)	(106.5)
Interest income	–	9.9	–	17.4	7.5	34.8
Interest expenses	–	(27.5)	–	(120.6)	(37.2)	(185.3)
Share of profits less losses of associated companies and joint ventures	194.8	(1.2)	(1.2)	0.5	–	192.9
Taxation	–	1.3	–	(53.3)	(9.4)	(61.4)
Additions to non-current assets (other than financial instruments and deferred tax assets)	–	1,443.1	–	827.4	–	2,270.5

A reconciliation between profit before taxation as shown in the consolidated income statement and recurring profit is as follows.

US$ millions	**2009**	2008
Profit before taxation		
– Continuing operations	**804.0**	397.4
– A discontinued operation	**0.1**	1.3
Exclusion of:		
– Foreign exchange and derivative (gains)/losses (Note 9)	**(75.2)**	100.9
– (Gain)/loss on changes in fair value of plantations (Note 6)	**(60.2)**	97.7
– Non-recurring items	**(49.8)**	(23.3)
Deduction of attributable taxation and minority interest	**(332.3)**	(334.8)
Recurring profit	**286.6**	239.2

5. Net Borrowing Costs

US$ millions	2009	2008
Bank loans and other loans		
– Wholly repayable within five years	**191.5**	163.6
– Not wholly repayable within five years	**67.0**	21.7
Less: Borrowing costs capitalized in other intangible assets	**(0.7)**	–
Total Borrowing Costs	**257.8**	185.3
Less: Interest income	**(27.5)**	(34.8)
Net Borrowing Costs	**230.3**	150.5

The capitalization rate of borrowings costs for 2009 was 3.6% (2008: Nil).

6. Profit Before Taxation

US$ millions	Notes	2009	2008
Profit Before Taxation is Stated after (Charging)/Crediting[i]			
Cost of inventories sold		**(1,959.1)**	(2,470.1)
Employees' remuneration	35(A)	**(376.5)**	(347.3)
Cost of services rendered		**(205.4)**	(96.7)
Depreciation	12	**(94.2)**	(79.2)
Amortization of other intangible assets	17	**(83.7)**	(27.3)
Operating lease rentals			
– Land and buildings		**(13.7)**	(8.6)
– Hire of plant and equipment		**(4.4)**	(3.6)
(Loss)/gain on sale of property, plant and equipment		**(9.6)**	0.6
Recognition of prepaid land premiums	19	**(8.1)**	(7.1)
Impairment losses			
– Accounts receivable[ii]	18(C)	**(7.3)**	(7.0)
– Property, plant and equipment	12	**(5.1)**	–
– Associated companies and joint ventures[iii]		**–**	(36.4)
– Goodwill[iii]	16	**–**	(0.5)
Loss on change in fair value of asset held for sale		**(2.8)**	–
Auditors' remuneration			
– Audit services		**(2.1)**	(2.1)
– Other services		**(0.3)**	(0.6)
Gain on dilution of interest in subsidiary companies		**84.7**	18.9
Foreign exchange and derivative gains/(losses), net	9	**72.6**	(83.2)
Gain/(loss) on changes in fair value of plantations	13	**60.2**	(97.7)
Realized gain on sale of available-for-sale assets		**3.6**	0.1
Gain on divestment and dilution of interest in an associated company		**1.2**	9.8
Dividend income from available-for-sale assets		**0.1**	0.5

(i) Includes amounts (charged)/credited in respect of a discontinued operation
(ii) Included in distribution costs
(iii) Included in other operating income/(expenses), net

7. Taxation

No Hong Kong profits tax (2008: Nil) has been provided as the Group had no estimated assessable profits (2008: Nil) in Hong Kong for the year. Taxation on assessable profits generated outside Hong Kong has been provided at the rates of taxation prevailing in the countries in which the Company's subsidiary companies operate.

US$ millions	2009	2008
Subsidiary Companies – Overseas		
Current taxation (Note 28)	**144.7**	121.6
Deferred taxation (Note 21)	**(1.0)**	(60.2)
Total	**143.7**	61.4

Included within the share of profits less losses of associated companies and joint ventures is taxation of US$84.3 million (2008: US$93.7 million) and which is analyzed as follows.

US$ millions	2009	2008
Associated Companies and Joint Ventures – Overseas		
Current taxation	**78.3**	94.9
Deferred taxation	**6.0**	(1.2)
Total	**84.3**	93.7

A reconciliation between profit before taxation multiplied by the applicable tax rates and the taxation amount as shown in the consolidated income statement is as follows.

	2009		2008	
US$ millions		%		%
Profit Before Taxation	**804.0**		397.4	
Notional tax on profit before taxation, calculated at the rates applicable to profits in the tax jurisdictions concerned	**245.0**	**30.5**	140.6	35.4
Tax effect of:				
– Non-deductible expenses	**0.9**	**0.1**	6.0	1.5
– Income not subject to tax	**(24.9)**	**(3.1)**	(32.5)	(8.2)
– Share of profits less losses of associated companies and joint ventures	**(32.3)**	**(4.0)**	(32.8)	(8.3)
– Others	**(45.0)**	**(5.6)**	(19.9)	(4.9)
Taxation	**143.7**	**17.9**	61.4	15.5

8. A Discontinued Operation

Following a strategic review of MPIC's businesses which focuses on core infrastructure, MPIC's directors decided in late 2008 to divest its interest in the property business, Landco Pacific Corporation (Landco), which was operated by MPIC. As at 31 December 2008, the Group's investment in Landco was classified as a disposal group held for sale. In June 2009, MPIC disposed of 17.0% interest in Landco for Pesos 203 million (US$4.2 million), thereby reducing its interest in Landco from 51.0% to 34.0%. Following this transaction, the Group's remaining 34.0% interest in Landco was classified under assets held for sale.

9. Profit Attributable to Owners of the Parent

The profit attributable to owners of the parent includes US$23.7 million of net foreign exchange and derivative gains (2008: losses of US$46.9 million), which represent the foreign exchange translation differences on the Group's unhedged foreign currency denominated borrowings and payables and the changes in the fair values of derivatives, US$10.0 million of gain (2008: loss of US$16.0 million) on changes in fair value of plantations and US$81.3 million (2008: US$24.5 million) of net non-recurring gains.

Analysis of Foreign Exchange and Derivative Gains/(Losses)

US$ millions	2009	2008
Foreign exchange and derivative gains/(losses)		
– Subsidiary companies (Note 6)	**72.6**	(83.2)
– Associated companies and joint ventures	**2.6**	(17.7)
Subtotal (Note 4)	**75.2**	(100.9)
Attributable to taxation and minority interest	**(51.5)**	54.0
Total	**23.7**	(46.9)

The non-recurring gains of US$81.3 million for 2009 mainly represent gains on dilution of the Group's interest in MPIC. The non-recurring gains of US$24.5 million for 2008 mainly include (i) a gain on dilution of the Group's interest in Indofood of US$18.9 million (ii) a gain on divestment and dilution of the Group's interest in PLDT of US$9.8 million (iii) MPIC's gains arising from increase in interests in Maynilad and MDI totaling US$13.4 million (iv) a gain of US$10.5 million from a reduction in Indofood's deferred tax liabilities due to reduction in future tax rates and (v) MPIC's gain on sale of assets of US$3.9 million, partly offset by a Group's impairment provision of US$36.4 million in respect of its investment in Philex.

Included within the profit attributable to owners of the parent for the year ended 31 December 2009 is a profit of US$5.1 million (2008: US$51.2 million) attributable to the Company.

10. Ordinary Share Dividends

	U.S. cents per ordinary share		US$ millions	
	2009	2008	**2009**	2008
Interim	**0.51**	0.38	**16.5**	12.3
Proposed final	**1.03**	0.77	**39.6**	24.7
Total	**1.54**	1.15	**56.1**	37.0

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

11. Earnings Per Share Attributable to Owners of the Parent

The calculation of basic earnings per share is based on the profit for the year attributable to owners of the parent of US$401.6 million (2008: US$200.8 million), and the weighted average number of ordinary shares of 3,428.5 million (2008: 3,397.7 million (Restated)) in issue during the year.

The calculation of diluted earnings per share is based on: (i) the profit for the year attributable to owners of the parent of US$401.6 million (2008: US$200.8 million) reduced by the dilutive impact of US$6.8 million (2008: US$0.3 million) in respect of the exercise of share options issued by its associated companies and, for 2008 only, US$6.1 million in respect of the convertible notes issued by its previous joint venture DMWC (which has become a subsidiary company since July 2008) and (ii) a share base equal to the aggregate of the weighted average number of ordinary shares of 3,428.5 million (2008: 3,397.7 million (Restated)) in issue during the year (as used in the basic earnings per share calculation) and the weighted average number of ordinary shares of 50.6 million (2008: 57.0 million (Restated)) assumed to have been issued at no consideration on the deemed exercise of all share options of the Company during the year.

12. Property, Plant and Equipment

US$ millions	Land and buildings	Machinery, equipment and vessels	**Consolidated**
Cost			
At 1 January 2009	289.8	976.5	**1,266.3**
Exchange translation	52.2	174.3	**226.5**
Additions	50.9	170.9	**221.8**
Disposals	(1.7)	(32.9)	**(34.6)**
At 31 December 2009	391.2	1,288.8	**1,680.0**
Accumulated Depreciation and Impairment			
At 1 January 2009	84.7	373.2	**457.9**
Exchange translation	14.9	68.3	**83.2**
Charge for the year (Note 6)	17.4	76.8	**94.2**
Impairment (Note 6)	–	5.1	**5.1**
Disposals	(0.9)	(18.5)	**(19.4)**
At 31 December 2009	116.1	504.9	**621.0**
Net Book Amount at 31 December 2009	275.1	783.9	**1,059.0**

US$ millions	Land and buildings	Machinery, equipment and vessels	Consolidated
Cost			
At 1 January 2008	316.2	934.2	1,250.4
Exchange translation	(46.3)	(152.4)	(198.7)
Additions	9.0	151.0	160.0
Acquisition of subsidiary companies	30.2	62.5	92.7
Disposals	(14.1)	(16.7)	(30.8)
Reclassification	(5.2)	(2.1)	(7.3)
At 31 December 2008	289.8	976.5	1,266.3
Accumulated Depreciation and Impairment			
At 1 January 2008	86.5	379.8	466.3
Exchange translation	(13.3)	(59.2)	(72.5)
Charge for the year (Note 6)	14.7	64.5	79.2
Disposals	(1.9)	(8.7)	(10.6)
Reclassification	(1.3)	(3.2)	(4.5)
At 31 December 2008	84.7	373.2	457.9
Net Book Amount at 31 December 2008	205.1	603.3	808.4

(A) The principal annual rates of depreciation:

Freehold land	Nil
Freehold buildings	2.5% to 20.0%
Leasehold buildings	Lesser of period of lease, and 2.5% to 20.0%
Machinery, equipment and vessels	2.5% to 50.0%

(B) The land and buildings are freehold and leasehold properties held outside Hong Kong.

(C) Property, plant and equipment with a net book amount of US$53.4 million (2008: US$213.5 million) were pledged as security for certain of the Group's banking facilities (Note 27(D)).

13. Plantations

	Consolidated	
US$ millions	**2009**	2008
At 1 January	**744.5**	881.5
Exchange translation	**135.8**	(121.6)
Additions	**68.7**	76.7
Acquisition of subsidiary companies	**–**	5.6
Gain/(Loss) on changes in fair value less estimated point-of-sale costs, net (Note 6)	**60.2**	(97.7)
At 31 December	**1,009.2**	744.5

Physical measurement of oil palm, rubber and other plantations at 31 December is as follows.

	Consolidated	
Hectares	**2009**	2008
Oil palm		
– Mature plantations	**132,560**	124,169
– Immature plantations	**61,053**	58,944
Rubber		
– Mature plantations	**17,263**	17,873
– Immature plantations	**4,475**	4,537
Sugar, cocoa, tea and others		
– Mature plantations	**11,643**	7,044
– Immature plantations	**727**	761
Total	**227,721**	213,328

(A) The Group's plantations mainly represent palm trees and rubber trees owned by Indofood. The palm trees are planted for the production of FFB, which are used in the production of CPO and PKO. The rubber trees are planted for the production of cup lump. The fair values of oil palm plantations are determined by an independent valuer, PT Asian Appraisal Indonesia, using the discounted future cash flows of the underlying plantations. The expected future cash flows of the oil palm plantations are determined using the forecast market price of FFB which is largely dependent on the projected selling prices of CPO and PKO in the market. The fair values of rubber plantations are determined by an independent valuer, PT Asian Appraisal Indonesia, using the discounted future cash flows of the underlying plantations. The expected future cash flows of the rubber plantations are determined using the forecast market price of cup lump which is based on the projected selling price of Rubber Smoke Sheet 1 (RSS1). Significant assumptions made in determining the fair value of the plantations are:

(a) No new planting/re-planting activities are assumed.

(b) The palm trees have an average life that ranges from 20 to 25 years, with the first three to four years as immature and the remaining years as mature. The rubber trees have an average life of that ranges from 20 to 25 years, with the first five to six years as immature and the remaining years as mature.

(c) The yield per hectare of palm trees is based on guidelines from the Indonesian Oil Palm Research Institute which varies with the average age of palm trees. The yield per hectare of rubber trees is based on estimation made by Indofood's agronomists and reviewed by an independent valuer.

(d) The discount rates of 19.2% (2008: 19.3%) and 18.6% (2008: 18.2%), which represent the respective asset specific rates for Indofood's palm trees and rubber trees plantation operations, were applied in the discounted cash flow calculations.

(e) The projected selling price of CPO over the projection period is based on the World Bank forecasts for 2009 valuation (2008: consensus of reputable independent forecasting service firms for the short-term period and on the studies of historical actual CPO prices for the last 20 years and World Bank forecasts for the remaining projection period). The projected selling price of RSS1 over the projected period is based on World Bank forecasts and actual historical selling prices of the Group.

(B) During 2009, Indofood's palm trees produced 2.6 million tonnes (2008: 2.5 million tonnes) of FFB and rubber trees produced 28.3 thousand tonnes (2008: 28.1 thousand tonnes) of cup lump. The fair values of FFB and rubber harvested during 2009, determined at the point of harvest, amounted to US$253.5 million (2008: US$342.4 million) and US$40.1 million (2008: US$54.4 million), respectively.

(C) Plantations with a net book amount of US$59.4 million (2008: US$421.5 million) were pledged as security for certain of the Group's banking facilities (Note 27(D)).

14. Subsidiary Companies

	Company	
US$ millions	**2009**	2008
Unlisted shares at cost	**1,128.3**	1,176.6
Less provision for impairment loss	**(132.1)**	(180.4)
Total	**996.2**	996.2

The Company's listed subsidiary companies are held through intermediate holding companies.

(A) The amounts due from subsidiary companies are unsecured, bear interest at a range of 0% to 3.3% per annum (2008: 0% to 7.3% per annum) and repayable within one year. The carrying value of the Company's amounts due from subsidiary companies approximates to their fair value.

(B) The amounts due to subsidiary companies are unsecured, bear interest at a range of 0% to 2.9% per annum (2008: 0% to 6.8% per annum) and repayable within one year. The carrying value of the Company's amounts due to subsidiary companies approximates to their fair value.

(C) The loans from subsidiary companies are unsecured, bear interest at a range of 1.4% to 2.9% per annum (2008: 2.9% to 7.1% per annum) and not repayable within one year. The carrying value of the Company's loans from subsidiary companies approximates to their fair value.

(D) Details of the principal subsidiary companies which, in the opinion of the Directors, materially affect the results or net assets of the Group, are set out on the inside back cover.

15. Associated Companies and Joint Ventures

US$ millions	Associated Companies 2009	Associated Companies 2008	Joint ventures 2009	Joint ventures 2008	**Consolidated** 2009	**Consolidated** 2008
Shares, at cost						
– Listed	**2,791.9**	1,983.0	**–**	–	**2,791.9**	1,983.0
– Unlisted	**91.7**	102.5	**10.5**	2.7	**102.2**	105.2
Share of post-acquisition reserves (Note 31)	**(824.5)**	(884.8)	**(1.6)**	(1.1)	**(826.1)**	(885.9)
Total	**2,059.1**	1,200.7	**8.9**	1.6	**2,068.0**	1,202.3

(A) At 31 December 2009, both the listed and unlisted investments were located outside Hong Kong.

(B) At 31 December 2009, the market valuation of listed investments was US$4,220.1 million (2008: US$2,281.6 million) based on quoted market prices and the net dividends received during 2009 amounted to US$210.6 million (2008: US$211.9 million).

(C) Details of the Group's principal associated companies, PLDT and Philex, which, in the opinion of the Directors, materially affect the results or net assets of the Group, are set out on the inside back cover.

(D) PLDT was incorporated under the laws of the Philippines on 28 November 1928 to provide telephone services in the Philippines. PLDT's charter was initially limited to a period of 50 years but has since been extended twice for 25 years each, the last extension being for an additional 25-year period ending in 2028. Under its amended charter, which became effective on 24 August 1991, PLDT is authorized to provide virtually every type of telecommunication service, both within the Philippines and between the Philippines and other countries. PLDT operates under the jurisdiction of the Philippine National Telecommunications Commission which jurisdiction extends, among other things, to approving major services offered by PLDT and certain rates charged by PLDT.

(E) Philex was incorporated under the laws of the Philippines in 1995 to engage in mining activities. Philex is primarily engaged in large-scale exploration, development and utilization of mineral resources. Philex has operated for the past 51 years at the deposit at Padcal (Tuba Benguet Province, Island of Luzons) and owns the deposit at Boyongan and Bayugo (Surogao del Norte, the Northern of Mindanao) (the Silangan Project), which is currently under the development stage, for producing gold, copper and silver as its principal products.

(F) Meralco was incorporated under the laws of the Philippines in 1903 and granted a franchise to provide electric power distribution services in the Philippines. In June 2003, Meralco was granted a new 25-year franchise to construct, operate, and maintain an electric distribution system in the cities and municipalities of Bulacan, Cavite, Metro Manila, and Rizal and certain cities, municipalities, and barangays in Batangas, Laguna, Pampanga, and Quezon. Meralco is subject to the rate-making regulations and regulatory policies of the Energy Regulatory Commission.

In September 2009, MPIC and Philipino Telephone Corporation (Piltel) (an indirect subsidiary company of PLDT), which owned approximately 14.5% and 20% equity interests in Meralco, entered into an agreement (Meralco Shareholders' Agreement) to formalize their arrangement to "vote as one" with regard to their combined holdings of shares of Meralco. The salient provisions of the Meralco Shareholders' Agreement are that (a) MPIC and Piltel will pool their votes in the general meetings of the shareholders of Meralco for the election of nominees to the board of Meralco, and MPIC will always have at least one nominee director (as entitled to and in proportionate to its shareholding in Meralco), (b) MPIC and Piltel undertake to always consult with each other and arrive at a common position (hence, casting a common vote) on all matters in respect of their capacity as shareholders of Meralco and (c) MPIC and Piltel will procure their respective nominee directors to always vote as a bloc for all matters in every board meeting of Meralco (the board Meralco has a total of 11 board members, of which MPIC and Piltel are represented by 1 member and 2 members, respectively). Based on the provisions in the Meralco Shareholders' Agreement, notwithstanding that MPIC has less than a 20% equity interest in Meralco, MPIC accounted for Meralco as an associate in view of the significant influence MPIC has in Meralco.

(G) Additional financial information in respect of the Group's principal associated companies, PLDT, Philex and Meralco, as prepared under Hong Kong GAAP, is set out below.

	PLDT		Philex[i]		Meralco[ii]
US$ millions	**2009**	2008	**2009**	2008	**2009**
Operating Results					
Turnover	**3,046.7**	3,197.4	**204.2**	2.1	**840.1**
Profit/(loss) before taxation	**1,123.1**	1,164.2	**60.8**	(3.6)	**28.0**
Profit/(loss) after taxation	**823.1**	752.8	**48.1**	(4.1)	**12.2**
Profit for the Year/Period	**816.6**	737.9	**50.1**	(2.7)	**10.5**
Net Assets					
Current assets	**1,392.7**	1,389.6	**107.1**	260.6	**981.4**
Non-current assets	**4,805.2**	3,931.7	**534.9**	360.2	**3,359.3**
Total Assets	**6,197.9**	5,321.3	**642.0**	620.8	**4,340.7**
Current liabilities	**(1,602.1)**	(1,377.4)	**(25.0)**	(123.7)	**(925.3)**
Non-current liabilities and provisions	**(2,468.0)**	(1,805.6)	**(124.6)**	(100.7)	**(1,787.2)**
Total Liabilities	**(4,070.1)**	(3,183.0)	**(149.6)**	(224.4)	**(2,712.5)**
Minority interest	**(11.9)**	(30.2)	**(15.2)**	(31.8)	**(81.7)**
Net Assets at 31 December	**2,115.9**	2,108.1	**477.2**	364.6	**1,546.5**

(i) Information in respect of Philex only relates to 28 November 2008 (date becoming an associated company of the Group) and after.

(ii) Information in respect of Meralco only relates to 6 October 2009 (date becoming an associated company of the Group) and after.

(H) The Group has discontinued the recognition of its share of losses of Prime Media Holdings, Inc., an associated company, because the share of losses of this associated company fully eroded the Group's investment. The amounts of the Group's unrecognized share of losses of this associated company for the current year and cumulatively were US$0.1 million (2008: US$0.6 million) and US$8.8 million (2008: US$8.7 million), respectively.

16. Goodwill

	Consolidated	
US$ millions	**2009**	2008
At 1 January	**675.6**	347.2
Adjustment for acquisition in the prior year	**(0.7)**	–
Exchange translation	**82.0**	(52.3)
Increased investments in subsidiary companies	**18.3**	27.1
Acquisition of subsidiary companies	**–**	354.1
Impairment (Note 6)	**–**	(0.5)
Net Book Amount at 31 December	**775.2**	675.6

(A) Goodwill is allocated to the Group's cash-generating units identified according to the business and geographical segments. The goodwill amounts at 31 December 2009 and 31 December 2008 relate to (a) Indofood's businesses (principally plantations and dairy) which contribute to the Group's consumer food products business segment located in Indonesia and (b) MPIC's businesses (water distribution and toll roads) which contribute to the Group's infrastructure business segment located in the Philippines.

(B) In assessing the impairment for goodwill, the Group compares the carrying amount of the underlying assets against their recoverable amounts (the higher of the assets' fair value less costs to sell and their value in use). The recoverable amounts of Indofood's and MPIC's businesses have been determined based on fair value less costs to sell or value in use calculations using cash flow projections covering periods from 4 years up to 10 years (for the plantation companies) for Indofood's businesses, 28 years for MPIC's water distribution and toll roads businesses. The discount rates applied to cash flow projections range from 12.9% to 18.6% (2008: 15.7% to 20.6%) for Indofood's businesses, 14.1% (2008: 9.2%) for MPIC's water distribution business and 12.5% for MPIC's toll roads business, which reflect specific risks relating to the relevant businesses.

In the assessment of the recoverable amount of Indofood's plantation businesses, the projected selling price of CPO over the projection period is based on the World Bank forecasts for 2009 valuation (2008: consensus of reputable independent forecasting service firms for the short-term period and on the studies of the historical actual CPO prices for the last 20 years and World Bank forecasts for the remaining projection period), while the projected selling price of RSS1 over the projection period is based on World Bank forecasts and actual historical selling prices of the Group. The cash flows beyond the projection periods are extrapolated using an estimated growth rate of 5.0%, which does not exceed the long term average growth rate of the industry and country in which the businesses operate.

In the assessment of the recoverable amount of Indofood's dairy businesses, their value in use were calculated based on their cash flow projections as per the most recent financial budgets and forecasts, which management believes are reasonable and are management's best estimates of the ranges of economic condition that will exist over the forecast period. The cash flows beyond the projection periods are extrapolated using an estimated growth rate of 5.0%, which does not exceed the long term average growth rate of the industry and country in which the businesses operate.

In the assessment of the recoverable amount of MPIC's water distribution and toll roads businesses, their value in use were calculated based on their cash flow projections as per the most recent financial budgets and forecasts, which management believes are reasonable and are management's best estimates of the ranges of economic condition that will exist over the forecast period.

Changes to the above assumptions used by the management to determine the recoverable amounts can have significant impact on the results of the assessment. Management is of the opinion that no reasonably possible change in any of the key assumptions stated above would cause the carrying amount of the goodwill for each of the cash-generating units to materially exceed the recoverable amounts.

(C) In November 2008, MPIC acquired a 99.8% interest in First Philippine Infrastructure, Inc. (FPII) at a total consideration of approximately US$251.7 million. FPII was subsequently renamed as Metro Pacific Tollways Corporation (MPTC). MPTC owns an interest of approximately 67.1% in Manila North Tollways Corporation (MNTC). MNTC was granted a concession in June 1998 to finance, design, construct, operate and maintain the toll roads, toll facilities and other facilities generating toll-related and non-toll-related income in respect of the Manila North Expressway (also known as the North Luzon Expressway (NLEX)) in the Philippines. Details of MNTC's business are set out in Note 17(B). In 2008, the Group recorded the assets, liabilities and contingent liabilities of MPTC at initially assessed fair values and recognized provisional goodwill of US$118.2 million, representing the difference between MPIC's acquisition cost and the initially assessed fair value of the assets, liabilities and contingent liabilities of MPTC acquired. In 2009, MPIC finalized its assessment of the fair values of the assets, liabilities and contingent liabilities of MPTC acquired and concluded that there was no material change in the final amount of goodwill, which being only US$0.7 million less as compared to the provisional goodwill amount of US$118.2 million initially recognized in 2008.

17. Other Intangible Assets

US$ millions	Concession assets – Water distribution	Concession assets – Toll roads	Brands	**Consolidated**
Cost				
At 1 January 2009	862.0	356.1	346.0	**1,564.1**
Exchange translation	32.1	10.3	57.1	**99.5**
Additions	173.8	6.7	–	**180.5**
At 31 December 2009	1,067.9	373.1	403.1	**1,844.1**
Accumulated Amortization				
At 1 January 2009	24.1	1.5	–	**25.6**
Exchange translation	4.0	0.5	1.9	**6.4**
Charge for the year (Note 6)	52.8	12.1	18.8	**83.7**
At 31 December 2009	80.9	14.1	20.7	**115.7**
Net Book Amount at 31 December 2009	987.0	359.0	382.4	**1,728.4**

US$ millions	Concession assets – Water distribution	Concession assets – Toll roads	Brands	Consolidated
Cost				
At 1 January 2008	–	–	–	–
Acquisition of subsidiary companies	829.5	369.5	346.0	1,545.0
Exchange translation	(30.9)	(13.8)	–	(44.7)
Additions	63.4	0.4	–	63.8
At 31 December 2008	862.0	356.1	346.0	1,564.1
Accumulated Amortization				
At 1 January 2008	–	–	–	–
Charge for the year (Note 6)	25.7	1.6	–	27.3
Exchange translation	(1.6)	(0.1)	–	(1.7)
At 31 December 2008	24.1	1.5	–	25.6
Net Book Amount at 31 December 2008	837.9	354.6	346.0	1,538.5

(A) Concession assets – Water distribution represent the concession held by Maynilad for its exclusive right granted by Metropolitan Waterworks and Sewerage System (MWSS) on behalf of the Philippine government to provide water and sewerage services and charge users for the services provided in the area of West Metro Manila during its concession period.

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

(B) Concession assets – Toll roads represent the concession held by Manila North Tollways Corporation (MNTC) for its right, interests and privileges to finance, design, construct, operate and maintain toll roads, toll facilities and other facilities generating toll-related and non-toll related income in respect of the NLEX during its concession period.

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

(C) Brands represent the brands held by PT Indolakto (Indolakto) for its various milk-related products, which includes Indomilk, Cap Enaak, Tiga Sapi, Indoeskrim, Nice and Orchid.

(D) All of the Group's concession assets and brands were acquired by the Group as part of a business combination.

(E) The useful lives for amortization:

Concession assets – Water distribution	Remaining concession life of 30 years since acquisition
Concession assets – Toll roads	Remaining concession life of 29 years since acquisition
Brands	20 years

(F) Other intangible assets with a net book amount of US$789.1 million (2008: US$544.5 million) were pledged as security for certain of the Group's banking facilities (Note 27(D)).

18. Accounts Receivable, Other Receivables and Prepayments

	Consolidated	
US$ millions	**2009**	2008
Accounts receivables	**238.4**	258.1
Other receivables	**348.5**	120.6
Prepayments	**58.8**	59.8
Total	**645.7**	438.5
Presented as:		
Non-current Portion	**6.6**	3.0
Current Portion	**639.1**	435.5
Total	**645.7**	438.5

(A) The carrying amount of the current portion of accounts receivable, other receivables and prepayments approximates to their fair value. The fair value of the non-current portion of accounts receivable, other receivables and prepayments is US$6.8 million (2008: US$3.4 million) which is determined based on cash flows discounted using a weighted average prevailing interest rate of 9.0% (2008: 10.5%). The weighted average effective interest rate of the non-current portion of accounts and other receivables is 8.5% (2008: 11.7%).

(B) An ageing profile of accounts receivables is analyzed as below.

	Consolidated	
US$ millions	**2009**	2008
0 to 30 days	**190.9**	204.3
31 to 60 days	**10.5**	12.0
61 to 90 days	**11.4**	6.7
Over 90 days	**25.6**	35.1
Total	**238.4**	258.1

	Consolidated	
US$ millions	**2009**	2008
Neither past due nor impaired	**195.9**	234.5
Past due but not impaired		
– 0 to 30 days past due	**8.9**	9.4
– 31 to 60 days past due	**22.0**	6.2
– 61 to 90 days past due	**11.6**	7.1
– Over 90 days past due	**–**	0.9
Total	**238.4**	258.1

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

(C) At 31 December 2009, accounts receivables of US$24.9 million (2008: US$24.8 million) were collectively impaired and fully provided for. Movements in the provision for impairment of accounts receivables were as follows.

	Consolidated	
US$ millions	**2009**	2008
At 1 January	**(24.8)**	(4.1)
Exchange translation	**7.2**	0.6
Acquisition of subsidiary companies	**–**	(14.3)
Charge for the year (Note 6)	**(7.3)**	(7.0)
At 31 December	**(24.9)**	(24.8)

(D) As the Group's accounts receivables relate to a large number of diversified customers, there is no concentration of credit risk.

(E) Indofood allows export customers 60 days of credit and local customers an average of 30 days of credit. MPIC (a) allows 60 days of credit for its water service customers and (b) collects toll fees through its associated company, Tollways Management Corporation (TMC), by cash, by prepaid and reloadable electronic toll collection devices and by credit card payment.

(F) None (2008: US$36.2 million) of the accounts receivable was pledged as security for the Group's banking facilities (Note 27(D)).

(G) Other receivables includes a notes receivable of Pesos 11.2 billion (US$242.5 million) (2008: Nil) from First Philippine Utilities Corporation, a wholly-owned subsidiary company of First Philippine Holdings Corporation. The note bears interest of 5.0% per annum and is repayable in June 2010.

19. Prepaid Land Premiums

	Consolidated	
US$ millions	**2009**	2008
At 1 January	**158.2**	151.4
Exchange translation	**39.9**	(15.8)
Recognition during the year (Note 6)	**(8.1)**	(7.1)
Acquisition of subsidiary companies	**–**	29.7
Total Prepaid Land Premiums	**190.0**	158.2
Current portion included in accounts receivable, other receivables and prepayments	**(7.0)**	(5.0)
At 31 December	**183.0**	153.2

	Consolidated	
US$ millions	**2009**	2008
Overseas, Held On:		
Leases of between 10 and 50 years	**180.8**	151.0
Leases of less than 10 years	**9.2**	7.2
Total	**190.0**	158.2

Prepaid land premiums with a net book amount of US$5.7 million (2008: US$19.3 million) were pledged as security for certain of the Group's banking facilities (Note 27(D)).

20. Available-for-sale Assets

US$ millions	Consolidated 2009	2008
Listed investments, at fair value:		
– Equity investments – Overseas	**34.9**	23.8
– Debentures with a fixed interest rate of 14.0% (2008: 14.0%) and a maturity date of 1 October 2014 (2008: 1 October 2014) – Overseas	**0.3**	0.3
Unlisted investments, at cost less impairment provisions:		
– Equity investments – Overseas	**5.2**	32.8
Unlisted investments, at fair value:		
– Club debentures – Hong Kong	**2.1**	1.7
Total	**42.5**	58.6
Presented as:		
Non-Current Portion	**2.1**	1.7
Current Portion	**40.4**	56.9
Total	**42.5**	58.6

The fair values of the listed equity investments and debentures are based on quoted market prices. The fair value of the unlisted investments in club debentures has been estimated by reference to recent market transaction prices. The Directors believe that the estimated fair values by reference to market prices, which are recorded in the carrying amounts of the available-for-sale assets, and the related changes in fair values, which are recorded directly in the Group's equity, are reasonable, and that they are the most appropriate values at the end of the reporting period.

21. Deferred Tax

The movements in deferred tax assets during the year are as follows.

US$ millions	Tax loss carry forward	Allowance for doubtful accounts	Liabilities for employee retirement benefits	Others	**Consolidated**
Deferred Tax Assets					
At 1 January 2009	9.2	2.0	17.0	10.5	**38.7**
Exchange translation	2.0	0.1	2.3	1.3	**5.7**
Credit/(charge) to the income statement (Note 7)	5.5	(1.6)	(1.6)	11.6	**13.9**
At 31 December 2009	16.7	0.5	17.7	23.4	**58.3**

US$ millions	Tax loss carry forward	Allowance for doubtful accounts	Liabilities for employee retirement benefits	Others	Consolidated
Deferred Tax Assets					
At 1 January 2008	7.6	1.3	22.3	13.8	45.0
Exchange translation	(1.4)	(0.2)	(2.3)	(2.2)	(6.1)
Acquisition of subsidiary companies	–	–	4.7	13.3	18.0
Credit/(charge) to the income statement	3.0	0.9	(7.7)	(10.5)	(14.3)
Transfer from provision for taxation (Note 28)	–	–	–	5.4	5.4
Reclassification [(i)]	–	–	–	(9.3)	(9.3)
At 31 December 2008	9.2	2.0	17.0	10.5	38.7

(i) To assets of a disposal group classified as held for sale

The movements in deferred tax liabilities during the year are as follows.

US$ millions	Allowance in excess of related depreciation of property, plant and equipment	Brands	Change in fair value of plantations	Withholding tax on undistributed earnings of subsidiary and associated companies	Others	**Consolidated**
Deferred Tax Liabilities						
At 1 January 2009	(155.9)	(86.5)	(67.0)	(22.3)	(32.3)	**(364.0)**
Exchange translation	(10.7)	(8.9)	(8.2)	–	(1.4)	**(29.2)**
Credit/(charge) to the income statement (Note 7)	(15.7)	(1.8)	(15.4)	(13.7)	33.7	**(12.9)**
Transfer to provision for taxation (Note 28)	–	–	–	10.8	–	**10.8**
At 31 December 2009	(182.3)	(97.2)	(90.6)	(25.2)	–	**(395.3)**

US$ millions	Allowance in excess of related depreciation of property, plant and equipment	Brands	Change in fair value of plantations	Withholding tax on undistributed earnings of subsidiary and associated companies	Others	Consolidated
Deferred Tax Liabilities						
At 1 January 2008	(184.3)	–	(103.1)	(22.0)	(1.4)	(310.8)
Exchange translation	21.8	–	11.6	2.1	14.9	50.4
Acquisition of subsidiary companies	(11.7)	(86.5)	–	–	(79.0)	(177.2)
Credit/(charge) to the income statement	18.3	–	24.5	(2.4)	33.4	73.8
Transfer from provision for taxation (Note 28)	–	–	–	–	(5.2)	(5.2)
Reclassification[i]	–	–	–	–	5.0	5.0
At 31 December 2008	(155.9)	(86.5)	(67.0)	(22.3)	(32.3)	(364.0)

(i) To liabilities directly associated with assets classified as held for sale

Pursuant to the Philippines and Indonesian income tax laws, withholding taxes of 10% to 15% is levied on dividends declared to foreign investors. The Group is therefore liable to withholding taxes on dividends distributed by its subsidiary and associated companies in the Philippines and Indonesia. The Group had fully recognized the deferred tax for the withholding taxes that would be payable on unremitted earnings that are subject to withholding taxes of its associated companies established in the Philippines. However, except for those earnings to be distributed as dividends, no deferred tax had been recognized for withholding taxes that would be payable on the unremitted earnings of the Group's subsidiary companies established in the Philippines and Indonesia. In the opinion of the Directors, it is not probable that these subsidiary companies will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiary companies in the Philippines and Indonesia for which deferred tax liabilities have not been recognized totaled approximately US$32.8 million at 31 December 2009 (2008: US$22.5 million).

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

22. Other Non-current Assets

US$ millions	Consolidated 2009	2008
Deposits for acquisition of assets	**125.4**	96.4
Claims for tax refund	**67.1**	7.5
Deferred charges	**1.6**	7.2
Others	**111.8**	106.0
Total	**305.9**	217.1

(A) The deposits for acquisition of assets mainly represent Indofood's deposits for the acquisition of vessels and certain land rights.

(B) The claims for tax refund relates to the tax payment in advance made by Indofood in respect of wheat importation which is creditable against Indofood's corporate income tax payable.

(C) The deferred charges mainly represent deferred costs and expenses relating to Indofood's system implementation.

(D) Other non-current assets with a net book amount of US$8.7 million (2008: US$2.1 million) were pledged as security for certain of the Group's banking facilities (Note 27(D)).

23. Cash and Cash Equivalents

	Consolidated		Company	
US$ millions	**2009**	2008	**2009**	2008
Cash at banks and on hand	**751.4**	478.1	**129.6**	34.5
Short-term time deposits	**185.2**	147.8	**132.6**	11.4
Total	**936.6**	625.9	**262.2**	45.9

(A) Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term time deposits are made for varying periods depending on the immediate cash requirements of the Group, and earn interest at the respective short-term time deposit rates. The bank balances and time deposits are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and cash equivalents approximate to their fair values.

(B) Cash and cash equivalents with a net book amount of US$111.7 million (2008: US$160.1 million) were pledged as security for certain of the Group's banking facilities (Note 27(D)).

24. Pledged Deposits and Restricted Cash

At 31 December 2009, the Group had US$12.0 million (2008: US$12.0 million) of pledged bank deposits and US$17.2 million (2008: Nil) of cash which was set aside to cover principal and interest payments of certain borrowings and restricted as to use.

25. Inventories

US$ millions	Consolidated 2009	2008
Raw materials	**349.1**	389.9
Work in progress	**7.8**	6.1
Finished goods	**192.3**	161.4
Total	**549.2**	557.4

(A) At 31 December 2009, inventories with a carrying amount of US$80.9 million (2008: US$68.8 million) were carried at net realizable value.

(B) At 31 December 2009, inventories with a carrying amount of US$4.0 million (2008: US$58.1 million) were pledged as security for certain of the Group's banking facilities (Note 27(D)).

26. Accounts Payable, Other Payables and Accruals

US$ millions	Consolidated 2009	2008
Accounts payables	**185.0**	233.4
Accrued expenses	**305.6**	287.0
Other payables	**137.6**	147.0
Total	**628.2**	667.4

The ageing profile of trade payables is analyzed as follows:

US$ millions	Consolidated 2009	2008
0 to 30 days	**162.9**	220.7
31 to 60 days	**5.1**	8.5
61 to 90 days	**11.6**	2.6
Over 90 days	**5.4**	1.6
Total	**185.0**	233.4

All of the accounts payable, other payables and accruals are expected to be settled within one year. The carrying amount of the Group's accounts payable, other payables and accruals approximate to their fair value.

27. Borrowings

US$ millions	Effective interest rate (%)	Maturity	Notes	Consolidated 2009	2008
Short-term					
Bank loans	3.1 – 12.8 (2008: 5.0 – 17.7)	2010 (2008: 2009)		**781.9**	1,115.7
Other loans	2.5 – 9.0 (2008: 2.5 – 12.5)	2010 (2008: 2009)	(A)	**47.8**	91.3
Subtotal				**829.7**	1,207.0
Long-term					
Bank loans	3.1 – 12.8 (2008: 5.0 – 17.7)	2011 – 2018 (2008: 2010 – 2018)	(B)	**2,395.9**	1,770.1
Other loans	10.0 – 13.2 (2008:10.0)	2011 – 2014 (2008: 2010 – 2012)	(C)	**459.7**	181.6
Subtotal				**2,855.6**	1,951.7
Total				**3,685.3**	3,158.7

The balance of short-term borrowings includes US$211.7 million (2008: US$163.1 million) of current portion of long-term borrowings.

The maturity profile of the Group's borrowings is as follows:

	Bank loans		Other loans		**Consolidated**	
US$ millions	**2009**	2008	**2009**	2008	**2009**	2008
Not exceeding one year	**781.9**	1,115.7	**47.8**	91.3	**829.7**	1,207.0
More than one year but not exceeding two years	**764.5**	110.4	**–**	–	**764.5**	110.4
More than two years but not exceeding five years	**949.4**	1,129.7	**458.8**	181.6	**1,408.2**	1,311.3
More than five years	**681.9**	530.0	**1.0**	–	**682.9**	530.0
Total	**3,177.7**	2,885.8	**507.6**	272.9	**3,685.3**	3,158.7
Representing amounts repayable						
– wholly payable within five years	**2,467.4**	2,297.3	**506.6**	272.9	**2,974.0**	2,570.2
– not wholly payable within five years	**710.3**	588.5	**1.0**	–	**711.3**	588.5
Total	**3,177.7**	2,885.8	**507.6**	272.9	**3,685.3**	3,158.7

The carrying amounts of the borrowings are denominated in the following currencies:

US$ millions	Consolidated 2009	2008
U.S. dollar	**1,582.7**	1,752.4
Rupiah	**1,300.1**	924.0
Peso	**802.5**	482.3
Total	**3,685.3**	3,158.7

An analysis of the carrying amounts of borrowings into fixed and variable interest rates is as follows:

US$ millions	Consolidated 2009	2008
Variable interest rate	**1,389.3**	2,479.7
Fixed interest rate	**2,296.0**	679.0
Total	**3,685.3**	3,158.7

The carrying amounts and fair values of the long-term borrowings are as follows:

	Carrying amounts		Fair values	
US$ millions	**2009**	2008	**2009**	2008
Bank loans	**2,395.9**	1,770.1	**2,458.5**	1,777.0
Other loans	**459.7**	181.6	**418.8**	155.3
Total	**2,855.6**	1,951.7	**2,877.3**	1,932.3

The fair values are based on published price quotations for listed notes and bonds issued by the Group and projected cash flows discounted using the borrowing rates ranging from 3.1% to 12.8% (2008: 5.0% to 17.7%) for the other fixed interest rate borrowings. The carrying amounts of the Group's variable interest rate borrowings approximate to their fair values due to frequent repricing.

The carrying amounts of the short-term borrowings approximate to their fair values.

Details of the borrowings are set out below.

(A) Short-term Other Loans

The balance includes Pesos 2.1 billion (US$45.5 million) of a promissory note (2008: Nil) issued by Two Rivers Pacific Holdings Corporation (Two Rivers), a Philippine affiliate of the Company, in December 2009 secured by its 2.0% (2008: Nil) interest in Philex, with a fixed interest rate of 9.0% per annum, which is repayable in 2010.

(B) Long-term Bank Loans

The balance includes US$875.0 million (with an aggregate face value of US$886.3 million) of bank loans (2008: US$634.2 million, with an aggregate face value of US$641.3 million) borrowed by certain wholly-owned subsidiary companies of the Company with details summarized as follows:

(a) A US$44.8 million (with a face value of US$45.0 million) bank loan (2008: US$44.6 million) drawn in November 2005 secured by the Group's 1.3% (2008: 1.3%) interest in PLDT, subject to a variable LIBOR based interest rate, which is repayable in November 2012. In November 2009, a wholly-owned subsidiary company of the Company entered into an interest rate swap agreement, which effectively changed this loan into a loan subject to a fixed interest rate of 5.1% per annum.

(b) A US$44.8 million (with a face value of US$45.0 million) bank loan (2008: US$49.6 million) drawn in July 2006 secured by the Group's 1.2% (2008: 1.2%) interest in PLDT, subject to a variable LIBOR based interest rate, which is repayable in July 2011.

(c) A US$46.1 million (with a face value of US$46.3 million) bank loan (2008: US$46.0 million) drawn in November 2006 secured by the Group's 1.3% (2008: 1.2%) interest in PLDT, subject to a variable LIBOR based interest rate, which is repayable in November 2013.

(d) A US$297.7 million (with a face value of US$300.0 million) bank loan (2008: US$296.5 million) drawn in January 2007 secured by the Group's 8.4% (2008: 6.7%) interest in PLDT, subject to a variable LIBOR based interest rate, which is repayable in December 2011.

(e) A US$198.1 million (with a face value of US$200.0 million) bank loan (2008: US$197.5 million) drawn in August 2007 secured by the Group's 5.4% (2008: 3.9%) interest in PLDT, subject to a variable LIBOR based interest rate, which is repayable in December 2012. In April 2009, a wholly-owned subsidiary company of the Company entered into an interest rate swap agreement, which effectively changed this loan into a loan subject to a fixed interest rate of 3.2% per annum.

(f) A US$243.5 million (with a face value of US$250.0 million) bank loan (2008: Nil) drawn during November 2009 and December 2009 secured by the Group's 6.7% (2008: Nil) interest in PLDT, subject to a variable LIBOR based interest rate, which is repayable between November 2010 and November 2011.

(C) Long-term Other Loans

The balance includes bonds issued by Indofood. Details are summarized as follows:

(a) Rupiah 2.0 trillion (with a face value of US$212.8 million) of Rupiah bonds (2008: face value of US$182.6 million) issued by Indofood in May 2007, with a coupon rate of 10.0%, are payable quarterly, and mature in May 2012.

(b) Rupiah 1.6 trillion (with a face value of US$171.3 million) of Rupiah bonds (2008: Nil) issued by Indofood in June 2009, with a coupon rate of 13.2%, are payable quarterly, and mature in June 2014.

(c) Rupiah 452 billion (with a face value of US$48.1 million) of 5-year Rupiah bonds (2008: Nil) issued by PT Salim Ivomas Pratama (SIMP) in November 2009, with a coupon rate of 11.65%, are payable quarterly, and mature in November 2014.

(d) Rupiah 278 billion (with a face value of US$29.6 million) of 5-year Islamic Lease-based bonds (2008: Nil) issued by SIMP in November 2009, with a coupon rate of 11.65%, are payable quarterly, and mature in November 2014.

(D) Charges on Group Assets

At 31 December 2009, the total borrowings include secured bank and other borrowings of US$1,971.7 million (2008: US$1,604.0 million). Such bank and other borrowings were secured by the Group's property, plant and equipment, plantations, other intangible assets, prepaid land premiums, other non-current assets, cash and cash equivalents and inventories equating to a net book value of US$1,032.0 million (2008: US$1,455.3 million) and the Group's interest of 24.3% (2008: 17.6%) in PLDT, Nil (2008: 8.5%) in MPIC, 2.0% (2008: 20.1%) in Philex, 99.8% (2008: 99.8%) in MPTC, 16.5% (2008: 24.5%) in DMWC, 9.9% (2008: 9.9%) in Maynilad and 10.5% (2008: Nil) in Meralco.

(E) Bank Covenants

The Group has complied with all of its bank covenants, except for those related to Metro Pacific Corporation (Metro Pacific). Since the fourth quarter of 2001, Metro Pacific has been unable to meet its debt obligations. At 31 December 2009, Metro Pacific had Pesos 109 million (US$2.4 million) (2008: Pesos 109 million or US$2.3 million) outstanding debt obligations. Metro Pacific anticipates to further reduce the outstanding debt obligations during 2010.

28. Provision for Taxation

	Consolidated	
US$ millions	**2009**	2008
At 1 January	**55.8**	52.9
Exchange translation	**8.5**	(7.2)
Provision for taxation on estimated assessable profits for the year (Note 7)	**144.7**	121.6
Acquisition of subsidiary companies	**–**	0.7
Transfer from deferred taxation (Note 21)	**10.8**	0.2
Total	**219.8**	168.2
Tax paid	**(150.9)**	(112.4)
At 31 December	**68.9**	55.8

29. Deferred Liabilities and Provisions

US$ millions	Long-term liabilities	Pension	Others	Consolidated 2009	2008
At 1 January	259.7	137.7	74.4	**471.8**	197.9
Exchange translation	9.8	26.3	1.6	**37.7**	(45.8)
Additions	93.8	61.4	14.4	**169.6**	7.5
Payment and utilization	(68.3)	(15.3)	(15.0)	**(98.6)**	(78.0)
Acquisition of subsidiary companies	–	–	–	**–**	390.2
At 31 December	295.0	210.1	75.4	**580.5**	471.8
Presented as:					
Current Portion	46.6	–	26.9	**73.5**	39.4
Non-current Portion	248.4	210.1	48.5	**507.0**	432.4
Total	295.0	210.1	75.4	**580.5**	471.8

The long-term liabilities mainly relate to Maynilad's concession fees payable to MWSS and deferred credits (which represent foreign exchange gains and other payables which will be refunded to the customers and foreign exchange differences arising from retranslation of the portion of Maynilad's foreign currency denominated concession fees payable and loans) and Indofood's accrued liabilities for dismantlement, removal or restoration in relation to property, plant and equipment.

The pension relates to accrued liabilities in relation to retirement schemes and long service payments.

The others mainly relate to MNTC's provision for value-added taxes.

30. Share Capital

US$ millions	Consolidated and Company 2009	2008
Authorized		
5,000,000,000 (2008: 5,000,000,000) ordinary shares of U.S. 1 cent each	**50.0**	50.0
Issued and fully paid		
At 1 January	**32.1**	32.2
Issue of shares upon the exercise of share options	**–**	0.1
Issue of shares in respect of rights issue	**6.5**	–
Repurchase and cancellation of shares	**–**	(0.2)
At 31 December		
3,860,324,403 (2008: 3,213,377,003) ordinary shares of U.S. 1 cent each	**38.6**	32.1

(A) During the year, 3,560,000 (2008: 7,060,000) share options were exercised at the exercise price of HK$1.76 per share (2008: HK$1.76 per share) (before adjusting for the Company's 2009 rights issue), resulting in the issue of 3,560,000 (2008: 7,060,000) new ordinary shares of U.S. 1 cent each for a total cash consideration of HK$6.3 million (US$0.8 million) (2008: HK$12.4 million or US$1.6 million). Details of the Company's share option scheme are set out in Note 36(D)(a) to the Financial Statements.

(B) On 5 October 2009, the Company announced its proposal to raise HK$2,187.5 million (approximately US$282.3 million) before expenses, by way of a fully underwritten rights issue. Under the proposal, the Company offered its shareholders the opportunity to acquire one rights share for every five existing shares held at a subscription price of HK$3.40 per one rights share. The offer period commenced on 12 November 2009 and closed for acceptance on 24 November 2009. Dealing in the new shares began on 4 December 2009. The Company raised US$277.1 million (2008: Nil) after expenses from this rights issue.

31. Other Components of Equity

An analysis of the Group's exchange reserve, by principal operating company, is set out below.

	Consolidated	
US$ millions	**2009**	2008
PLDT	**(14.7)**	(27.2)
MPIC	**13.8**	(15.4)
Indofood	**(6.5)**	(75.5)
Philex	**8.4**	3.0
Others	**0.2**	(0.9)
Total	**1.2**	(116.0)

An analysis of the accumulated reserves of associated companies and joint ventures, included within consolidated reserves, is set out below.

	Associated Companies		Joint Ventures		Consolidated	
US$ millions	**2009**	2008	**2009**	2008	**2009**	2008
Associated Companies and Joint Ventures						
Revenue reserve	**(818.4)**	(861.8)	**(1.7)**	(0.5)	**(820.1)**	(862.3)
Exchange reserve	**(6.0)**	(24.4)	**0.1**	(0.6)	**(5.9)**	(25.0)
Unrealized (losses)/gains on cash flow hedges	**(0.1)**	1.4	**–**	–	**(0.1)**	1.4
Total (Note 15)	**(824.5)**	(884.8)	**(1.6)**	(1.1)	**(826.1)**	(885.9)

The Group's capital and other reserves include US$0.2 million (2008: US$0.2 million) of the capital redemption reserve.

The US$173.8 million (2008: US$173.8 million) contributed surplus of the Company arose from a reorganization of the Group in 1988 and represents the difference between the nominal value of the share capital issued by the Company and the aggregate net asset value of the subsidiary companies acquired at the date of acquisition. Under the Companies Act 1981 of Bermuda (as amended), the Company may make distributions to its shareholders out of the contributed surplus provided certain conditions are met.

32. Minority Interest

An analysis of the Group's minority interest, by principal operating company, is set out below.

	Consolidated	
US$ millions	**2009**	2008
Indofood	**1,428.3**	1,060.7
MPIC	**694.6**	184.4
Total	**2,122.9**	1,245.1

33. Notes to the Consolidated Statement of Cash Flows

(A) Investments in Associated Companies

2009's cash outflow of US$274.5 million relates to the Group's investment in a 14.5% interest in Meralco. 2008's cash outflow mainly relates to the Group's investment in an approximately 20% interest in Philex in November 2008 of US$129.1 million and MPIC's investment in a 34.0% interest in Davao Doctors Hospital in June 2008 of US$11.4 million.

(B) Increased Investments in Associated Companies

2009's cash outflow of US$271.2 million mainly relates to the Group's additional investments in an approximately 11.5% interest in Philex and part of the consideration for the acquisition of a 9.2% interest in Philex by Two Rivers Pacific Holdings Corporation (Two Rivers), a Philippine affiliate of the Company. The remaining unpaid portion of the consideration for Two Rivers' acquisition of the 9.2% interest in Philex was satisfied by Two Rivers' issuance of a promissory note with an amount of Pesos 2.1 billion (US$45.5 million). Details in respect of the note are set out in Note 27(A).

(C) Major Non-cash Transactions

(a) In July 2009, MPIC issued 791 million new shares at Pesos 2.57 (US$0.05) per share to LAWL Pte Limited (LAWL), an original minority shareholder of Maynilad, for the settlement of a payable of Pesos 2.0 billion (US$42.3 million) due to LAWL.

(b) On 6 October 2009, MPIC acquired a 10.2% interest in Meralco from the Beneficial Trust Fund of PLDT partially by means of an issuance of approximately 3,159 million new shares at Pesos 3 (US$0.06) per share, equivalent to an aggregate value of Pesos 9.5 billion (US$202.3 million).

34. Commitments and Contingent Liabilities

(A) Capital Expenditure

	Consolidated	
US$ millions	**2009**	2008
Commitments in respect of subsidiary companies:		
Authorized, but not contracted for	**615.0**	548.2
Contracted, but not provided for	**20.7**	6.3
Total	**635.7**	554.5

The Group's capital expenditure commitments principally relate to Indofood's purchase of property, plant and equipment, investments in plantations, and Maynilad's and MNTC's construction of water and toll road infrastructure.

At 31 December 2009, the Company had no commitments in respect of capital expenditure (2008: Nil).

(B) Leasing Commitments

At 31 December 2009, the Group had total future minimum lease payments under non-cancelable operating leases falling due as follows.

	Consolidated	
US$ millions	**2009**	2008
Land and Buildings		
– Within one year	**3.5**	2.8
– Between two and five years, inclusive	**2.3**	1.6
– After five years	**0.7**	1.8
Subtotal	**6.5**	6.2
Plant and Equipment		
– Within one year	**0.1**	0.1
– Between two and five years, inclusive	**0.1**	0.1
– After five years	**–**	0.1
Subtotal	**0.2**	0.3
Total	**6.7**	6.5

At 31 December 2009, the Company did not have any leasing commitments (2008: Nil).

(C) Contingent Liabilities

At 31 December 2009, except for US$62.1 million (2008: US$53.7 million) guarantees given by Indofood for loan facilities obtained by certain plantation farmers in relation to arrangements for those farmers' production and sale of fresh fruit bunches to Indofood, neither the Group nor the Company had any significant contingent liabilities (2008: Nil). At 31 December 2009, the Company provided guarantees to certain banks in connection with the banking facilities granted to certain subsidiary companies of the Company.

35. Employees' Benefits

(A) Remuneration

	Consolidated	
US$ millions	**2009**	2008
Basic salaries	**221.0**	209.6
Bonuses	**52.2**	44.3
Benefits in kind	**50.8**	29.5
Pension contributions	**35.7**	35.1
Retirement and severance allowances	**7.5**	10.8
Equity-settled share option expense	**9.3**	18.0
Total (Note 6)	**376.5**	347.3
Average Number of Employees	**67,344**	65,015

The above includes the remuneration of the Directors. Detailed disclosures in respect of Directors' remuneration are set out in Note 36(A) to the Financial Statements.

(B) Retirement Benefits

The Group operates both defined contribution and defined benefit schemes. In addition, the Group has made provisions for estimated liabilities for employee benefits for meeting the minimum benefits required to be paid to the qualified employees as required under Indonesian's labour law.

(a) Defined contribution schemes

The Group operates five (2008: five) defined contribution schemes covering approximately 19,046 (2008: 17,884) employees. The assets of these schemes are held separately from the Group and are administered by independent trustees. Contributions to the schemes, either by the Group or by the employees, are determined by reference to the employees' salaries and length of service and range from 0% to 10% (2008: 0% to 10%). Under the terms of the schemes, the Group cannot be requested to make additional payments over and above these levels of contributions. In three (2008: three) of the schemes, forfeited contributions may be used to reduce the existing levels of employer contributions and, in 2009, no amount (2008: Nil) was used for this purpose. At 31 December 2009, the forfeited contributions had been fully utilized.

(b) Defined benefit schemes and estimated liabilities for employee benefits

The Group operates four (2008: four) defined benefit schemes covering approximately 2,500 (2008: 2,615) employees. The assets of three (2008: four) of these schemes are held separately from the Group and are administered by independent trustees. Benefits are determined by reference to employees' final salaries and length of service, and the schemes have undergone independent valuations. These actuarial valuations, performed by the actuaries of PT Sentra Jasa Aktuaria (a member of the Fellow Society of Actuary of Indonesia and Expert in Life Insurance in Indonesia), Actuarial Advisers, Inc. or Institutional Synergy, Inc, FASP (members of Actuary Society of the Philippines), were based on the projected unit credit method. The plan assets do not include any financial instruments of the Group or property occupied by, or other assets used by, the Group. At 31 December 2009, the Group's level of funding in respect of its defined benefit schemes was 94.2% (2008: 59.5%).

The Group has made provisions for estimated liabilities for employee benefits covering approximately 47,637 (2008: 45,953) employees. The amounts of such provisions were determined by reference to employees' final salaries and length of service and based on actuarial computations prepared by the actuaries of PT Sentra Jasa Aktuaria and PT Jasa Aktuaria Praptasentosa Gunajasa (members of the Fellow Society of Actuary of Indonesia and Expert in Life Insurance in Indonesia) using the projected unit credit method.

(I) The amount of liability under defined benefit schemes and estimated liabilities for employee benefits included in the statement of financial position is as follows:

US$ millions	Defined benefit schemes	Estimated liabilities for employee benefits	Consolidated 2009	Consolidated 2008
Present value of defined benefit obligations	(20.6)	(203.7)	**(224.3)**	(144.3)
Fair value of plan assets	19.4	–	**19.4**	11.0
Liability in the Statement of Financial Position	(1.2)	(203.7)	**(204.9)**	(133.3)

(II) The changes in the present value of the defined benefit obligations during the year are as follows:

US$ millions	Defined benefit schemes	Estimated liabilities for employee benefits	Consolidated 2009	Consolidated 2008
At 1 January	(18.5)	(125.8)	**(144.3)**	(154.9)
Exchange translation	(1.5)	(26.1)	**(27.6)**	22.5
Current service cost	(1.5)	(15.2)	**(16.7)**	(12.3)
Past service cost	–	(2.6)	**(2.6)**	–
Interest cost on obligation	(2.3)	(16.0)	**(18.3)**	(18.8)
Actuarial gains/(losses)	0.9	(25.3)	**(24.4)**	26.2
Benefit paid	2.3	7.3	**9.6**	11.1
Acquisition of subsidiary companies	–	–	**–**	(18.1)
At 31 December	(20.6)	(203.7)	**(224.3)**	(144.3)

(III) The changes in the fair value of plan assets under defined benefit schemes during the year are as follows:

US$ millions	Consolidated 2009	Consolidated 2008
At 1 January	**11.0**	6.3
Exchange translation	**1.2**	(1.4)
Expected return	**0.7**	0.5
Actuarial gains/(losses)	**1.7**	(0.6)
Contributions by employer	**6.2**	1.8
Benefit paid	**(1.4)**	(1.8)
Assets distributed on settlements	**–**	(0.8)
Acquisition of subsidiary companies	**–**	7.0
At 31 December	**19.4**	11.0

The overall expected rate of return on assets is determined based on the market prices prevailing on that date applicable to the period over which the obligation is to be settled.

(IV) The major categories of plan assets as a percentage of the fair value of the total plan assets under defined benefit schemes are as follows:

	Consolidated	
	2009	2008
Indonesian equities	**39%**	48%
Philippines debt securities	**32%**	30%
Philippines equities	**29%**	22%

(V) Amounts for the current and previous four years for defined benefit schemes are as follows:

	Consolidated				
US$ millions	**2009**	2008	2007	2006	2005
Defined benefit obligations	**(20.6)**	(18.5)	(11.0)	(10.5)	(11.0)
Plan assets	**19.4**	11.0	6.3	6.8	6.2
Deficit	**(1.2)**	(7.5)	(4.7)	(3.7)	(4.8)
Experience adjustments on plan liabilities	**(5.5)**	(4.1)	(0.7)	(0.1)	(2.3)
Experience adjustments on plan assets	**(0.8)**	(0.6)	–	–	–

(VI) The amount recognized in the income statement is analyzed as follows:

US$ millions	Defined benefit schemes	Estimated liabilities for employee benefits	Consolidated **2009**	2008
Current service cost	1.5	15.2	**16.7**	12.3
Interest cost on obligation	2.3	16.0	**18.3**	18.8
Expected return on plan assets	(0.7)	–	**(0.7)**	(0.5)
Net actuarial losses/(gains) recognized in the year	(2.6)	25.3	**22.7**	(25.6)
Total[(i)]	0.5	56.5	**57.0**	5.0
Actual Return on Plan Assets			**9%**	7%

(i) Included in cost of sales, distribution costs, administrative expenses and other operating expenses, net

(VII) Principal actuarial assumptions (weighted average) at 31 December are as follows:

	Consolidated	
US$ millions	**2009**	2008
Discount rate	**11%**	11%
Expected return on plan assets	**8%**	8%
Future salary increases	**9%**	9%
Future pension increases	**9%**	9%
Average remaining working lives of employees (years)	**16.2**	17.8

(VIII) The Group expects to contribute US$1.9 million (2008: US$2.0 million) to its defined benefit pension plans in the next year.

(C) Loans to Officers

During 2009 and 2008, there were no loans made by the Group to officers which require disclosure pursuant to Section 161B of the Hong Kong Companies Ordinance.

36. Directors' and Senior Executives' Remuneration

(A) Directors' Remuneration

The table below shows the remuneration of Directors on an individual basis.

Directors' Remuneration – 2009

US$'000	Non-performance based Salaries	Other benefits	Pension contributions	Performance based payments (i)	Equity-settled share option expense	Fees (ii)	Emoluments (iii)	2009 Total
Chairman								
Anthoni Salim	1,459	–	–	–	–	15	–	**1,474**
Executive Directors								
Manuel V. Pangilinan, *Managing Director and Chief Executive Officer*	2,057	930	142	1,215	2,406	–	–	**6,750**
Edward A. Tortorici	1,242	137	921	–	1,459	–	–	**3,759**
Robert C. Nicholson	985	34	2	514	1,168	–	–	**2,703**
Non-executive Directors								
Ambassador Albert F. del Rosario	–	–	–	–	44	181	–	**225**
Sutanto Djuhar	–	–	–	–	–	–	–	**–**
Tedy Djuhar	–	–	–	–	–	50	–	**50**
Ibrahim Risjad	–	–	–	–	–	5	–	**5**
Benny S. Santoso	–	–	–	–	–	108	–	**108**
Napoleon L. Nazareno	1,750	1	–	980	47	104	–	**2,882**
Independent Non-executive Directors								
Graham L. Pickles	–	–	–	–	–	95	–	**95**
Prof. Edward K.Y. Chen, *GBS, CBE, JP*	–	–	–	–	–	75	–	**75**
Sir David W.C. Tang, *KBE*	–	–	–	–	–	35	77	**112**
Jun Tang	–	–	–	–	23	5	–	**28**
Total	7,493	1,102	1,065	2,709	5,147	673	77	**18,266**

Directors' Remuneration – 2008

US$'000	Non-performance based Salaries	Other benefits	Pension contributions	Performance based payments (i)	Equity-settled share option expense	Fees (ii)	Emoluments (iii)	2008 Total
Chairman								
Anthoni Salim	1,152	–	–	–	–	30	–	1,182
Executive Directors								
Manuel V. Pangilinan, *Managing Director and Chief Executive Officer*	2,080	460	142	1,559	4,028	–	–	8,269
Edward A. Tortorici	1,242	135	1,595	120	2,499	–	–	5,591
Robert C. Nicholson	892	23	2	446	2,117	–	–	3,480
Non-executive Directors								
Ambassador Albert F. del Rosario	–	–	–	–	720	160	–	880
Sutanto Djuhar	–	–	–	–	–	–	–	–
Tedy Djuhar	–	–	–	–	–	40	–	40
Ibrahim Risjad	–	–	–	–	–	–	–	–
Benny S. Santoso	–	–	–	–	720	89	–	809
Napoleon L. Nazareno	244	119	19	146	–	91	–	619
Independent Non-executive Directors								
Graham L. Pickles	–	–	–	–	720	115	–	835
Prof. Edward K.Y. Chen, *GBS, CBE, JP*	–	–	–	–	720	90	–	810
Sir David W.C. Tang, *KBE*	–	–	–	–	720	45	77	842
Total	5,610	737	1,758	2,271	12,244	660	77	23,357

(i) Performance based payments comprise performance bonuses and long-term monetary incentive awards
(ii) For meetings attended
(iii) For consultancy services provided to the Company

Included within the total Directors' remuneration is an amount of US$1.2 million (2008: US$1.3 million) paid by PLDT, an associated company, in respect of the services of the Managing Director and Chief Executive Officer.

(B) Senior Executives' Remuneration

As similar remuneration schemes operate for the senior executives of the Group, their remuneration may exceed those of the Company's Directors. In 2009, Nil (2008: two) senior executives were among the Group's five highest earning employees. All (2008: three) of the five highest earning employees are the Company's Directors.

US$ millions	**2009**	2008
Non-performance based		
– Salaries and benefits	**–**	0.8
Performance based		
– Bonuses and long-term monetary incentive awards	**–**	0.2
Equity-settled share option expense	**–**	2.1
Total	**–**	3.1

The table below shows the remuneration of the two senior executives in 2008 who were among the Group's five highest earning employees.

Remuneration bands	**2009 Number of employees**	2008 Number of employees
US$1,469,001 – US$1,533,000	**–**	1
US$1,597,001 – US$1,661,000	**–**	1
Total	**–**	2

(C) Key Management Personnel Compensation

	Consolidated	
US$ millions	**2009**	2008
Non-performance based		
– Salaries and benefits	**27.2**	22.5
– Pension contributions	**1.4**	1.9
Performance based		
– Bonuses and long-term monetary incentive awards	**11.7**	9.1
Equity-settled share option expense	**8.4**	18.0
Fees	**0.6**	0.6
Total	**49.3**	52.1

(D) Share Options

Particulars of the share options of the Company and its subsidiary company granted to the Directors and senior executives of the Company and its subsidiary company at 31 December 2009 are set out below.

(a) Particulars of the Company's Share Option Scheme

	Share options held at 1 January 2009	Share options exercised during the year	Adjustment for rights issue	Share options granted during the year	**Share options held at 31 December 2009**	Share option exercise price per share (i) (HK$)	Market price per share at the date of grant (i) (HK$)	Market price per share during the period of exercise (i) (HK$)	Grant date	Fully vested by	Exercisable from	Exercisable until
Executive Directors												
Manuel V. Pangilinan	31,800,000	–	1,717,996	–	**33,517,996**	1.6698	1.67	–	1 June 2004	December 2008	June 2005	May 2014
	30,200,000	–	1,631,556	–	**31,831,556**	5.0569	5.06	–	5 September 2007	September 2012	September 2008	September 2017
Edward A. Tortorici	3,560,000	(3,560,000)	–	–	**–**	1.6698	1.67	3.58	1 June 2004	December 2008	June 2005	May 2014
	18,200,000	–	983,256	–	**19,183,256**	5.0569	5.06	–	5 September 2007	September 2012	September 2008	September 2017
Robert C. Nicholson	14,000,000	–	756,351	–	**14,756,351**	1.6698	1.67		1 June 2004	December 2008	June 2005	May 2014
	15,500,000	–	837,388	–	**16,337,388**	5.0569	5.06	–	5 September 2007	September 2012	September 2008	September 2017
Non-Executive Directors												
Ambassador Albert F. del Rosario	2,840,000	–	153,431	–	**2,993,431**	1.6698	1.67	–	1 June 2004	June 2005	June 2005	May 2014
	3,160,000	–	170,719	–	**3,330,719**	5.0569	5.06	–	5 September 2007	September 2008	September 2008	September 2017
Benny S. Santoso	2,840,000	–	153,431	–	**2,993,431**	1.6698	1.67	–	1 June 2004	June 2005	June 2005	May 2014
	3,160,000	–	170,719	–	**3,330,719**	5.0569	5.06	–	5 September 2007	September 2008	September 2008	September 2017
Napoleon L. Nazareno	–	–	–	3,330,000	**3,330,000**	5.0569	4.61	–	11 December 2009	December 2010	December 2010	December 2019
Independent Non-Executive Directors												
Graham L. Pickles	3,160,000	–	170,719	–	**3,330,719**	5.0569	5.06	–	5 September 2007	September 2008	September 2008	September 2017
Prof. Edward K.Y. Chen, *GBS, CBE, JP*	1,340,000	–	72,394	–	**1,412,394**	1.6698	1.67	–	1 June 2004	June 2005	June 2005	May 2014
	3,160,000	–	170,719	–	**3,330,719**	5.0569	5.06	–	5 September 2007	September 2008	September 2008	September 2017
Sir David W. C. Tang, *KBE*	3,160,000	–	170,719	–	**3,330,719**	5.0569	5.06	–	5 September 2007	September 2008	September 2008	September 2017
Jun Tang	–	–	–	3,330,000	**3,330,000**	5.0569	4.61		11 December 2009	December 2011	December 2011	December 2019
Senior Executives	29,032,000	–	1,568,455	–	**30,600,455**	1.6698	1.67	–	1 June 2004	December 2008	June 2005	May 2014
	4,500,000	–	243,113	–	**4,743,113**	3.1072	3.08	–	7 June 2006	December 2010	June 2007	June 2016
	42,220,000	–	2,280,938	–	**44,500,938**	5.0569	5.06	–	5 September 2007	September 2012	September 2008	September 2017
Total	211,832,000	(3,560,000)	11,251,904	6,660,000	**226,183,904**							

(i) Adjusted for the effect of the Company's rights issue completed in December 2009

	Share options held at 1 January 2008	Share options exercised during the year	Share options held at 31 December 2008	Share option exercise price per share (ii) (HK$)	Market price per share at the date of grant (ii) (HK$)	Market price per share during the period of exercise (ii) (HK$)	Grant date	Fully vested by	Exercisable from	Exercisable until
Executive Directors										
Manuel V. Pangilinan	31,800,000	–	31,800,000	1.76	1.76	–	1 June 2004	December 2008	June 2005	May 2014
	30,200,000	–	30,200,000	5.33	5.33	–	5 September 2007	September 2012	September 2008	September 2017
Edward A. Tortorici	10,620,000	(7,060,000)	3,560,000	1.76	1.76	5.72	1 June 2004	December 2008	June 2005	May 2014
	18,200,000	–	18,200,000	5.33	5.33	–	5 September 2007	September 2012	September 2008	September 2017
Robert C. Nicholson	14,000,000	–	14,000,000	1.76	1.76	–	1 June 2004	December 2008	June 2005	May 2014
	15,500,000	–	15,500,000	5.33	5.33	–	5 September 2007	September 2012	September 2008	September 2017
Non-Executive Directors										
Ambassador Albert F. del Rosario	2,840,000	–	2,840,000	1.76	1.76	–	1 June 2004	June 2005	June 2005	May 2014
	3,160,000	–	3,160,000	5.33	5.33	–	5 September 2007	September 2008	September 2008	September 2017
Benny S. Santoso	2,840,000	–	2,840,000	1.76	1.76	–	1 June 2004	June 2005	June 2005	May 2014
	3,160,000	–	3,160,000	5.33	5.33	–	5 September 2007	September 2008	September 2008	September 2017
Independent Non-Executive Directors										
Graham L. Pickles	3,160,000	–	3,160,000	5.33	5.33	–	5 September 2007	September 2008	September 2008	September 2017
Prof. Edward K.Y. Chen, *GBS, CBE, JP*	1,340,000	–	1,340,000	1.76	1.76	–	1 June 2004	June 2005	June 2005	May 2014
	3,160,000	–	3,160,000	5.33	5.33	–	5 September 2007	September 2008	September 2008	September 2017
Sir David W. C. Tang, *KBE*	3,160,000	–	3,160,000	5.33	5.33	–	5 September 2007	September 2008	September 2008	September 2017
Senior Executives	29,032,000	–	29,032,000	1.76	1.76	–	1 June 2004	December 2008	June 2005	May 2014
	4,500,000	–	4,500,000	3.275	3.25	–	7 June 2006	December 2010	June 2007	June 2016
	42,220,000	–	42,220,000	5.33	5.33	–	5 September 2007	September 2012	September 2008	September 2017
Total	218,892,000	(7,060,000)	211,832,000							

(ii) Before adjusting for the effect of the Company's rights issue completed in December 2009

At the AGM held on 24 May 2004, the Company's shareholders approved a share option scheme (the Scheme) under which the Directors may, at their discretion, at any time during the period of the Scheme, grant Directors and executives of the Company's share options as part of the Company's long-term incentive program. The Scheme, which complies with the provisions set out in Chapter 17 of the Listing Rules, became effective on 24 May 2004. The Scheme will be valid for 10 years and will expire on 23 May 2014.

The maximum number of shares on which options may be granted may not exceed 10% of the Company's issued share capital, excluding any shares issued on the exercise of options at any time. The maximum number of shares in respect of which options may be granted under the Scheme to any one participant in any 12-month period is limited to 1% of the aggregate number of shares of the Company in issue at the time of the proposed grant of options to such participant.

The exercise price in relation to each share option offer shall be determined by the Directors at their absolute discretion, but in any event shall not be less than the highest of (i) the closing price of the Company's shares as stated in the daily quotation sheet of the SEHK on the date of grant; (ii) the average closing price of the Company's shares as stated in the daily quotation sheets of the SEHK for the five trading days immediately preceding the date of grant; and (iii) the nominal value of a Company's share on the date of grant. The terms of the Scheme provide that subject to any other restrictions on vesting imposed by the Directors, share options may be exercised under the Scheme at any time from the date of acceptance until the date of expiry. All options presently outstanding under the Scheme are subject to certain restrictions on exercise including a prohibition on exercise at any time during the period commencing one year after the date on which any option is accepted. Options which lapse or are cancelled prior to their expiry date are deleted from the register of options.

On 1 June 2004, 134,586,000 share options under the Company's Scheme were granted. The average fair value of options granted as calculated by Watson Wyatt Hong Kong Limited, based on the binomial model, was HK$0.849 per share or an aggregate value of US$14.6 million for all options granted. The assumptions used were as follows:

Share price at the date of grant (before adjusting for the effect of the Company's 2009 rights issue)	HK$1.76 per share[i]
Exercise price (before adjusting for the effect of the Company's 2009 rights issue)	HK$1.76 per share[i]
Expected volatility (based on historical volatility of the Company's shares commensurate with the average expected life of the options granted)	55%
Option life	10 years
Expected dividend yield	1% per annum
Average risk-free interest rate (based on the Hong Kong Exchange Fund Notes)	4.06% per annum

Taking into account the expected turnover rate of the Directors and senior executives and the early exercise behavior, the average expected life of the options granted was estimated to be 6.61 years. The early exercise behavior assumes that option holders will exercise the options when the share price is at least 75% higher than the exercise price.

On 1 June 2006, 4,500,000 share options under the Company's Scheme were granted. The average fair value of options granted as calculated by Watson Wyatt Hong Kong Limited, based on the binomial model, was HK$1.554 per share or an aggregate value of US$0.9 million for all options granted. The assumptions used were as follows:

Share price at the date of grant (before adjusting for the effect of the Company's 2009 rights issue)	HK$3.25 per share[ii]
Exercise price (before adjusting for the effect of the Company's 2009 rights issue)	HK$3.275 per share[iii]
Expected volatility (based on historical volatility of the Company's shares commensurate with the average expected life of the options granted)	50%
Option life	10 years
Expected dividend yield	1% per annum
Average risk-free interest rate (based on the Hong Kong Exchange Fund Notes)	4.71% per annum

Taking into account the expected turnover rate of the senior executives and the early exercise behavior, the average expected life of the options granted was estimated to be 6.79 years. The early exercise behavior assumes that option holders will exercise the options when the share price is at least 100% higher than the exercise price.

On 5 September 2007, 121,920,000 share options under the Company's Scheme were granted. The average fair value of options granted as calculated by Watson Wyatt Hong Kong Limited, based on the binomial model, was HK$2.596 per share or an aggregate value of US$40.6 million for all options granted. The assumptions used were as follows:

Share price at the date of grant (before adjusting for the effect of the Company's 2009 rights issue)	HK$5.33 per share[(iv)]
Exercise price (before adjusting for the effect of the Company's 2009 rights issue)	HK$5.33 per share[(iv)]
Expected volatility (based on historical volatility of the Company's shares commensurate with the average expected life of the options granted)	45%
Option life	10 years
Expected dividend yield	1% per annum
Average risk-free interest rate (based on the Hong Kong Exchange Fund Notes)	4.40% per annum

Taking into account the expected turnover rate of the Directors and senior executives and the early exercise behavior, the average expected life of the options granted was estimated to be 7.60 years. The early exercise behavior assumes that option holders will exercise the options when the share price is at least 150% higher than the exercise price.

On 11 December 2009, 6,660,000 share options under the Company's Scheme were granted. The average fair value of options granted as calculated by Watson Wyatt Hong Kong Limited, a Towers Watson Company, based on the binomial model, was HK$1.935 per share or an aggregate value of US$1.7 million for all options granted. The assumptions used were as follows:

Share price at the date of grant	HK$4.61 per share
Exercise price	HK$5.0569 per share
Expected volatility (based on historical volatility of the Company's shares commensurate with the average expected life of the options granted)	45%
Option life	10 years
Expected dividend yield	2% per annum
Average risk-free interest rate (based on the Hong Kong Exchange Fund Notes)	2.20% per annum

Taking into account the expected turnover rate of the Directors and the early exercise behavior, the average expected life of the options granted was estimated to be 8 years. The early exercise behavior assumes that option holders will exercise the options when the share price is at least 250% higher than the exercise price.

The binomial model, applied for determining the estimated values of the share options granted under the Scheme, was developed for use in estimating the fair value of the traded options that are fully transferable. Such an option pricing model requires input of highly subjective assumptions, including the expected stock price volatility. As the Company's share options have characteristics significantly different from those of the traded options, changes in the subjective input assumptions can materially affect the estimated value of the options granted.

Details of the Group's accounting policy in respect of the share options granted are set out in Note 2(D)(r)(III) to the Financial Statements.

(i) HK$1.6698 after adjusting for the effect of the Company's rights issue
(ii) HK$3.1072 after adjusting for the effect of the Company's rights issue
(iii) HK$3.0834 after adjusting for the effect of the Company's rights issue
(iv) HK$5.0569 after adjusting for the effect of the Company's rights issue

(b) Particulars of MPIC's Share Option Scheme

	Share options held at 1 January 2009	Share options granted during the year	Share options exercised during the year	Share options cancelled during the year	**Share options held at 31 December 2009**	Share options exercise price per share (Peso)	Market price per share at date of grant (Peso)	Market price per share during the period of exercise (Peso)	Grant date	Fully vested by	Exercisable from	Exercisable until
Executive Directors												
Manuel V. Pangilinan	7,500,000	–	–	–	**7,500,000**	2.12	2.10	–	9 December 2008	January 2010	January 2009	January 2013
	–	7,500,000	–	–	**7,500,000**	2.73	2.65	–	10 March 2009	March 2010	March 2009	March 2013
Edward A. Tortorici	5,000,000	–	–	–	**5,000,000**	2.12	2.10	–	9 December 2008	January 2010	January 2009	January 2013
	–	5,000,000	–	–	**5,000,000**	2.73	2.65	–	10 March 2009	March 2010	March 2009	March 2013
Ambassador Albert F. del Rosario	2,500,000	–	–	–	**2,500,000**	2.12	2.10	–	9 December 2008	January 2010	January 2009	January 2013
	–	2,500,000	–	–	**2,500,000**	2.73	2.65	–	10 March 2009	March 2010	March 2009	March 2013
Senior Executives	46,000,000	–	(7,365,000)	(2,500,000)	**36,135,000**	2.12	2.10	2.85 - 6.00	9 December 2008	January 2010	January 2009	January 2013
	–	47,925,245	(6,580,000)	(3,475,245)	**37,870,000**	2.73	2.65	3.25 - 6.00	10 March 2009	March 2010	March 2009	March 2013
Total	61,000,000	62,925,245	(13,945,000)	(5,975,245)	**104,005,000**							

	Share options held at 1 January 2008	Share options granted during the year	Share options held at 31 December 2008	Share options exercise price per share (Peso)	Market price per share at date of grant (Peso)	Grant date	Fully vested by	Exercisable from	Exercisable until
Executive Directors									
Manuel V. Pangilinan	–	7,500,000	7,500,000	2.12	2.10	9 December 2008	January 2010	January 2009	January 2013
Edward A. Tortorici	–	5,000,000	5,000,000	2.12	2.10	9 December 2008	January 2010	January 2009	January 2013
Ambassador Albert F. del Rosario	–	2,500,000	2,500,000	2.12	2.10	9 December 2008	January 2010	January 2009	January 2013
Senior Executives	–	46,000,000	46,000,000	2.12	2.10	9 December 2008	January 2010	January 2009	January 2013
Total	–	61,000,000	61,000,000						

At the annual general meeting held on 1 June 2007, the Company's shareholders approved a share option scheme under which MPIC's directors may, at their discretion, invite executives of MPIC upon the regularization of employment of eligible executives, to take up share options of MPIC to obtain an ownership interest in MPIC and for the purpose of long-term employment motivation. The scheme was subsequently approved by MPIC's shareholders and became effective on 14 June 2007 and would be valid for 10 years. At a special shareholders' meetings of MPIC held on 20 February 2009, MPIC's shareholders approved the amendments to MPIC's share option scheme which include (i) a refreshment of the number of MPIC options that may be granted to take into account of the increase in the capital stock of MPIC or other changes to its capital structure which have either been approved by the shareholders, implemented, in process, or which may potentially be approved or implemented in the future; and (ii) the inclusion in MPIC's share option plan of a requirement for MPIC to comply with relevant corporate requirements and regulations applicable to MPIC's parent company. The amendments and the maximum number of MPIC's share options of 941,676,681 (representing 10% of MPIC's share in issue at the date of approval of the proposed refreshment) were subsequently approved by the Company's shareholders in the annual general meeting held on 3 June 2009.

The maximum number of shares on which options may be granted under the scheme may not exceed 10% of the issued share capital of MPIC as 1 June 2007, at the date on which the MPIC's share option scheme was approved by the Company's shareholders on the annual general meeting held on 1 June 2007. The aggregate number of shares which may be issued upon exercise of the options granted and to be granted to any eligible participant (whether or not already an option holder) in any 12-month period shall not exceed 1% of the shares in issue at the relevant time.

The exercise price in relation to each option granted under the scheme shall be determined by MPIC's directors at their absolute discretion, but in any event shall not be less than (i) the closing price of MPIC's shares for one or more board lots of such MPIC's shares on the Philippine Stock Exchange (PSE) on the option grant date; (ii) the average closing price of MPIC's shares for one or more board lots of such MPIC's shares on the PSE for the five business days on which dealings in the MPIC's shares are made immediately preceding the option grant date; or (iii) the par value of the MPIC's shares, whichever is higher.

On 9 December 2008, 61,000,000 share options under MPIC's scheme were granted. The average fair value of options granted, as calculated based on the Black-Scholes option pricing model, was Peso 0.37 per share or an aggregate value of Pesos 22.8 million (US$0.5 million) for all options granted. The assumptions used were as follows:

Share price at the date of grant	Pesos 2.10 per share
Exercise price	Pesos 2.12 per share
Expected volatility (based on historical volatility of the MPIC's shares commensurate with the average expected life of the options granted)	76%
Option life	4 years
Expected dividend yield	Nil
Average risk-free interest rate (based on the Philippine government zero coupon bond)	6.26% per annum

On 10 March 2009, 62,924,245 share options under MPIC's scheme were granted. The average fair value of options granted, as calculated based on Black-Scholes option pricing model, was Peso 0.51 per share or an aggregate value of Pesos 31.8 million (US$0.7 million) for all options granted. The assumptions used were as follows:

Share price at the date of grant	Pesos 2.65 per share
Exercise price	Pesos 2.73 per share
Expected volatility (based on historical volatility of the MPIC's shares commensurate with the average expected life of the options granted)	64%
Option life	4 years
Expected dividend yield	Nil
Average risk-free interest rate (based on the Philippine government zero coupon bond)	4.53% per annum

The Black-Scholes option pricing model, applied for determining the estimated values of the share options granted under MPIC's scheme, requires input of higher subjective assumptions, including the expected stock price volatility. Changes in the subjective input assumptions can materially affect the estimated value of the options granted.

Details of the Group's accounting policy in respect of the share options granted are set out in Note 2D(r)(III) to the Financial Statements.

37. Related Party Transactions

Significant related party transactions entered into by the Group during the year are disclosed as follows:

(A) In June 2009, MPIC entered into a sale and purchase agreement with AB Holdings Corporation (ABHC), Alfred Xerez-Burgos, Jr. (AXB) (together the 49.0% shareholder of Landco) and Landco, pursuant to which MPIC sold 1.3 million common shares of Landco (representing 17.0% interest in Landco) for a consideration of Pesos 203 million (approximately US$4.2 million) to ABHC. This transaction also constituted a connected transaction as defined in Chapter 14A of the Listing Rules and their details are disclosed in the Corporate Governance Report on page 59.

(B) Asia Link B.V. (ALBV), a wholly-owned subsidiary company of the Company, has a technical assistance agreement with Smart Communications, Inc. (Smart), a wholly-owned subsidiary company of PLDT, for ALBV to provide Smart with technical support services and assistance in the operations and maintenance of cellular mobile telecommunications services for a period of four years from 23 February 2008, subject to renewal upon mutual agreement between the parties. The agreement provides for payments of technical service fees equivalent to 1% (2008: 1%) of the consolidated net revenue of Smart.

The fee under the above arrangement amounted to Pesos 634 million (US$13.3 million) for the year ended 31 December 2009 (2008: Pesos 630 million or US$14.1 million). At 31 December 2009, the outstanding technical service fee payable amounted to Pesos 188 million (US$4.1 million) (2008: Outstanding prepaid technical service fee of Pesos 8 million or US$0.2 million).

(C) In the ordinary course of business, Indofood has engaged in trade transactions with certain of its associated companies, joint ventures and affiliated companies, the majority of which are related to the Salim Family either through direct and/or common share ownership and common management. Mr. Anthoni Salim is the Chairman and a substantial shareholder of the Company and is the President Director and Chief Executive Officer of Indofood.

All significant transactions with related parties, whether or not conducted under normal terms and conditions similar to those with non-related parties, are disclosed as follows:

Nature of transactions

	Consolidated	
For the year ended 31 December US$ millions	**2009**	2008
Income Statement Items		
Sales of finished goods		
– to associated companies and joint ventures	**30.3**	24.5
– to affiliated companies	**64.1**	60.8
Purchases of raw materials		
– from associated companies and joint ventures	**44.2**	41.5
– from affiliated companies	**15.6**	14.0
Management and technical services fee income and royalty income		
– from associated companies and joint ventures	**1.0**	0.9
– from affiliated companies	**7.8**	7.5
Insurance expenses		
– to affiliated companies	**2.9**	2.8
Rental expenses		
– to affiliated companies	**1.0**	1.2
Transportation and pump services expenses		
– to affiliated companies	**0.4**	0.4

Approximately 3% (2008: 2%) of Indofood's sales and 2% (2008: 2%) of its purchases were transacted with these related companies.

Nature of balances

At 31 December US$ millions	Consolidated 2009	2008
Statement of Financial Position Items		
Accounts receivable – trade		
– from associated companies and joint ventures	**3.3**	2.6
– from affiliated companies	**8.7**	13.3
Accounts receivable – non-trade		
– from associated companies and joint ventures	**–**	0.4
– from affiliated companies	**12.2**	8.3
Accounts payable – trade		
– to associated companies and joint ventures	**6.2**	3.6
– to affiliated companies	**2.6**	2.3
Accounts payable – non-trade		
– to associated companies and joint ventures	**0.2**	–
– to affiliated companies	**30.5**	19.2

Certain of the above Indofood's related party transactions also constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules and their details are disclosed in the Corporate Governance Report on pages 59 to 67.

(D) For the year ended 31 December 2009, MPIC's subsidiary company, Maynilad, entered into certain construction contracts with DMCI Holdings Inc. (DMCI) (a 44.6% shareholder of DMWC, Maynilad's parent company) for the latter's construction of water infrastructure for Maynilad. On 23 March 2009, Maynilad formally entered into (i) a framework agreement with D.M. Consunji, Inc. (Consunji), a subsidiary company of DMCI, in relation to the provision of engineering, procurement and or construction services by Consunji to Maynilad for the period from 23 March 2009 to 31 December 2011 and (ii) a lease agreement with DMCI Project Developers, Inc. (DMCIPD), a subsidiary company of DMCI, for the renting of certain premises in the Makati City by DMCIPD to Maynilad for the period from 1 February 2009 to 31 January 2012. These related party transactions also constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules and their details are disclosed in the Corporate Governance Report on pages 69 to 71.

All significant transactions with DMCI group, whether or not conducted under normal terms and conditions similar to those with non-related parties, are disclosed as follows:

Nature of transactions

For the year ended 31 December US$ millions	2009	2008[i]
Income Statement Items		
Rental expenses	**0.1**	–
Capital Expenditure Items		
Construction services for water infrastructure obtained	**47.5**	22.0

(i) Information in respect of Maynilad relates to 17 July 2008 (date becoming a subsidiary company of the Group) and after.

Nature of balances

At 31 December US$ millions	2009	2008
Statement of Financial Position Items		
Accounts payable – trade	**8.0**	3.0

(E) For the year ended 31 December 2009, MPIC's subsidiary company, MNTC, collected toll fees through TMC, MPIC's associated company.

All significant transactions with TMC, whether or not conducted under normal terms and conditions similar to those with non-related parties, are disclosed as follows:

Nature of transactions

For the year ended 31 December US$ millions	2009	2008[(i)]
Income Statement Items		
Operator's fee	**28.0**	4.2
Management income	**1.1**	–
Guarantee income	**0.4**	0.1
Interest income	**0.3**	–

(i) Information in respect of MNTC relates to 13 November 2008 (date becoming a subsidiary company of the Group) and after.

Nature of balances

At 31 December US$ millions	2009	2008
Statement of Financial Position Items		
Accounts receivable – trade	**13.7**	7.3
Accounts payable – trade	**6.1**	5.6

38. Financial Instruments by Category and Fair Value Hierarchy

(A) The carrying amount of each of the categories of financial instruments as at the end of the reporting period are as follows:

(a) Financial Assets

	Consolidated						Company	
	2009			2008			2009	2008
US$ million	Loans and receivable	Available-for-sale financial assets	Total	Loans and receivable	Available-for-sale financial assets	Total	Loans and receivables	Loans and receivables
Accounts and other receivables (Non-current)	**6.6**	**–**	**6.6**	3.0	–	3.0	**–**	–
Available-for-sale assets (Non-current)	**–**	**2.1**	**2.1**	–	1.7	1.7	**–**	–
Other non-current assets	**58.9**	**–**	**58.9**	60.6	–	60.6	**–**	–
Cash and cash equivalents	**936.6**	**–**	**936.6**	625.9	–	625.9	**262.2**	45.9
Pledged deposits and restricted cash	**29.2**	**–**	**29.2**	12.0	–	12.0	**–**	–
Available-for-sale assets (Current)	**–**	**40.4**	**40.4**	–	56.9	56.9	**–**	–
Accounts and other receivables (Current)	**580.3**	**–**	**580.3**	375.7	–	375.7	**–**	–
Amounts due from subsidiary companies	**–**	**–**	**–**	–	–	–	**2,062.9**	1,889.5
Total	**1,611.6**	**42.5**	**1,654.1**	1,077.2	58.6	1,135.8	**2,325.1**	1,935.4

(b) Financial Liabilities

At 31 December 2009, the Deferred liabilities and provisions accounts include US$2.6 million (2008: US$0.6 million) of derivative liabilities measured at fair value. Details of the corresponding derivative financial instruments, qualified for cash flow hedge accounting, are disclosed in the Financial Review section on pages 76 to 79. The following table summarizes the financial liabilities measured at amortized cost at the end of the reporting period.

US$ million	Consolidated **2009** **Financial liabilities at amortized cost**	 2008 Financial liabilities at amortized cost	Company **2009** **Financial liabilities at amortized cost**	 2008 Financial liabilities at amortized cost
Accounts payable, other payables and accruals	**628.2**	667.4	**–**	–
Short-term borrowings	**829.7**	1,207.0	**–**	–
Current portion of deferred liabilities and provisions	**26.2**	18.9	**–**	–
Long-term borrowings	**2,855.6**	1,951.7	**–**	–
Deferred liabilities and provisions	**196.4**	140.3	**–**	–
Amounts due from subsidiary companies	**–**	–	**782.4**	832.6
Other payables and accruals	**–**	–	**0.8**	0.6
Loans from subsidiary companies	**–**	–	**729.9**	540.2
Total	**4,536.1**	3,985.3	**1,513.1**	1,373.4

(B) Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

- Level 1: fair value measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: fair value measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly
- Level 3: fair value measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value that are not based on observable market data (unobservable inputs)

As at 31 December 2009, the Group held the following financial instruments measured at fair value:

US$ million	Level 1	Level 2	Level 3	**Consolidated**
Available-for-sale assets				
– Listed equity investments	34.9	–	–	**34.9**
– Listed debentures	0.3	–	–	**0.3**
– Unlisted investments	–	–	7.3	**7.3**
Derivative liabilities [(i)]	–	(2.6)	–	**(2.6)**
Net Amount	35.2	(2.6)	7.3	**39.9**

(i) Included within Deferred liabilities and provisions

The movements in unlisted available-for-sale assets during the year in the balance of Level 3 fair value measurements are as follows:

US$ million	**Consolidated**
At 1 January 2009	**34.5**
Exchange translation	**3.8**
Additions	**5.2**
Net unrealized gains recognized in other comprehensive income during the year	**3.6**
Disposal	**(39.8)**
At 31 December 2009	**7.3**
Total gains for the year reclassified from other comprehensive income on disposal	**3.6**

During the year, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

39. Capital and Financial Risk Management

(A) Capital Management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to ensure that it maintains an optimal capital structure for supporting the stability and growth of its business and maximizing shareholder value.

The Group manages its capital structure, and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2009 and 31 December 2008.

The Group monitors capital using a gearing ratio, which is net debt divided by total equity. The Group's policy is to keep the gearing ratio at an optimal level which supports its business. The Group includes within net debt, short-term borrowings and long-term borrowings, less cash and cash equivalents and pledged deposits and restricted cash. The total equity includes equity attributable to owners of the parent and minority interest.

	Consolidated	
US$ millions	**2009**	2008
Short-term borrowings	**829.7**	1,207.0
Long-term borrowings	**2,855.6**	1,951.7
Less: Cash and cash equivalents	**(936.6)**	(625.9)
Less: Pledged deposits and restricted cash	**(29.2)**	(12.0)
Net debt	**2,719.5**	2,520.8
Equity attributable to owners of the parent	**1,916.2**	1,130.1
Minority interest	**2,122.9**	1,245.1
Total equity	**4,039.1**	2,375.2
Gearing ratio (times)	**0.67**	1.06

(B) Financial Risk Management

The Group's principal financial instruments include the various financial assets (which comprise accounts receivables, other receivables, available-for-sale assets, cash and cash equivalents, pledged deposits and restricted cash) and financial liabilities (which comprise accounts payable, other payables and accruals, short-term borrowings, long-term borrowings and deferred liabilities and provisions). The main purpose of the cash and cash equivalents, and short-term and long-term borrowings is to finance the Group's operations. The other financial assets and liabilities, such as accounts receivable and accounts payable, mainly arise directly from its operations.

The Group also enters into derivative transactions, including principally foreign exchange contracts and interest rate swap. The purpose is to manage the currency and interest rate risks arising from the Group's sources of finance and its operations.

It is, and has been, throughout the year, the Group's policy that no trading in financial instruments shall be undertaken. The main risks arising from the Group's financial instruments are market risk (including currency risk and price risk), credit risk, liquidity risk and fair value and cash flow interest rate risks. The Company's Board of Directors reviews and agrees policies for managing each of these risks and they are summarized below. The Group's accounting policies in relation to derivatives are set out in Note 2(D)(u) to the Financial Statements.

(a) Market Risk

(I) Currency Risk

To manage the Group's foreign exchange risk arising from future commercial transactions, recognized assets and liabilities, and to improve investment and cash flow planning, in addition to natural hedges, the Group enters into and engages in foreign exchange contracts for the purpose of managing its foreign exchange rate exposures emanating from business, transaction specific, as well as currency translation risks and reducing and/or managing the adverse impact of changes in foreign exchange rates on the Group's operating results and cash flows. However, some of the aforementioned derivative instruments of the Group do not qualify as effective hedges and therefore are not designated as cash flow hedges for accounting purposes in accordance with the provisions of HKAS 39.

The following table summarizes the Group's exposure at the end of the reporting period to currency risk arising from recognized financial assets and liabilities denominated in U.S. dollars, which being different from the functional currencies of the peso and the rupiah used by the Group's subsidiary companies in the Philippines and Indonesia.

	Consolidated	
US$ millions	**2009**	2008
Account receivables and other receivables	**37.4**	61.5
Cash and cash equivalents	**261.6**	215.8
Pledged deposits and restricted cash	**12.0**	12.0
Short-term borrowings and long-term borrowings	**(652.3)**	(920.8)
Accounts payable, other payables and accruals	**(79.8)**	(125.5)
Net Amount	**(421.1)**	(757.0)

The following table demonstrates the sensitivity arising from the Group's financial assets and liabilities as listed above to a reasonably possible change in the exchange rates of rupiah and peso, with all other variables held constant, of the Group's profit attributable to equity holders of the parent and retained earnings (due mainly to foreign exchange gains/losses on translation of the U.S. dollar denominated financial assets and liabilities). There is no significant impact on the other components of the Group's equity.

	2009		2008	
US$ millions	**(Depreciation)/ appreciation against the U.S. dollar (%)**	**(Decrease)/ increase in profit attributable to owners of the parent and retained earnings**	Depreciation against the U.S. dollar (%)	Decrease in profit attributable to owners of the parent and retained earnings
Rupiah	**(1.1)**	**(1.5)**	(5.4)	(11.4)
Peso	**0.4**	**0.1**	(4.0)	(2.4)

(II) *Price Risk*

The Group's price risk principally relates to the changes in the market value of its equity investments.

(b) Credit Risk

For the consumer food products business, the Group has credit risk arising from the credit given to the customers, but it has policies in place to ensure that wholesales of products are made to creditworthy customers with an appropriate credit history. The Group has policies that limit the amount of credit exposure to any particular customer, such as requiring sub-distributors to provide bank guarantees. For the water distribution business, the Group allows 60 days of credit to its customers. For the toll roads business, the Group collects its toll fees through its associated company, TMC, by cash, the users' prepaid and reloadable electronic toll collection devices and through credit card payment arrangements. In addition, receivable balances are monitored on an ongoing basis to reduce the Group's exposure to bad debts.

The credit risk of the Group's other financial assets, which include cash and cash equivalents and certain investments in debt securities classified as available-for-sale assets, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments and the unrealized losses on available-for-sale assets charged directly to the Group's equity.

The Group has no significant concentrations of credit risk.

(c) Liquidity Risk

The Group manages its liquidity profile to be able to finance its capital expenditure and service its maturing debts by maintaining sufficient cash and marketable securities, and the availability of funding through an adequate amount of committed credit facilities.

The Group regularly evaluates its projected and actual cash flow information and continuously assesses conditions in the financial markets for opportunities to pursue fund-raising initiatives. These initiatives may include bank loans, and debt capital and equity capital issues.

The maturity profile of the Group's financial liabilities at 31 December 2009 based on the contractual undiscounted payments, including future interest payments, is as follows.

	Accounts payable, other payables and accruals		Borrowings		Deferred liabilities and provisions		**Consolidated**	
US$ millions	**2009**	2008	**2009**	2008	**2009**	2008	**2009**	2008
Not exceeding one year	**628.2**	667.4	**1,030.7**	1,509.4	**37.2**	30.0	**1,696.1**	2,206.8
More than one year but not exceeding two years	**–**	–	**969.7**	298.9	**50.0**	24.5	**1,019.7**	323.4
More than two years but not exceeding five years	**–**	–	**1,670.7**	1,851.5	**101.1**	58.0	**1,771.8**	1,909.5
More than five years	**–**	–	**814.6**	692.2	**272.8**	77.1	**1,087.4**	769.3
Total	**628.2**	667.4	**4,485.7**	4,352.0	**461.1**	189.6	**5,575.0**	5,209.0

(d) Fair Value and Cash Flow Interest Rate Risks

The Group's interest rate risk arises from interest-bearing borrowings, cash and cash equivalents, pledged deposits and restricted cash. Borrowings and cash and cash equivalents with variable interest rate terms expose the Group to cash flow interest rate risk. Borrowings and cash and cash equivalents with fixed interest rate terms expose the Group to fair value interest rate risk. At 31 December 2009, 37.7% (2008: 21.5%) of the Group's borrowings were effectively at fixed rates.

The following table demonstrates the sensitivity arising from the Group's financial assets and liabilities at the end of the reporting period to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit attributable to owners of the parent and retained earnings (through the impact on variable rate borrowings and cash and cash equivalents). There is no significant impact on the other components of the Group's equity.

	2009		2008	
US$ millions	**Increase (Basis points)**	**Decrease in profit attributable to owners of the parent and retained earnings**	Increase/ (decrease) (Basis points)	(Decrease)/ increase in profit attributable to owners of the parent and retained earnings
Interest rates for				
– U. S. dollar	**25**	**(1.9)**	50	(4.8)
– Rupiah	**100**	**(1.0)**	(300)	0.4
– Peso	**100**	**(2.2)**	(300)	5.1

40. Subsequent Events

(A) On 28 January 2010, Two Rivers Pacific Holdings Corporation (Two Rivers), a Philippine affiliate of the Company, completed its acquisition of an additional interest in Philex of approximately 5.9% at a total consideration of Pesos 6.0 billion (US$130.9 million). The consideration is payable in four installments, the first installment of 10% was paid in January 2010 and the remaining 90% payable in three installments of 10%, 10% and 70% in January 2011, January 2012 and January 2013, respectively. The outstanding installment payables are interest-bearing and at an interest rate of 5.5% per annum. The transaction increased Two Rivers' interest in Philex from 9.2% to approximately 15.1%. In addition, the Group also held a 31.5% interest in Philex.

(B) On 1 March 2010, MPIC, Pilipino Telephone Corporation (Piltel) (an indirect subsidiary company of PLDT) and Rightlight Holdings, Inc. (subsequently renamed Beacon Electric Asset Holdings, Inc. (Beacon Electric)) (a wholly owned special purpose vehicle of MPIC set up with the sole purpose of holding shares in Meralco) entered into an Omnibus Agreement to restructure their current shareholdings in Meralco. Under the Omnibus Agreement, (a) MPIC and Piltel will consolidate approximately 163.6 million common shares of Meralco (representing an approximately 14.5% interest in Meralco) and 154.2 million common shares of Meralco (representing an approximately 13.7% interest in Meralco), respectively, under Beacon Electric; thus giving Beacon Electric an approximately 28.2% interest in Meralco and (b) Piltel will acquire a 50% interest in Beacon Electric which will become a 50:50 joint venture between MPIC and Piltel.

The above transactions involve (a) a sale by MPIC to Beacon Electric of 163.6 million common shares of Meralco at a total consideration of Pesos 24.5 billion (US$531.2 million) or Pesos 150 (US$3.25) per share, (b) a subscription by MPIC of 1,156.5 million common shares of Beacon Electric at a price of Pesos 20 (US$0.43) per share and 801.0 million preferred shares of Beacon Electric at a price of Pesos 10 (US$0.22) per share at a total consideration of Pesos 31.1 billion (US$674.0 million), (c) a sale by Piltel of 154.2 million common shares of Meralco to Beacon Electric at a total consideration of Pesos 23.1 billion (US$500.6 million) or Pesos 150 (US$3.25) per share, (d) a subscription by Piltel of 1,156.5 million common shares of Beacon Electric at a total consideration of Pesos 23.1 billion (US$500.6 million) or Pesos 20 (US$0.43) per share and (e) a sale by MPIC of 12,500 common shares of Beacon Electric to Piltel at a consideration of Pesos 12,500 (US$271) or Peso 1 (US$0.02) per share. No gain or loss will be recorded by the Group from these transactions.

In addition, MPIC assigned to Beacon Electric a right to be granted a call option in respect of 74.7 million common shares of Meralco (representing an approximately 6.6% interest in Meralco) owned by First Philippine Holdings Corporation (FPHC). FPHC granted the call option to Beacon Electric on 1 March 2010 in return for Pesos 3 million (US$0.1 million) consideration. The exercise price for the call option is Pesos 300 (US$6.4) per Meralco share and the call option exercisable at any time from 15 March 2010 to 15 May 2010. On 23 March 2010, the boards of MPIC and Beacon Electric decided to exercise the call option subject to approval by the Company's shareholders on a special general meeting to be held on 30 March 2010. The total consideration of Pesos 22.4 billion (US$485.1 million) will be satisfied by a combination of internal resources and bank borrowings.

41. Comparative Amounts

As explained in Note 2(B), due to the adoption of HKAS 1 (Revised) and HKFRS 8 during the year, the presentation of certain balances has been revised to comply with such changes. In addition, the comparative basic and diluted earnings per share figures have been restated to take into account the effect of a rights issue completed in December 2009. Accordingly, certain comparative amounts have been reclassified or restated to conform with the current year's accounting treatments and presentation.

42. Approval of the Financial Statements

The Financial Statements were approved and authorized for issue by the Board of Directors on 23 March 2010.

SGV & Co
Ernst & Young

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Phone: (632) 891 0307
Fax: (632) 819 0872
www.sgv.com.ph

BOA/PRC Reg. No. 0001
SEC Accreditation No. 0012-FR-2

REPORT ON REVIEW OF UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The Stockholders and the Board of Directors
Metro Pacific Investments Corporation
10th Floor, MGO Building
Legaspi corner Dela Rosa Streets
Legaspi Village, Makati City

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of Metro Pacific Investments Corporation and Subsidiaries, comprising of the interim consolidated balance sheet as at March 31, 2010, and the related interim consolidated statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for the three months ended March 31, 2010 and 2009, and a summary of selected explanatory notes to interim condensed consolidated financial statements. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with Philippine Accounting Standard 34, “Interim Financial Reporting” (PAS 34). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of Review

We conducted our review in accordance with Philippine Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Philippine Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

A member firm of Ernst & Young Global Limited

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements do not present fairly, in all material respects, the financial position of Metro Pacific Investments Corporation and Subsidiaries as of March 31, 2010, and their financial performance and cash flows for the three months ended March 31, 2010 and 2009 in accordance with PAS 34.

We have audited the December 31, 2009, consolidated balance sheet, presented for comparative purposes, in accordance with Philippine Standards on Auditing, on which we expressed an unqualified opinion in our report dated March 4, 2010.

SYCIP GORRES VELAYO & CO.

July 8, 2010
Makati City, Philippines

METRO PACIFIC INVESTMENTS CORPORATION AND SUBSIDIARIES

UNAUDITED INTERIM CONSOLIDATED BALANCE SHEET

MARCH 31, 2010
(With Comparative Figures as of December 31, 2009)
(Amounts in Thousands)

	March 31, 2010 (Unaudited)	December 31, 2009 (Audited)
ASSETS		
Current Assets		
Cash and cash equivalents (Note 4)	**₱5,228,007**	₱6,379,731
Short-term deposits (Note 4)	**1,320,652**	2,433,418
Receivables - net (Note 5)	**1,871,659**	13,475,300
Advances to contractors and consultants	**500,960**	527,571
Inventories - at cost	**68,579**	96,012
Real estate for sale	**187,010**	187,010
Due from related parties (Note 13)	**458,170**	501,080
Available-for-sale financial assets	**282,787**	282,787
Noncurrent asset held for sale	**329,570**	329,570
Other current assets - net (Note 6)	**1,534,816**	1,593,832
Total Current Assets	**11,782,210**	25,806,311
Noncurrent Assets		
Investments in and advances to:		
Associates and joint ventures (Note 7)	**34,783,611**	27,370,023
Bonds	**400,600**	400,600
Goodwill	**12,551,750**	12,551,750
Due from related parties (Note 13)	**68,294**	65,569
Service concession assets - net (Note 8)	**64,533,925**	62,185,407
Property and equipment - net	**576,608**	634,405
Derivative assets	**16,417**	39,212
Deferred tax assets	**229,880**	214,992
Other noncurrent assets	**150,257**	131,566
Total Noncurrent Assets	**113,311,342**	103,593,524
	₱125,093,552	₱129,399,835
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and other current liabilities (Note 9)	**₱7,372,383**	₱7,532,438
Unearned toll revenues	**27,618**	21,135
Income tax payable	**28,307**	10,818
Due to related parties (Note 13)	**378,776**	429,718
Current portion of:		
Provisions (Note 10)	**636,903**	555,640
Service concession fees payable	**1,127,788**	1,208,467
Long-term debt (Note 11)	**814,883**	958,095
Deferred credits and other long-term liabilities (Note 12)	**608,336**	942,279
Total Current Liabilities	**10,994,994**	11,658,590

(Forward)

	March 31, 2010 (Unaudited)	December 31, 2009 (Audited)
Noncurrent Liabilities		
Noncurrent portion of:		
Provisions (Note 10)	**₱346,940**	₱415,827
Service concession fees payable	**8,073,267**	9,071,673
Long-term debt (Note 11)	**31,129,056**	41,828,305
Deferred credits and other long-term liabilities (Note 12)	**3,639,659**	3,432,643
Due to related parties (Note 13)	**6,166,126**	–
Derivative liabilities	**136,626**	44,467
Deferred tax liabilities	**2,724,971**	2,672,692
Total Noncurrent Liabilities	**52,216,645**	57,465,607
Total Liabilities	**63,211,639**	69,124,197
Equity (Note 14)		
Capital stock	**20,178,155**	20,178,155
Additional paid-in capital	**27,860,033**	27,860,033
Other reserve	**856,338**	451,091
Retained earnings	**3,535,808**	2,885,936
Other comprehensive income reserve	**(135,684)**	(109,743)
Total equity attributable to owners of Parent Company	**52,294,650**	51,265,472
Non-controlling interests	**9,587,263**	9,010,166
Total Equity	**61,881,913**	60,275,638
	₱125,093,552	₱129,399,835

See accompanying Notes to Unaudited Interim Condensed Consolidated Financial Statements.

METRO PACIFIC INVESTMENTS CORPORATION AND SUBSIDIARIES
UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF INCOME
(Amounts in Thousands, Except for Per Share Amounts)

	Three Months Ended March 31	
	2010	2009
OPERATING REVENUES		
Water and sewerage services	**₱2,878,986**	₱2,199,334
Toll fees	**1,429,902**	1,340,594
	4,308,888	3,539,928
COST OF SERVICES (Note 15)	**(1,450,102)**	(1,366,817)
GROSS PROFIT	**2,858,786**	2,173,111
GENERAL AND ADMINISTRATIVE EXPENSES (Note 16)	**(1,093,670)**	(682,488)
OTHER INCOME AND EXPENSES		
Construction revenue	**2,626,331**	823,508
Construction costs	**(2,611,594)**	(805,869)
Interest expense (Note 17)	**(1,207,719)**	(917,250)
Interest income (Note 17)	**232,443**	134,542
Equity in net earnings of associates and joint ventures - net (Note 7)	**221,744**	65,632
Foreign exchange losses - net	**(79,391)**	(177,011)
Other income (Note 18)	**481,796**	359,017
Other expense (Note 18)	**(108,468)**	(10,656)
	(444,858)	(528,087)
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAX	**1,320,258**	962,536
PROVISION FOR (BENEFIT FROM) INCOME TAX		
Current	**26,562**	2,158
Deferred	**54,008**	(117,025)
	80,570	(114,867)
INCOME FROM CONTINUING OPERATIONS AFTER INCOME TAX	**1,239,688**	1,077,403
LOSS FROM DISCONTINUED OPERATIONS AFTER INCOME TAX	**–**	(37,647)
NET INCOME	**₱1,239,688**	₱1,039,756
Net income attributable to:		
Equity holders of Parent Company from:		
Continuing operations	**₱649,872**	₱572,193
Discontinued operations	**–**	(21,180)
	649,872	551,013
Non-controlling interests	**589,816**	488,743
	₱1,239,688	₱1,039,756

	Three Months Ended March 31	
	2010	2009
EARNINGS PER SHARE (Note 19)		
Basic Earnings Per Share, Attributable to Equity Holders of Parent Company		
Income from continuing operations	**₱0.032**	₱0.069
Loss from discontinued operations	**–**	(0.003)
	₱0.032	₱0.066
Diluted Earnings Per Share, Attributable to Equity Holders of Parent Company		
Income from continuing operations	**₱0.032**	₱0.056
Loss from discontinued operations	**–**	(0.002)
	₱0.032	₱0.054

See accompanying Notes to Unaudited Interim Condensed Consolidated Financial Statements.

METRO PACIFIC INVESTMENTS CORPORATION AND SUBSIDIARIES

UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in Thousands)

	Three Months Ended March 31	
	2010	2009
NET INCOME FOR THE PERIOD	**₱1,239,688**	₱1,039,756
OTHER COMPREHENSIVE LOSS		
Fair value changes of cash flow hedges	**(55,228)**	(34,381)
Income tax effect	**16,568**	(10,314)
	(38,660)	(24,076)
TOTAL COMPREHENSIVE INCOME	**₱1,201,028**	₱1,015,689
Total Comprehensive Income Attributable To		
Equity Holders of Parent Company from:		
Continuing operations	**₱623,931**	₱556,044
Discontinued operations	**–**	(21,180)
	623,931	534,864
Non-controlling interests	**577,097**	480,825
	₱1,201,028	₱1,015,689

See accompanying Notes to Unaudited Interim Condensed Consolidated Financial Statements.

METRO PACIFIC INVESTMENTS CORPORATION AND SUBSIDIARIES

UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE THREE MONTHS ENDED MARCH 31, 2010 AND 2009
(Amounts in Thousands)

	2010							
	Attributable to Equity Holders of Parent Company							
	Capital Stock (Note 14)	**Additional Paid-in Capital**	**Other Reserves** (Note 14)	**Retained Earnings**	**Other Comprehensive Income Reserve**	**Total**	**Non-controlling Interests**	**Total Equity**
At January 1, 2010	**₱20,178,155**	**₱27,860,033**	**₱451,091**	**₱2,885,936**	**(₱109,743)**	**₱51,265,472**	**₱9,010,166**	**₱60,275,638**
Total comprehensive income for the period	–	–	–	**649,872**	**(25,941)**	**623,931**	**577,097**	**1,201,028**
Issuance of convertible bonds (Note 13)	–	–	**400,874**	–	–	**400,874**	–	**400,874**
Executive Stock Option Plan -								
Cost of share-based payment	–	–	**4,373**	–	–	**4,373**	–	**4,373**
At March 31, 2010	**₱20,178,155**	**₱27,860,033**	**₱856,338**	**₱3,535,808**	**(₱135,684)**	**₱52,294,650**	**₱9,587,263**	**₱61,881,913**

	2009									
	Attributable to Equity Holders of Parent Company									
	Capital Stock	Additional Paid-in Capital	Deposit for Future Stock Subscriptions	Other Reserves	Reserve of disposal group classified as held for sale	Deficit	Other Comprehensive Income Reserve	Total	Non-controlling Interests	Total Equity
At January 1, 2009	₱7,027,727	₱5,753,809	₱6,807,293	₱404,264	₱16,881	(₱1,034,645)	(₱123,550)	₱18,851,779	₱7,854,107	₱26,705,886
Total comprehensive income for the period	–	–	–	–	–	551,013	(16,149)	534,864	480,825	1,015,689
Issuance of shares during the period										
Common shares	2,389,040	2,389,040	(4,778,080)	–	–	–	–	–	–	–
Transaction costs	–	(7,500)	–	–	–	–	–	(7,500)	–	(7,500)
Executive Stock Option Plan -										
Cost of share-based payment	–	–	–	15,084	–	–	–	15,084	–	15,084
At March 31, 2009	₱9,416,767	₱8,135,349	₱2,029,213	₱419,348	₱16,881	(₱483,632)	(₱139,699)	₱19,394,227	₱8,334,932	₱27,729,159

See accompanying Notes to Unaudited Interim Condensed Consolidated Financial Statements.

METRO PACIFIC INVESTMENTS CORPORATION AND SUBSIDIARIES

UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in Thousands)

	Three Months Ended March 31	
	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Income from continuing operations before income tax	**₱1,320,258**	₱962,536
Loss from discontinued operations before income tax	**–**	(55,310)
	1,320,258	907,226
Adjustments for:		
Interest expense (Note 17)	**1,207,719**	917,250
Amortization of service concession assets	**526,826**	422,219
Unrealized foreign exchange loss (gain) - net	**(272,847)**	(99,556)
Interest income (Note 17)	**(232,443)**	(134,542)
Equity in net earnings of associates - net	**(221,744)**	(65,632)
Provision for Input Value-added Tax	**109,258**	15,154
Reversal of accruals	**(84,708)**	–
Provision for estimated expenses	**56,857**	–
Depreciation and amortization	**45,655**	35,835
Deferred toll revenue realized	**(21,135)**	(19,344)
Provision for Executive Stock Option Plan (ESOP)	**34,882**	–
Mark-to-market loss (gain) on derivatives	**16,729**	(6,658)
Movement in provisions	**12,376**	61,534
Gain on sale of property and equipment	**(293)**	(1,434)
Recovery from accounts receivable written off	**–**	(2,592)
Operating income before working capital changes	**2,497,390**	2,029,460
Decrease (increase) in:		
Short-term deposits	**1,112,766**	6,137,561
Receivables	**383,397**	74,398
Advances to contractors and consultants	**26,611**	188,411
Inventories	**27,433**	11,520
Due from related parties	**42,910**	(354,079)
Other current assets	**121,989**	(712,565)
Increase (decrease) in:		
Accounts payable and other current liabilities	**(197,748)**	(430,837)
Unearned toll revenue	**27,618**	16,196
Net cash generated from operations	**4,042,366**	6,960,065
Income tax paid	**(9,082)**	(2,101)
Interest received	**263,043**	68,319
Net cash provided by operating activities	**4,296,327**	7,026,283
CASH FLOWS FROM INVESTING ACTIVITIES		
Dividend received from an associate	**46,000**	–
Increase in other noncurrent assets	**(18,688)**	(1,548,855)
Proceeds from:		
Notes receivable	**11,205,000**	–
Sale of property and equipment	**1,310**	735
Additions to:		
Investments in and advances to associates and joint ventures	**(6,970,999)**	–
Service concession assets	**(2,770,416)**	(872,059)
Property and equipment	**(93,801)**	(270,680)
Net cash provided by (used in) investing activities	**1,398,406**	(2,690,859)

(Forward)

	Three Months Ended March 31	
	2010	2009
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (decrease) in deferred credits and other long-term liabilities	**(₱258,478)**	₱1,156,353
Payments of:		
Due to related parties	**(52,074)**	(300,478)
Long-term debt	**(11,233,750)**	–
Service concession fees payable	**(794,676)**	516,623
Transaction costs on issuance of shares	**–**	(7,500)
Dividends to non-controlling stockholders	**(143,590)**	–
Proceeds from:		
Due to related parties	**6,601,132**	8,150
Long-term debt	**365,000**	–
Interest paid	**(1,330,021)**	(571,596)
Net cash provided by (used in) financing activities	**(6,846,457)**	801,552
NET INCREASE IN CASH AND CASH EQUIVALENTS	**(1,151,724)**	5,136,976
CASH AND CASH EQUIVALENTS AT JANUARY 1 (Note 4)	**6,379,731**	2,028,833
CASH AND CASH EQUIVALENTS AT MARCH 31 (Note 4)	**₱5,228,007**	₱7,165,809

See accompanying Notes to Unaudited Interim Condensed Consolidated Financial Statements.

1. Corporate Information

Metro Pacific Investments Corporation (the Parent Company or MPIC) is a company incorporated and domiciled in the Philippines, whose shares are publicly traded in the Philippine Stock Exchange (PSE). The principal activities of the Parent Company and its subsidiaries (collectively, the Company) are described in Note 2.

The accompanying interim condensed consolidated financial statements as of March 31, 2010 and for the three months ended March 31, 2010 and 2009 were approved and authorized for issue by the Board of Directors (BOD) on July 8, 2010.

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 the Parent Company's functional currency, and all values are rounded to the nearest thousands (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, 2009.

Significant Accounting Policies
The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Company's annual consolidated financial statements as at and for the year ended December 31, 2009, except for the adoption of new Philippine Financial Reporting Standards (PFRS) noted below:

- PAS 27, "Consolidated and Separate Financial Statements (Revised)" (effective for annual periods beginning on or after July 1, 2009) — PAS 27 (revised) changed the term "minority interest" to "non-controlling interest". The revision also requires that change in the ownership interest of a subsidiary that does not result in loss of control will be accounted for as an equity transaction. Where change in ownership of interest results in the loss of control of a subsidiary, any retained interest will be remeasured to fair value and will impact the gain or loss recognized on disposal. Moreover, any losses incurred by a subsidiary will be allocated between the controlling and non-controlling interests, even if the losses exceed the non-controlling equity investment in the subsidiary. Excess losses will no longer be shown as part of its own equity. There has been no impact of PAS 27 (revised) on the current period as there have been no transactions with non-controlling interests and no transactions whereby an interest in an entity is retained after the loss of control of that entity.

- Amendment to PAS 39, "Financial Instruments: Recognition and Measurement - Eligible Hedged Items" (effective for annual periods beginning on or after July 1, 2009) — This amendment addresses the designation of a one-sided risk in a hedged item, and the designation

of inflation as a hedged risk or portion in particular situations. The amendment also clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as hedged item. The adoption of the amendment did not have any impact on the financial position or performance of the Company.

- PFRS 3, "Business Combinations (Revised)" (effective for annual periods beginning on or after July 1, 2009) — The revision introduces a number of changes in the accounting for business combinations occurring after effectivity date that will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs, and future reported results. The standard applies to business combinations beginning January 1, 2010. The adoption has no impact to the financial statements as there were no business combinations for the three-month period ended March 31, 2010.

- Philippine Interpretation IFRIC 17, "Distributions of Non-Cash Assets to Owners" (effective for annual periods beginning on or after July 1, 2009) — This interpretation provides guidance on the following types of non-reciprocal distributions of assets by an entity to its owners acting in their capacity as owners: (a) distributions of non-cash assets (e.g. items of property, plant and equipment, businesses as defined in PFRS 3, ownership interests in another entity or disposal groups as defined in PFRS 5, "Noncurrent Assets Held for Sale and Discontinued Operations"); and (b) distributions that give owners a choice of receiving either non-cash assets or a cash alternative. The adoption of the interpretation did not have any impact on the financial position or performance of the Company.

- Philippine Interpretation IFRIC 18, "Transfers of Assets from Customers" (effective for transfers of assets on or after July 1, 2009) — This interpretation clarifies the requirements of PFRS for agreements in which an entity receives from a customer an item of property and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services (such as a supply of electricity, gas or water). Under this interpretation, when the item of property and equipment is transferred from a customer meets the definition of an asset under the International Accounting Standards Board Framework from the perspective of the recipient, the recipient must recognize the asset in its financial statements. If the customer continues to control the transferred item, the asset definition would not be met even if ownership of the asset is transferred to the utility or other recipient entity. The deemed cost of that asset is its fair value on the date of the transfer. If there are separately identifiable services received by the customer in exchange for the transfer, then the recipient should split the transaction into separate components as required by PAS 18, "Revenue." The adoption of the revised standard did not have any impact on the financial position or performance of the Company.

<u>Improvements to PFRS</u>
The omnibus amendments to PFRSs issued in 2009 were issued primarily with a view to removing inconsistencies and clarifying wording. The amendments are effective for annual periods beginning January 1, 2010 except for the amendment to PFRS 2, which will be effective for financial years on or after July 1, 2009. The adoption of the following amendments did not have any impact on the financial position or performance of the Company.

- PFRS 2, "Share-based Payment"
- PFRS 5, "Noncurrent Assets Held for Sale and Discontinued Operations"
- PFRS 8, "Operating Segments"
- PAS 1, "Presentation of Financial Statements"
- PAS 7, "Statement of Cash Flows"
- PAS 17, "Leases"

- PAS 36, "Impairment of Assets"
- PAS 38, "Intangible Assets"
- PAS 39, "Financial Instruments: Recognition and Measurement"
- Philippine Interpretation IFRIC 9, "Reassessment of Embedded Derivatives"
- Philippine Interpretation IFRIC 16, "Hedges of a Net Investment in a Foreign Operation"

Future Changes in Accounting Policies

The Company did not early adopt the following standards and Philippine Interpretations that have been approved but are not effective for the calendar year ending December 31, 2010. The effects of adoption of the following standards are still being assessed by the Company.

- PAS 24, "Related Party Disclosures (Revised)" (effective for annual periods beginning on or after January 1, 2011) — The standard was revised in response to concerns that the previous disclosure requirements and the definition of a "related party" were too complex and difficult to apply in practice, especially in environments where government control is pervasive. The revised standard addresses these concerns by providing a partial exemption for government-related entities and by providing and simplifying the definition of a related party and removing inconsistencies.

- Amendment to PAS 32, "Financial Instruments: Presentation – Classification of Rights Issues" (effective for annual periods beginning on or after February 1, 2010) — This amendment to PAS 32 addresses the accounting for rights issues (rights, options or warrants) that are denominated in a currency other than the functional currency of the issuer. Previously such rights issues were accounted for as derivative liabilities. However, the amendment issued today requires that, provided certain conditions are met, such rights issues are classified as equity regardless of the currency in which the exercise price is denominated.

- Amendment to PFRS 1, "Limited Exemption from Comparative PFRS 7, Disclosures for First-time Adopters" (effective for annual periods beginning on or after July 1, 2010) — The amendment relieves first-time adopters of PFRSs from providing the additional disclosures introduced in Amendments to PFRS 7, "Improving Disclosures about Financial Instruments". It thereby ensures that first-time adopters benefit from the same transition provisions that Amendments to PFRS 7 provides to current PFRS preparers.

  Additionally, the amendment to PFRS 1 clarifies the International Accounting Standards Board (IASB) conclusions and intended transition for Amendments to PFRS 7.

- PFRS 9, "Financial Instruments: Classification and Measurement" (effective for annual periods beginning on or after January 1, 2013) — The standard introduces new requirements on the classification and measurement of financial assets. It uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the many different rules in PAS 39, "Financial Instruments: Recognition and Measurement." The approach in the new standard is based on how an entity manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the many different impairment methods in PAS 39.

  The new standard represents the completion of the first part of a three-part project of the IASB to replace PAS 39 with a new standard – PFRS 9, "Financial Instruments" — The second part of the project will address proposals on the impairment methodology for financial assets and the third part, on hedge accounting.

- Amendment to Philippine Interpretation IFRIC 14/PAS 19, "The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction – Prepayments of a Minimum Funding Requirement" (effective for annual periods beginning on or after January 1, 2011) — The interpretation applies in the limited circumstances when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover those requirements. The amendment permits such an entity to treat the benefit of such an early payment as an asset.

- Philippine Interpretation IFRIC 15, "Agreement for the Construction of Real Estate" (effective for annual periods beginning on or after January 1, 2012) — This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. This interpretation also requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11, "Construction Contracts", or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis, will also be accounted for based on stage of completion.

- Philippine Interpretation IFRIC 19, "Extinguishing Financial Liabilities with Equity Instruments" (effective for annual periods beginning on or after July 1, 2010) — This interpretation provides guidance on how to account for the extinguishment of a financial liability by the issue of equity instruments. These transactions are often referred to as debt for equity swaps.

  The interpretation clarifies the requirements of PFRSs when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity's shares or other equity instruments to settle the financial liability fully or partially. It clarifies that:

  a. the entity's equity instruments issued to a creditor are part of the consideration paid to extinguish the financial liability;
  b. the equity instruments issued are measured at their fair value. If their fair value cannot be reliably measured, the equity instruments should be measured to reflect the fair value of the financial liability extinguished; and
  c. the difference between the carrying amount of the financial liability extinguished and the initial measurement amount of the equity instruments issued is included in the entity's profit or loss for the period.

Basis of Consolidation

The interim condensed consolidated financial statements include the accounts of the Parent Company and the following subsidiaries as of March 31, 2010:

Name of Subsidiary	Place of Incorporation	Principal Activity	Ownership Interest
MPIC			
Operating Subsidiaries			
Metro Pacific Tollways Corporation (MPTC) and Subsidiaries	Philippines	Investment holding	99.85
Metro Pacific Corporation (MPC) and Subsidiaries	Philippines	Investment holding and Real estate	96.60
DMCI-MPIC Water Company, Inc. (DMWC) and Subsidiary[(a)]	Philippines	Investment holding	58.03

Subsidiaries of MPIC and their respective ownership interests on their respective subsidiaries follow:

Name of Subsidiary	Place of Incorporation	Principal Activity	Ownership Interest
MPTC and Subsidiaries			
Operating Subsidiaries			
Metro Pacific Tollways Development Corporation (MPTDC)	Philippines	Investment holding	100.00
Manila North Tollways Corporation (MNTC)	Philippines	Tollway operations	67.10
Dormant Subsidiary			
Luzon Tollways Corporation	Philippines	Tollway operations	100.00
MPC and Subsidiaries			
Operating Subsidiaries			
First Pacific Bancshares Philippines, Inc.	Philippines	Investment holding	100.00
Metro Pacific Management Services, Inc.	Philippines	Management services	100.00
First Pacific Realty Partners Corporation	Philippines	Investment holding	50.67
Dormant Subsidiaries			
Metro Capital Corporation	Cayman Islands	Investment holding	100.00
Metro Pacific Capital Ltd.	Cayman Islands	Investment holding	100.00
Pacific Plaza Towers Management Services, Inc.	Philippines	Management services	100.00
Philippine International Paper Corporation	Philippines	Investment holding	100.00
Pollux Realty Development Corporation	Philippines	Investment holding	100.00
Uptime Limited	Cayman Islands	Investment holding	100.00
Metro Asia Link Holdings, Inc.	Philippines	Investment holding	60.59
MWC and Subsidiary			
Maynilad Water Services, Inc. (Maynilad)	Philippines	Water and sewerage services	94.11

[(a)] *Includes 5.88% direct ownership in Maynilad.*

3. **Segment Information**

In 2010 and 2009, for management purposes, the Company is organized into five major business segments based on services and products namely water utilities, toll operations, power distribution, healthcare, and others.

Water Utilities
Water utilities primarily relate to the operations of DMWC and Maynilad in relation to the provision of water and sewerage services.

Toll Operations
Toll operations primarily relate to operations and maintenance of toll facilities by MPTC and its subsidiary MNTC and associate Tollways Management Corporation (TMC).

Power Distribution
Power distribution primarily relate to the operations of Manila Electric Company (Meralco), an associate through Beacon Electric Asset Holdings, Inc. (Beacon Electric), in relation to the distribution and supply of electricity.

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

Others
Others represent operations of subsidiaries involved in real estate, provision of services and holding companies. Real estate primarily relates to the operations of MPC and Landco, for 2009, and their subsidiaries which are involved in the business of real estate of all kinds.

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

Transfer prices between operating segments are on an arm's length basis similar to transactions with third parties. Segment revenues, segment expenses and segment results include transfers between business segments. These transfers are eliminated upon full consolidation.

The following table present revenue and profit information regarding the Company's operating segments for the three months ended March 31, 2010 and 2009:

	March 31, 2010 (Unaudited)						
	Water Utilities	**Toll Operations**	**Healthcare**	**Power Distribution**	**Others**	**Eliminations**	**Consolidated**
				(In Thousands)			
Total revenue from external sales	**₱2,878,986**	**₱1,429,902**	**₱–**	**₱–**	**₱–**	**₱–**	**₱4,308,888**
Segment income (loss)	**600,094**	**299,407**	**41,065**	**272,699**	**(563,393)**	**–**	**649,872**
EBITDA	**1,442,919**	**750,727**	**–**	**–**	**(59,359)**	**–**	**2,134,287**

	March 31, 2009 (Unaudited)						
	Water Utilities	Toll Operations	Healthcare	Power Distribution	Others	Eliminations	Consolidated
				(In Thousands)			
Total revenue from external sales	₱2,199,334	₱1,340,594	₱–	₱–	₱–	₱–	₱3,539,928
Segment income (loss)	476,082	317,931	41,615	–	(284,615)	–	606,428
EBITDA	972,835	633,685	–	–	(66,528)	–	1,539,992

Note: 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 nonrecurring gains (losses).

The following table presents segment assets of the Company's operating segments as at March 31, 2010 and December 31, 2009:

	Water Utilities	Toll Operations	Healthcare	Power Distribution	Other Businesses	Eliminations	**Consolidated**
				(In Thousands)			
Segment assets							
As of March 31, 2010 (Unaudited)	₱52,446,786	₱19,386,098	₱2,105,656	₱31,825,180	₱16,920,568	(₱11,413,798)	₱112,270,490
As of December 31, 2009 (Audited)	54,131,737	20,304,553	2,055,230	24,366,978	17,049,836	(1,314,453)	116,593,881

The following table shows the reconciliation of the Company's consolidated EBITDA to consolidated net income for the three months ended March 31, 2010 and 2009.

	2010	2009
	Unaudited	
	(In Thousands)	
Consolidated EBITDA	**₱2,134,287**	₱1,539,992
Depreciation and amortization	**(45,655)**	(35,833)
Consolidated operating profit for the period	**2,088,632**	1,504,159
Interest income	**232,444**	134,542
Foreign exchange gains - net	**150,278**	99,556
Equity in net earnings (losses) of associates and joint ventures	**221,744**	65,632
MTM gain (loss) on derivatives	**(16,729)**	6,658
Interest expense	**(1,207,719)**	(917,250)
Non-recurring gains (loss) - net	**(148,392)**	31,592
Consolidated income before income tax	**1,320,258**	924,889
Provision for (benefit from) income tax	**(80,570)**	114,867
Consolidated net income	**₱1,239,688**	₱1,039,756

4. **Cash and Cash Equivalents and Short-term Deposits**

These accounts consist of:

	March 31, 2010 (Unaudited)	December 31, 2009 (Audited)
	(In Thousands)	
Cash and cash equivalents	**₱5,228,007**	₱6,379,731
Short-term deposits	**1,320,652**	2,433,418
	₱6,548,659	₱8,813,149

For the purpose of the interim consolidated statement of cash flows for the three months ended March 31, 2010 and 2009, details of cash and cash equivalents as of March 31, 2010 and 2009 follows:

	2010	2009
	(Unaudited)	
	(In Thousands)	
Cash on hand and in banks	**₱529,985**	₱3,946,763
Short-term deposits that qualify as cash equivalents	**4,698,022**	3,219,046
	₱5,228,007	₱7,165,809

5. **Receivables**

This account consists of:

	March 31, 2010 (Unaudited)	December 31, 2009 (Audited)
	(In Thousands)	
Trade receivables	**₱1,444,699**	₱1,696,654
Notes receivable	**673,480**	11,878,480
Advances to other affiliates	**69,922**	69,917
Advances to officers and employees	**46,604**	38,891
Dividends receivable	**39,581**	7,841
Accrued interest receivables	**34,517**	81,500
Others	**157,645**	213,316
	2,466,448	13,986,599
Less allowance for doubtful accounts	**594,789**	511,299
	₱1,871,659	₱13,475,300

Notes receivable as of December 31, 2009 mainly represents ₱11.2 billion Note receivable (the "Note") from First Philippine Utilities Corporation (FPUC). The Note bears interest of 5% and payable on June 30, 2010. The Note and related interest were settled on March 30, 2010.

For purposes of the interim consolidated statements of income, movements in the allowance of individually and collectively assessed impaired receivables for the three months ended March 31 are as follows:

	2010 (Unaudited)		
	Balance at January 1, 2010	**Charge for the period** (see Note 16)	**Balance at March 31, 2010**
		(In Thousands)	
Trade receivables	**₱278,004**	**₱83,490**	**₱361,494**
Notes receivable	**150,000**	**–**	**150,000**
Advances to affiliates	**69,917**	**–**	**69,917**
Advances to officers and employees	**9,894**	**–**	**9,894**
Others	**3,484**	**–**	**3,484**
	₱511,299	**₱83,490**	**₱594,789**

	2009 (Audited)			
	Balance at January 1, 2009	Charge for the year	Reversal	Balance at December 31, 2009
		(In Thousands)		
Trade receivables	₱52,443	₱226,266	(₱705)	₱278,004
Notes receivable	150,000	–	–	150,000
Advances to other affiliates	69,917	–	–	69,917
Advances to officers and employees	9,894	–	–	9,894
Others	3,484	–	–	3,484
	₱285,738	₱226,266	(₱705)	₱511,299

6. Other Current Assets

Other current assets consist of:

	March 31, 2010 (Unaudited)	December 31, 2009 (Audited)
	(In Thousands)	
Sinking fund	**₱605,056**	₱796,302
Deposits	**542,040**	554,400
Input Value-added Tax (VAT)	**223,904**	33,641
Creditable Withholding Taxes	**389,701**	380,233
Prepaid expenses	**51,861**	32,746
Miscellaneous deposits and others	**128,926**	181,629
	1,941,488	1,978,951
Less allowance for unrecoverable value	**406,672**	385,119
	₱1,534,816	₱1,593,832

7. Investments in and Advances to Associates and Joint Ventures

Investments in and advances to associates and joint ventures consist of:

	March 31, 2010 (Unaudited)	December 31, 2009 (Audited)
	(In Thousands)	
Investments in common shares - at equity		
Acquisition costs:		
Balance at beginning of period	**₱30,112,985**	₱5,150,370
Acquisitions during the period	**10,082**	24,962,615
Transfer of investment in Meralco to Beacon Electric	**(24,540,310)**	–
Acquisition of Beacon Electric	**23,223,217**	–
Balance at end of the period	**28,805,974**	30,112,985
Accumulated equity in net losses:		
Balance at beginning of period	**(1,223,743)**	(1,252,878)
Share in net earnings during the period - net	**221,744**	432,239
Transfer of investment in Meralco	**(93,351)**	–
Dividends	**(77,740)**	(403,104)
Balance at end of the period	**(1,173,090)**	(1,223,743)
	27,632,884	28,889,242
Less allowance for impairment loss	**1,519,219**	1,519,219
	26,113,665	27,370,023
Investment in Beacon Electric preferred shares	**8,010,444**	–
Advances for conversion to equity	**659,502**	–
	₱34,783,611	₱27,370,023

The carrying values of investments in and advances to associates and joint ventures accounted for under the equity method are as follows:

	March 31, 2010 (Unaudited)	December 31, 2009 (Audited)
	(In Thousands)	
Associates:		
Medical Doctors, Inc. (MDI)	**₱1,514,442**	₱1,475,210
TMC	**631,734**	677,511
Davao Doctors Hospital, Inc.	**591,214**	580,020
Lando NE Resources Ventures, Inc.	**30,763**	30,763
Meralco	**–**	24,366,978
Others	**2,027**	1,776
Joint Ventures:		
Beacon Electric	**23,155,233**	–
Manila North Harbour Ports, Inc. (MNHPI)	**188,252**	237,765
	₱26,113,665	₱27,370,023

The total carrying value of investment in Beacon Electric as of March 31, 2010 follows:

	(In Thousands)
Investment in common shares	**₱23,155,233**
Investment in preferred shares	**8,010,444**
Advances for conversion to equity	**659,502**
	₱31,825,179

Below shows summary financial information for associates, not adjusted for the percentage ownership held by the Company:

	March 31, 2010 (Unaudited)	December 31, 2009 (Audited)
	(In Thousands)	
Current assets	**₱46,378,299**	₱47,953,598
Noncurrent assets	**152,969,971**	141,901,987
Current liabilities	**54,848,130**	44,733,036
Noncurrent liabilities	**79,286,340**	78,415,696

	Three Months Ended March 31	
	2010	2009
	Unaudited	
	(In Thousands)	
Revenue	**₱62,946,303**	₱1,761,400
Costs and expenses	**59,706,805**	1,464,566
Net income	**2,285,928**	225,528

The financial information of Meralco and Beacon Electric as shown below:

	March 31, 2010 (Unaudited)	December 31, 2009 (Audited)
	(In Millions)	
Current assets	**₱247**	₱45,341
Noncurrent assets	**70,080**	135,062
Current liabilities	**150**	42,751
Noncurrent liabilities	**16,013**	76,506

	Three Months Ended March 31, 2010 (Unaudited)
	(In Millions)
Revenue	**₱61,102**
Costs and expenses	**58,181**
Net income	**1,999**

Meralco and Beacon Electric
As disclosed in the Company's 2009 consolidated financial statements, Pilipino Telephone Corporation (Piltel), MPIC and Beacon Electric (formerly Rightlight Holdings, Inc.) entered into an Omnibus Agreement (OA) on March 1, 2010. In relation to the OA, the following transactions transpired:

- On March 30, 2010, MPIC transferred its Meralco common share holdings of 163,602,961 to Beacon Electric at ₱150 per share or for a total consideration of ₱24.5 billion. The carrying value of its investment in Meralco at the date of transfer amounted to ₱24.5 billion. The Company did not recognize any gain or loss on the transfer as the transaction is only considered as a reorganization and has no commercial substance.

- On March 30, 2010, MPIC subscribed for 1,156,500,000 common shares of Beacon Electric, for a subscription price of ₱20 per share or a total of ₱23.13 billion. Based on its common shareholdings and contractual arrangement with Piltel, MPIC's investment in Beacon Electric is accounted for as joint venture under equity method of accounting. MPIC also subscribed to 801,044,415 shares of Beacon Electric's preferred stock for a subscription price of ₱10 per share or a total of ₱8.01 billion. The foregoing subscriptions were offset against the amounts receivable from Beacon Electric arising from the transfer of its Meralco shareholdings described below. In addition, on the same date MPIC paid Beacon in the amount of ₱6.6 billion for the remaining balance.

  The preferred shares of Beacon Electric are non-voting, redeemable by Beacon Electric and have no pre-emptive rights to any share or convertible debt securities or warrants issued by Beacon Electric. MPIC is entitled to liquidation preference and yearly cumulative dividends at the rate of seven percent (7%) of the issue value subject to (a) availability of unrestricted retained earnings; and (b) no violation of dividend restrictions imposed by Beacon Electric's bank creditors. The investment in preferred shares is accounted for as available-for-sale financial asset and is carried at cost.

- By virtue of the OA, MPIC also assigned the right to acquire a Call Option from First Philippine Holdings (FPHC) to Beacon Electric. On March 1, 2010, Beacon Electric entered into an Option Agreement with FPHC and on March 30, 2010, Beacon Electric exercised the Call Option relating to the 74,700,000 Meralco common shares, representing 6.6% interest in Meralco, held by FPHC at a price of ₱300 per share or for a total of ₱22.4 billion.

- The Company incurred and paid for costs on behalf of Beacon Electric in the aggregate amount of ₱659.5 million to consummate and implement the foregoing transactions. These are recorded as advances to Beacon Electric as of March 31, 2010. Pursuant to a Letter of Agreement among MPIC, Piltel and Beacon Electric dated March 31, 2010, these advances will ultimately be converted to equity.

As discussed in Note 20, Meralco and its subsidiaries are subject to various pending or threatened legal actions in the ordinary course of business.

First Gen Northern Energy Corp. (FGNEC)
MPIC subscribed for 250,000 common shares, representing 33% interest, at ₱1 per share of FGNEC on March 17, 2010. MPIC has participated in the bidding for the proposed sale of the 246 MW Angat Hydroelectric Power Plant through FGNEC, hence, the initial investment of ₱250,000. The investment in FGNEC is accounted for as associate using equity accounting.

The bidding was completed but there has been issues raised against the highest bidder giving FGNEC, being the next highest bidder, an opportunity to be awarded of the same. As of July 8, 2010, the sale of the Angat Power Plant has been put on hold with the Supreme Court en banc confirming the status quo ante order of the same.

MDI
From January through March 2010, the Company acquired a total additional interest of 0.27% in MDI for ₱9.4 million.

MNHPI
MNHPI, the port consortium, formally took over and started the operations of the Manila North Harbour on April 12, 2010. However, on June 28, 2010, upon failure to obtain control over the consortium, MPIC divested all of its shares in common stock of MNHPI, representing 35% of the outstanding capital stock of MNHPI, with prior approval from the Philippine Ports Authority.

The consideration received from the divestment aggregated ₱350 million, ₱245 million of which represents proceeds for the 35% interest and ₱105 million for the repayment of a loan.

8. Service Concession Assets

The movements in the service concession assets follow:

		March 31, 2010 (Unaudited)	
	MPTC	**DMWC**	**Total**
		(In Thousands)	
Cost:			
Balances at January 1, 2010	**₱17,240,867**	**₱49,336,382**	**₱66,577,249**
Additions	**521,587**	**2,353,757**	**2,875,344**
Balances at March 31, 2010 (Carried Forward)	**17,762,454**	**51,690,139**	**69,452,593**

	March 31, 2010 (Unaudited)		
	MPTC	**DMWC**	**Total**
		(In Thousands)	
Balances at March 31, 2010 (Brought Forward)	**₱17,762,454**	**₱51,690,139**	**₱69,452,593**
Accumulated amortization:			
Balances at January 1, 2010	**654,124**	**3,737,718**	**4,391,842**
Amortization for the period (see Note 15)	**144,811**	**382,015**	**526,826**
Balances at March 31, 2010	**798,935**	**4,119,733**	**4,918,668**
	₱16,963,519	**₱47,570,406**	**₱64,533,925**

	December 31, 2009 (Audited)		
	MPTC	DMWC	Total
		(In Thousands)	
Cost:			
Balance at January 1, 2009	₱16,921,047	₱41,029,537	₱57,950,584
Additions	319,820	8,306,845	8,626,665
Balance at December 31, 2009	17,240,867	49,336,382	66,577,249
Accumulated amortization:			
Balances at January 1, 2009	75,146	1,211,310	1,286,456
Amortization for the year	578,978	2,526,408	3,105,386
Balances at December 31, 2009	654,124	3,737,718	4,391,842
	₱16,586,743	₱45,598,664	₱62,185,407

Maynilad

Additional Concession Fees. In March 2010, Maynilad paid additional concession fees amounting to ₱127.5 million representing the 5% local component cost related to Angat Water Utilization and Aqueduct Improvement Project, a joint project with Manila Water Company, Inc.

Extension of Maynilad's Concession Agreement. On March 17, 2010, the Department of Finance transmitted to Maynilad the signed Letter of Consent and Undertaking on behalf of the Republic of the Philippines, relative to the extension of the Concession Agreement from May 6, 2022 to May 6, 2037. In this Letter, the Republic acknowledged and approved the extension of the Concession Agreement. It further extended the effectivity of the Republic's undertaking letter subject to the increase in the present minimum level of the performance bond from the present level of US$30 million to US$90 million for the third rate rebasing period. On May 31, 2010, Maynilad submitted the said US$90 million performance bond to the Metropolitan Water and Sewerage Services.

MNTC

Segment 8.1 (portion of Phase 2), a 2.7-kilometer expressway linking Mindanao Avenue to the NLE, commenced operations on June 5, 2010.

9. **Accounts Payable and Other Current Liabilities**

This account consists of:

	March 31, 2010 (Unaudited)	December 31, 2009 (Audited)
	(In Thousands)	
Accrued expenses	**₱2,883,140**	₱3,112,198
Accrued construction costs	**1,802,942**	1,726,337
Trade payables	**1,716,409**	1,517,808
Interest and other financing charges payable	**387,736**	515,451
Provision for ESOP	**294,218**	259,336
Retention payable	**36,486**	16,901
Withholding taxes payable	**28,002**	39,216
Dividends payable	**26,887**	170,477
Unearned rental income and other deposits	**2,447**	2,441
Accounts payable	**1,193**	7,350
Others	**192,923**	164,923
	₱7,372,383	₱7,532,438

10. **Provisions**

Movements in this account follow:

		March 31, 2010 (Unaudited)	
	Warranties and Guarantees	**Heavy Maintenance and Others**	**Total**
		(In Thousands)	
Balances at beginning of year	**₱516,323**	**₱455,144**	**₱971,467**
Additions	–	**18,372**	**18,372**
Payments	–	**(5,996)**	**(5,996)**
	516,323	**467,520**	**983,843**
Less current portion	**516,323**	**120,580**	**636,903**
Noncurrent portion	**₱–**	**₱346,940**	**₱346,940**

		December 31, 2009 (Audited)	
	Warranties and Guarantees	Heavy Maintenance and Others	Total
		(In Thousands)	
Balance at the beginning of year	₱461,476	₱215,398	₱676,874
Additions	54,847	266,549	321,396
Accretion of interest	–	16,469	16,469
Payments	–	(43,272)	(43,272)
	516,323	455,144	971,467
Less current portion	516,323	39,317	555,640
	₱–	₱415,827	₱415,827

Under its concession agreement, MNTC is required to maintain the roads in good condition prior to turnover. In compliance with this provision, in addition to the ordinary repairs, MNTC has come up with a program of heavy maintenance which is expected to be done every seven years on the average. IFRIC 12, Service Concession Arrangements, would require that such contractual obligations be recognized and therefore MNTC is required to accrue the obligation as it arises following PAS 37, Provisions, Contingent Liabilities and Contingent Assets. The specific event that will give rise to the obligation is each passage of traffic as this contributes to the "wear and tear" of the physical asset that determines the timing and nature of the heavy maintenance to occur.

11. Long-term Debt

This account consists of:

	March 31, 2010 (Unaudited)				
	Loans	**Convertible Preferred Shares**	**Long-term Bonds**	**Convertible Notes**	**Total**
			(In Thousands)		
MPIC	**₱6,682,500**	**₱–**	**₱–**	**₱–**	**₱6,682,500**
DMWC and subsidiary (Maynilad)	**16,600,888**	**–**	**–**	**–**	**16,600,888**
MPTC and subsidiary (MNTC)	**9,057,186**	**–**	**–**	**–**	**9,057,186**
MPC	**–**	**57,267**	**14,003**	**37,231**	**108,501**
	32,340,574	**57,267**	**14,003**	**37,231**	**32,449,075**
Less unamortized debt issue costs	**505,136**	**–**	**–**	**–**	**505,136**
	31,835,438	**57,267**	**14,003**	**37,231**	**31,943,939**
Less current portion of long-term debt - net of unamortized debt issue costs of ₱8.0 million	**706,382**	**57,267**	**14,003**	**37,231**	**814,883**
Noncurrent portion	**₱31,129,056**	**₱–**	**₱–**	**₱–**	**₱31,129,056**

	December 31, 2009 (Audited)				
	Loans	Convertible Preferred Shares	Long-term Bonds	Convertible Notes	Total
			(In Thousands)		
MPIC	₱17,916,250	₱–	₱–	₱–	₱17,916,250
DMWC and subsidiary (Maynilad)	16,729,638	–	–	–	16,729,638
MPTC and subsidiary (MNTC)	8,759,838	–	–	–	8,759,838
MPC	–	57,267	14,322	37,231	108,820
	43,405,726	57,267	14,322	37,231	43,514,546
Less unamortized debt issue costs	728,146	–	–	–	728,146
	42,677,580	57,267	14,322	37,231	42,786,400
Less current portion of long-term debt - net of unamortized debt issue costs of ₱32.1 million	849,275	57,267	14,322	37,231	958,095
	₱41,828,305	₱–	₱–	₱–	₱41,828,305

Update on MPIC's ₱11.2 Billion Loan
On March 30, 2010, the Company pre-terminated its ₱11.2 billion loan to be able to release its Meralco shareholdings from being pledged and transfer it to Beacon Electric in connection with the OA as discussed in Note 7.

12. Deferred Credits and Other Long-term Liabilities

	March 31, 2010 (Unaudited)	December 31, 2009 (Audited)
	(In Thousands)	
Contingent liabilities arising from business combinations	**₱1,183,560**	₱1,183,560
Accrued interest payable to MWSS	**985,292**	985,292
Payables arising from rate rebasing exercise	**608,336**	942,279
Customers' guaranty deposits	**519,330**	494,453
Deferred credits and others	**951,477**	769,338
	4,247,995	4,374,922
Less current portion	**608,336**	942,279
	₱3,639,659	₱3,432,643

13. Related Party Transactions

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, except for long-term advances to TMC and the convertible bonds issued to Metro Pacific Holdings, Inc. (MPHI).

Composition of amounts due to/from related parties follows:

	March 31, 2010 (Unaudited)	December 31, 2009 (Audited)
	(In Thousands)	
Due from related parties:		
DMCI	**₱241,696**	₱247,207
Harbour Center Port Terminal, Inc. (HCPTI)	**105,000**	105,000
TMC	**104,190**	142,737
Landco	**97,620**	97,413
Metro Pacific Investments Foundation, Inc.	**34,076**	32,576
MNHPI	**4,604**	4,042
FPC	**2,814**	1,584
Others	**5,082**	4,708
	595,082	635,267
Less allowance for impairment	**68,618**	68,618
	526,464	566,649
Less current portion	**458,170**	501,080
	₱68,294	₱65,569

	March 31, 2010 (Unaudited)	December 31, 2009 (Audited)
Due to related parties:		
MPHI	**₱6,166,126**	₱16,667
TMC	**248,537**	281,734
Smart Communications, Inc.	**71,786**	71,786
Landco	**40,899**	40,899
Philippine Long Distance Telephone Company	**12,153**	11,204
DMCI	**3,494**	3,494
Others	**1,907**	3,934
	6,544,902	429,718
Less current portion	**378,776**	429,718
	₱6,166,126	₱–

Issuance of Convertible Bonds
On March 1, 2010, the BOD approved the issuance to MPHI of convertible bonds which shall be convertible to common shares of MPIC, subject to certain terms and conditions. On March 22, 2010, MPIC issued to MPHI Peso denominated convertible bonds with total face value of ₱6.6 billion and due after three years from date of issuance (the redemption date). The bonds pay fixed interest of 4.5%, payable semi-annually every 31st of March and 30th of September of each year commencing on September 30, 2010.

The fair value of the bonds is ₱6.8 billion and the equity component is ₱400.9 million presented as "Equity component of a financial instrument" account under "Other reserve" account in the consolidated balance sheet as of March 31, 2010. The carrying value of the convertible bonds as of March 31, 2010 follows:

	(In Thousands)
Fair value	₱6,811,860
Less unamortized discount and debt issue cost	645,734
	₱6,166,126

14. Equity

Details of authorized and issued capital stock follow:

	March 31, 2010 (Unaudited)	December 31, 2009 (Audited)
Number of shares:		
Authorized common shares - ₱1.00 par value	**22,688,518,336**	22,688,518,336
Authorized preferred shares - Class A - ₱0.01 par value	**5,000,000,000**	5,000,000,000
Authorized preferred shares - Class B - ₱1.00 par value	**1,500,000,000**	1,500,000,000

(Forward)

	March 31, 2010 (Unaudited)	December 31, 2009 (Audited)
Issued - common shares:		
Balance at January 1	**20,128,154,522**	7,027,726,813
Issuance on existing subscriptions from MPHI	**–**	2,389,040,000
Additional subscriptions of MPHI	**–**	4,770,000,000
Conversion of advances/loan from MPHI to equity	**–**	672,129,584
Issuance on existing subscriptions from LAWL	**–**	791,110,491
Issuance in exchange for Meralco shares	**–**	4,464,202,634
Exercise of stock option plan	**–**	13,945,000
Balance at end of period	**20,128,154,522**	20,128,154,522
Issued - preferred shares:		
Conversion of advances from MPHI to equity	**5,000,000,000**	5,000,000,000

Other Reserves
This account consists of the following, net of applicable income taxes:

	March 31, 2010 (Unaudited)	December 31, 2009 (Audited)
	(In Thousands)	
Effect of MPIC acquisition of MPC shares	**₱690,386**	₱690,386
Day 1 loss on convertible debt	**(286,122)**	(286,122)
ESOP	**51,200**	46,827
Equity component of a financial instrument (see Note 13)	**400,874**	–
	₱856,338	₱451,091

15. **Costs of Services**

The costs of services consist of:

	Three Months Ended March 31	
	2010	2009
	(Unaudited)	
	(In Thousands)	
Amortization of service concession assets (see Note 8)	**₱526,826**	₱422,219
Operator's fee	**335,611**	325,536
Salaries, wages and benefits	**170,976**	190,690
Utilities	**109,019**	97,104
Repairs and maintenance	**100,628**	90,287
Franchise fee	**76,032**	71,293
Contracted services	**56,007**	35,768
Materials and supplies	**32,780**	32,054
Provision for heavy maintenance	**11,016**	51,256
Insurance	**10,700**	10,085

(Forward)

	Three Months Ended March 31	
	2010	2009
	(Unaudited)	
	(In Thousands)	
Rental	**₱8,466**	₱8,649
Others	**12,041**	31,876
	₱1,450,102	₱1,366,817

16. **General and Administrative Expenses**

General and administrative expenses consist of:

	Three Months Ended March 31	
	2010	2009
	(Unaudited)	
	(In Thousands)	
Provisions:		
Write-off of input vat and others	**₱407,258**	₱21,059
Doubtful accounts (see Note 5)	**83,490**	113,545
Personnel costs	**189,410**	211,412
Outside services	**76,093**	44,142
Depreciation and amortization	**45,655**	35,835
Transportation and travel	**38,617**	25,749
Taxes and licenses	**35,164**	83,687
Professional fees	**32,163**	28,405
Commissions	**28,278**	26,257
Rental expense	**19,238**	9,172
Entertainment, amusement and representation	**15,106**	13,634
Directors fee	**9,382**	1,144
Repairs and maintenance	**9,193**	7,495
Insurance	**7,763**	6,402
Utilities	**7,160**	6,391
Advertising and promotion	**5,397**	5,016
Business development cost	**2,232**	8,345
Materials and supplies	**1,626**	5,127
Public relation	**1,275**	3,875
Others	**79,170**	25,796
	₱1,093,670	₱682,488

17. **Interest Income and Expenses**

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

	Three Months Ended March 31	
	2010	2009
	(Unaudited)	
	(In Thousands)	
Notes receivable	**₱132,243**	₱12,500
Cash and cash equivalents	**61,850**	64,094
Due from related parties	**12,337**	1,945
Investment in bonds	**8,438**	2,201
Others	**17,575**	53,802
	₱232,443	₱134,542

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

	Three Months Ended March 31	
	2010	2009
	(Unaudited)	
	(In Thousands)	
Long-term debt	**₱989,457**	₱752,491
Accretion of service concession payable and other financial liabilities	**202,442**	137,373
Amortization of debt issue costs	**9,703**	3,435
Due to related parties	**825**	12,500
Others	**5,292**	11,451
	₱1,207,719	₱917,250

18. **Other Income and Other Expenses**

Other income consists of:

	Three Months Ended March 31	
	2010	2009
	(Unaudited)	
	(In Thousands)	
Foreign currency differential adjustment	**₱229,670**	₱276,567
Reversal of accruals	**84,708**	–
Management fees	**9,000**	12,387
Guarantee fees	**4,613**	4,681
Income from toll service facilities	**2,216**	783
Rental income	**375**	–
Mark-to-market gain	**–**	6,658
Recovery from accounts written-off	**–**	2,592
Gain on sale of properties	**–**	1,434
Others	**151,214**	53,915
	₱481,796	₱359,017

Other expenses consist of:

	Three Months Ended March 31	
	2010	2009
	(Unaudited)	
	(In Thousands)	
Provision for estimated expenses	**₱56,857**	₱–
Mark-to-market loss on derivatives	**16,729**	–
Others	**34,882**	10,656
	₱108,468	₱10,656

19. **Earnings per Share**

The calculation of earnings per share follows:

		Three Months Ended March 31	
		2010	2009
		(Unaudited)	
		(In Thousands, Except for Per Share Amounts)	
Net income attributable to equity holders of the Parent Company from:			
Continuing operations		**₱649,872**	₱572,193
Discontinued operations		**–**	(21,180)
Total		**649,872**	551,013
Dividends on preferred shares		**(875)**	–
Net income attributable to equity holders of the Parent Company	(a)	**648,997**	551,013
Effect of potential dilution to the net income attributable to equity holders of the Parent Company from continuing operations		**578**	–
	(b)	**₱649,575**	₱551,013
Outstanding common shares at the January 1		**20,128,154,522**	7,027,726,813
Effect of issuance of common shares during the year		**–**	2,389,040,000
Weighted average number of common shares for basic earnings per share	(c)	**20,128,154,522**	9,416,766,813
Deposit for future stock subscription – MPHI		**–**	2,389,040,000
Deposit for future stock subscription - LAWL		**–**	791,110,491
ESOP		**14,434,274**	31,279,348
Effects of potential dilution from convertible bonds		**22,564,103**	–
Weighted average number of common shares adjusted for the effects of potential dilution	(d)	**20,165,152,899**	12,628,196,652
Basic earnings per share:			
Income from continuing operations after income tax		**₱0.032**	₱0.069
Income from discontinued operations after income tax		**–**	(0.003)
	(a/c)	**₱0.032**	₱0.066
Diluted earnings per share:			
Income from continuing operations after income tax		**₱0.032**	₱0.056
Income from discontinued operations after income tax		**–**	(0.002)
	(b/d)	**₱0.032**	₱0.054

20. **Contingencies**

Maynilad
There are no significant updates to the contingencies with respect to Maynilad, as disclosed in the annual consolidated financial statements as at December 31, 2009. The ultimate outcome of the matter still cannot be presently determined.

MPTC/MNTC
Value Added Tax. The Bureau of Internal Revenue (BIR) issued Revenue Memorandum Circular (RMC) 30-2010 by end of March 2010, directing the imposition of the 12% VAT starting April 1, 2010, with coverage initially limited to private vehicles. A deferment was again ordered by the Finance and Transportation departments, but with an end-April deadline for the Toll Regulatory Board (TRB) to come up with the mechanics for the collection of the tax. But again, there was a further deferral which was a result of the continuing discussion among representatives of the TRB, BIR, DOF, Office of the Solicitor General (OSG) and Tollways Association of the Philippines (TAP) to resolve some technical issues. Moreover, the new deferment was made since the tollway operators find it difficult to come up and install new computer software that would support the new collection and computation of the VAT.

Local Business Tax and Real Property Tax. In February 17, 2010, RTC of Malolos denied MNTC's prayer for a Temporary Restraining Order (TRO). Subsequently, MNTC filed an Urgent Motion for Reconsideration. Also in March 8, 2010, the TRB filed an urgent motion reiterating its prior legal position. On March 12, 2010, the RTC of Malolos denied MNTC's Urgent Motion for Reconsideration. Thus, on March 15, 2010, MNTC elevated the issue to the Court of Appeals via a Petition (with Application for the Issuance of a Temporary Restraining Order and/or a Writ of Preliminary Injunction). On March 17, 2010, MNTC, through its legal counsel filed a Request for Ruling with the Bureau of Local Government Finance (BLGF) on how to prospectively allocate and establish an orderly "sharing procedure" of local business taxes amongst Caloocan City and the 14 other local government units including Guiguinto. The proposed allocation is that 30% of MNTC's gross receipts may be taxable in Caloocan City, the location of the principal place of business, while the remaining 70% of MNTC's gross receipts may be allocated among the various municipalities traversed by the NLEx based on the actual kilometrage (lane kilometers) traversed by the NLEx in each relevant municipality.

Also on March 17, 2010, MNTC received an information that the municipality of Guiguinto had served a warrant of garnishment for its account with Banco De Oro Unibank, Inc. (BDO) for the total amount of ₱69.7 million (₱67.4 million for local business tax and ₱2.3 million for permits and other fees). On March 25, 2010, after negotiations with the municipality of Guiguinto, the amount of the garnished fund is only ₱2.5 million. The ₱2.5 million was derived from the computation which is based on the formula being requested by MNTC to BLGF as discussed above. MNTC is also still negotiating that the ₱2.5 million is for year 2010 and not for back taxes. Although no concrete agreement yet, MNTC believe that the municipality is amenable for the prospective payment scenario. The garnished cash of ₱2.5 million was reclassified to "Other current assets" account as of March 31, 2010.

BLGF has not yet replied to MNTC's request for Ruling regarding the allocation of LBT payments. Moreover, the LBT case is still pending with the Court of Appeals as of July 8, 2010.

Since there were no significant updates on the case on Real Property Tax (RPT), MNTC and MPTDC still need not accrue any liability.

Meralco
Meralco and its subsidiaries are subject to various pending or threatened legal actions in the ordinary course of business which, if found against Meralco and subsidiaries, may result in the payout of substantial claims and or the adjustment of electricity distribution rates. These contingencies mainly relate to tax assessments (real property tax, franchise, local business tax and income tax), the ongoing mediation with National Power Corporation and the unbundling of rates which was the subject of a COA audit. As the legal proceedings remain pending, the ultimate aggregate amount of any monetary liability and the potential adjustments to electricity distribution rates, if any, remains uncertain.

21. Events After the Balance Sheet Date

MPIC
On May 4, 2010, MPIC signed a Share Purchase Agreement with Torre Hermanos Agro-Industrial Enterprises, Inc. ("THE") to acquire a 51% shareholding in Riverside Medical Center, Inc. ("RMCI"), the largest hospital in Bacolod City, Negros Occidental. It has a wholly-owned subsidiary, Riverside College, Inc., a nursing school with 2,800 students.

The acquisition of the 190,413 common shares or 51% of RMCI was completed on May 31, 2010 and MPIC paid for ₱1,447.49 per share or a total amount of ₱275.6 million as consideration. Reliable fair value information for purposes of purchase price allocation is not yet available as of July 8, 2010.

MPTC/MNTC
On June 9, 2010, BCDA awarded MNTC the contract to manage, operate and maintain the SCTEx for a period of 25 years which shall be automatically renewed for another period up to October 31, 2043.

Department of Public Works and Highways accepted MPTDC's unsolicited proposal to build the 13.2-km elevated road from the C-3 interchange to the Buendia segment of the Metro Manila Skyway (Connector Road) subject to MPTDC's submission of required additional documents.

22. Supplemental Cash Flow Information

	Three Months Ended March 31	
	2010	2009
	(Unaudited)	
	(In Thousands)	
Noncash investing and financing activities:		
Reclassification of property and equipment to service concession assets	**₱104,928**	₱–
Issuance of common shares to subscription paid in 2008	**–**	4,778,080
Transfer of investment in Meralco to Beacon Electric (see Note 7)	**24,540,310**	–
Subscription of Beacon Electric Shares (see Note 7)	**(24,540,310)**	–

Independent Auditors' Report

The Stockholders and the Board of Directors
Metro Pacific Investments Corporation
10th Floor, MGO Building
Legaspi corner Dela Rosa Streets
Legaspi Village, Makati City

We have audited the accompanying financial statements of Metro Pacific Investments Corporation and Subsidiaries, which comprise the consolidated balance sheets as at December 31, 2009 and 2008, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2009, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Philippine Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

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

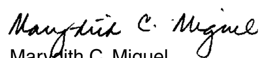
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or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

We believe that the audit evidence we have obtained and the reports of the other auditors are sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Metro Pacific Investments Corporation and Subsidiaries as of December 31, 2009 and 2008, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2009, in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.



Marydith C. Miguel
Partner
CPA Certificate No. 65556
SEC Accreditation No. 0087-AR-2
Tax Identification No. 102-092-270
PTR No. 2087551, January 4, 2010, Makati City

March 4, 2010

Consolidated Balance Sheets

(Amounts in Thousands)

	December 31	
		(As restated - Note 4)
	2009	2008
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 7 and 38)	**₱6,379,731**	₱2,028,833
Short-term deposits (Notes 7 and 38)	**2,433,418**	6,715,588
Receivables - net (Notes 8 and 38)	**13,475,300**	1,608,882
Advances to contractors and consultants (Note 11)	**527,571**	188,411
Inventories - at cost (Note 9)	**96,012**	84,404
Real estate for sale (Note 9)	**187,010**	127,473
Due from related parties (Notes 21 and 38)	**501,080**	32,088
Available-for-sale financial assets (Notes 10 and 38)	**282,787**	402,964
Noncurrent asset held for sale (Note 6)	**329,570**	–
Other current assets - net (Note 11)	**1,593,832**	617,531
	25,806,311	11,806,174
Assets of disposal group classified as held for sale (Note 6)	**–**	6,320,351
Total Current Assets	**25,806,311**	18,126,525
Noncurrent Assets		
Investments in:		
Associates and joint venture - at equity (Note 12)	**27,370,023**	2,378,273
Bonds (Note 38)	**400,600**	100,600
Goodwill (Note 4)	**12,551,750**	12,551,750
Due from related parties (Notes 21 and 38)	**65,569**	322,666
Service concession assets - net (Note 13)	**62,185,407**	56,664,128
Property and equipment - net (Note 14)	**634,405**	642,597
Derivative assets (Note 38)	**39,212**	53,042
Deferred tax assets (Note 31)	**214,992**	568,440
Other noncurrent assets (Note 15)	**131,566**	155,892
Total Noncurrent Assets	**103,593,524**	73,437,388
	₱129,399,835	₱91,563,913
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and other current liabilities (Notes 16 and 38)	**₱7,532,438**	₱6,412,370
Unearned toll revenues	**21,135**	19,344
Income tax payable	**10,818**	1,084
Due to related parties (Notes 21 and 38)	**429,718**	2,823,555
Current portion of:		
Provisions (Note 17)	**555,640**	506,599
Service concession fees payable (Notes 18 and 38)	**1,208,467**	974,521
Long-term debts (Notes 19 and 38)	**958,095**	855,255
Deferred credits and other long-term liabilities (Note 20)	**942,279**	1,214,301
	11,658,590	12,807,029
Liabilities directly associated with assets classified as held for sale (Note 6)	**–**	5,040,003
Total Current Liabilities	**11,658,590**	17,847,032
Noncurrent Liabilities		
Noncurrent portion of:		
Provisions (Note 17)	**₱415,827**	₱170,275
Service concession fees payable (Notes 18 and 38)	**9,071,673**	6,620,698
Long-term debts (Notes 19 and 38)	**41,828,305**	31,412,485
Deferred credits and other long-term liabilities (Notes 20 and 38)	**3,432,643**	5,401,208
Derivative liabilities (Note 38)	**44,467**	29,861
Accrued retirement costs (Note 27)	**–**	253,720
Deferred tax liabilities (Note 31)	**2,672,692**	3,122,748
Total Noncurrent Liabilities	**57,465,607**	47,010,995
Total Liabilities	**69,124,197**	64,858,027
Equity (Note 22)		
Capital stock	**20,178,155**	7,027,727
Additional paid-in capital	**27,860,033**	5,753,809
Deposit for future stock subscriptions	**–**	6,807,293
Other reserves	**451,091**	404,264
Reserve of disposal group classified as held for sale (Note 6)	**–**	16,881
Retained earnings (deficit)	**2,885,936**	(1,034,645)
Other comprehensive income reserve (Note 30)	**(109,743)**	(123,550)
Total equity attributable to owners of Parent Company	**51,265,472**	18,851,779
Minority interests (Note 23)	**9,010,166**	7,854,107
Total Equity	**60,275,638**	26,705,886
	₱129,399,835	₱91,563,913

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Income

(Amounts in Thousands)

	Years Ended December 31		
		(As restated - Note 4)	
	2009	2008	2007
OPERATING REVENUES			
Water and sewerage services revenue	**₱10,618,544**	₱4,326,071	₱–
Toll fees	**5,489,190**	715,079	–
	16,107,734	5,041,150	–
COST OF SERVICES (Note 24)	**(7,120,665)**	(2,371,015)	–
GROSS PROFIT	**8,987,069**	2,670,135	–
GENERAL AND ADMINISTRATIVE EXPENSES (Note 25)	**(2,640,874)**	(1,442,717)	(158,702)
OTHER INCOME AND EXPENSES			
Construction revenue	**4,879,072**	4,158,922	–
Construction cost	**(4,771,041)**	(4,092,059)	–
Interest expense (Note 28)	**(4,012,258)**	(1,161,430)	(3,527,245)
Foreign exchange gains (losses) - net	**(985,448)**	(499,943)	376,447
Interest income (Note 28)	**499,221**	278,833	34,493
Share in net earnings of associates and a joint venture - net (Note 12)	**432,239**	143,934	1,521,623
Revenue from sale of real estate	**–**	–	20,357
Cost of real estate sold	**–**	–	(19,395)
Other income (Note 29)	**2,829,423**	1,659,277	2,213,013
Other expenses (Note 29)	**(885,515)**	(789,386)	(617,698)
	(2,014,307)	(301,852)	1,595
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAX	**4,331,888**	925,566	(157,107)
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 31)			
Current	**35,559**	7,420	2,940
Deferred	**(105,429)**	(70,498)	146,887
	(69,870)	(63,078)	149,827
INCOME (LOSS) FROM CONTINUING OPERATIONS AFTER INCOME TAX	**4,401,758**	988,644	(306,934)
INCOME (LOSS) FROM DISCONTINUED OPERATIONS, NET OF TAX (Note 6)	**(31,895)**	42,056	431,236
NET INCOME	**₱4,369,863**	₱1,030,700	₱124,302
Net income (loss) attributable to:			
Owners of Parent Company from:			
Continuing operations (Note 5)	**₱2,306,253**	₱532,633	(₱412,056)
Discontinued operations (Note 6)	**(6,601)**	(7,088)	301,684
	2,299,652	525,545	(110,372)
Minority interests (Note 23)	**2,070,211**	505,155	234,674
	₱4,369,863	₱1,030,700	₱124,302
EARNINGS (LOSS) PER SHARE (Note 32)			
Basic Earnings Per Share, Attributable to Owners of Parent Company			
Income (loss) from continuing operations	**₱0.194**	₱0.154	(₱0.329)
Income (loss) from discontinued operations	**(0.001)**	(0.002)	0.241
	₱0.193	₱0.152	(₱0.088)
Diluted Earnings Per Share, Attributable to Owners of Parent Company			
Income (loss) from continuing operations	**₱0.181**	₱0.103	(₱0.329)
Income (loss) from discontinued operations	**(0.001)**	(0.002)	0.109
	₱0.180	₱0.101	(₱0.220)

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Comprehensive Income

(Amounts in Thousands)

	Years Ended December 31 (As restated - Notes 2 and 4)		
	2009	2008	2007
NET INCOME	**₱4,369,863**	₱1,030,700	₱124,302
OTHER COMPREHENSIVE INCOME (Note 30)			
Net transaction on cash flow hedges - net of tax (Note 38):			
Fair value changes of cash flow hedges	**29,393**	(52,069)	–
Income tax	**(8,818)**	15,621	–
	20,575	(36,448)	–
Net revaluation increment - net of tax:			
Revaluation increment	**–**	(141,561)	–
Income tax	**–**	42,468	–
	–	(99,093)	–
Change in fair value of available-for-sale financial assets	**–**	(14,060)	–
	20,575	(149,601)	–
TOTAL COMPREHENSIVE INCOME	**₱4,390,438**	₱881,099	₱124,302
Total Comprehensive Income Attributable To			
Owners of Parent Company from:			
Continuing operations	**₱2,320,060**	₱395,023	(₱412,056)
Discontinued operations	**(6,601)**	(7,088)	301,684
	2,313,459	387,935	(110,372)
Minority interests	**2,076,979**	493,164	234,674
	₱4,390,438	₱881,099	₱124,302

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Changes in Equity

(Amounts in Thousands)

	2009									
	Attributable to Owners of Parent Company									
	Capital Stock (Note 22)	Additional Paid-in Capital (Note 22)	Deposit for Future Stock Subscription (Note 22)	Other Reserves (Note 22)	Reserve of Disposal Group Classified as Held for Sale (Note 6)	Retained Earnings (Deficit) (Note 6)	Other Comprehensive Income Reserve (Note 30)	Total	Minority Interests (Note 23)	Total Equity
At January 1, 2009, as previously reported	₱7,027,727	₱5,753,809	₱6,807,293	₱329,053	₱16,881	(₱1,011,252)	₱–	₱18,923,511	₱7,865,363	₱26,788,874
Reclassification (Notes 2, 22 and 30)	–	–	–	75,211	–	–	(75,211)	–	–	–
Restatement - Finalization of PPA (Note 4)	–	–	–	–	–	(23,393)	(48,339)	(71,732)	(11,256)	(82,988)
At January 1, 2009, as restated	7,027,727	5,753,809	6,807,293	404,264	16,881	(1,034,645)	(123,550)	18,851,779	7,854,107	26,705,886
Total comprehensive income for the year	–	–	–	–	–	2,299,652	13,807	2,313,459	2,076,979	4,390,438
Issuance of shares during the period:										
Common shares	13,086,483	24,332,647	(6,807,293)	–	–	–	–	30,611,837	–	30,611,837
Preferred shares	50,000	–	–	–	–	–	–	50,000	–	50,000
Transaction costs (Note 22)	–	(628,395)	–	–	–	–	–	(628,395)	–	(628,395)
Executive Stock Option Plan (Note 33):										
Exercise of stock option	13,945	22,901	–	(3,209)	–	–	–	33,637	–	33,637
Cost of share-based payment	–	–	–	50,036	–	–	–	50,036	–	50,036
Equity restructuring (Note 22)	–	(1,620,929)	–	–	–	1,620,929	–	–	–	–
Disposal of Landco (Note 6)	–	–	–	–	(16,881)	–	–	(16,881)	(448,300)	(465,181)
Dividends paid to minority	–	–	–	–	–	–	–	–	(472,620)	(472,620)
At December 31, 2009	₱20,178,155	₱27,860,033	₱–	₱451,091	₱–	₱2,885,936	(₱109,743)	₱51,265,472	₱9,010,166	₱60,275,638

Consolidated Statements of Changes in Equity

(Amounts in Thousands)

	2008									
	Attributable to Owners of Parent Company									
	Capital Stock (Note 22)	Additional Paid-in Capital (Note 22)	Deposit for Future Stock Subscription (Note 22)	Other Reserves (Note 22)	Reserve of Disposal Group Classified as Held for Sale (Note 6)	(Deficit) (Note 6)	Other Comprehensive Income Reserve (Note 30)	Total	Minority Interests (Note 23)	Total Equity
At January 1, 2008, as previously reported	₱1,342,918	₱–	₱–	₱2,321,948	₱–	(₱1,560,190)	₱–	₱2,104,676	₱965,388	₱3,070,064
Reclassification (Notes 2, 22 and 30)	–	–	–	(14,060)	–	–	14,060	–	–	–
At January 1, 2008, as restated	1,342,918	–	–	2,307,888	–	(1,560,190)	14,060	2,104,676	965,388	3,070,064
Total comprehensive income for the year	–	–	–	–	–	525,545	(137,610)	387,935	493,164	881,099
Issuance of shares during the period	5,684,809	3,908,805	6,807,293	–	–	–	–	16,400,907	–	16,400,907
Transaction costs	–	(58,620)	–	–	–	–	–	(58,620)	–	(58,620)
Equity component of a financial instruments (Note 19)	–	1,903,624	–	(1,903,624)	–	–	–	–	–	–
Minority interest arising from business combinations (Note 4)	–	–	–	–	–	–	–	–	7,886,593	7,886,593
Acquisition of minority interest	–	–	–	–	–	–	–	–	(863,141)	(863,141)
Dividends paid to minority	–	–	–	–	–	–	–	–	(181,134)	(181,134)
Other equity transactions					16,881			16,881	(446,763)	(429,882)
At December 31, 2008	₱7,027,727	₱5,753,809	₱6,807,293	₱404,264	₱16,881	(₱1,034,645)	(₱123,550)	₱18,851,779	₱7,854,107	₱26,705,886

	2007									
	Attributable to Owners of Parent Company									
	Capital Stock (Note 22)	Additional Paid-in Capital (Note 22)	Deposit for Future Stock Subscription (Note 22)	Other Reserves (Note 22)	Reserve of Disposal Group Classified as Held for Sale (Note 6)	(Deficit) (Note 6)	Other Comprehensive Income Reserve (Note 30)	Total	Minority Interests (Note 23)	Total Equity
At January 1, 2007, as previously reported	₱1,198,952	₱–	₱–	₱704,858	₱–	(₱1,449,818)	₱–	₱453,992	₱751,980	₱1,205,972
Reclassification (Notes 2, 22 and 30)	–	–	–	(14,060)	–	–	14,060	–	–	
At January 1, 2007, as restated	1,198,952	–	–	690,798	–	(1,449,818)	14,060	453,992	751,980	1,205,972
Total comprehensive income for the year	–	–	–	–	–	(110,372)	–	(110,372)	234,674	124,302
Issuance of shares during the period	143,966	–	–	–	–	–	–	143,966	–	143,966
Equity component of a financial instruments (Note 19)	–	–	–	1,903,624	–	–	–	1,903,624	–	1,903,624
Day 1 loss (Note 19)	–	–	–	(286,122)	–	–	–	(286,122)	–	(286,122)
Dividends paid to minority interest	–	–	–	–	–	–	–	–	(11,760)	(11,760)
Other equity transactions				(412)				(412)	(9,506)	(9,918)
At December 31, 2007	₱1,342,918	₱–	₱–	₱2,307,888	₱–	(₱1,560,190)	₱14,060	₱2,104,676	₱965,388	₱3,070,064

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

(Amounts in Thousands)

	Years Ended December 31		
		(As restated - Note 4)	
	2009	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES			
Income (loss) from continuing operations before income tax	**₱4,331,888**	₱925,566	(₱157,107)
Income (loss) from discontinued operations before income tax (Note 6)	**(77,623)**	52,023	599,902
	4,254,265	977,589	442,795
Adjustments for:			
Interest expense (Notes 6 and 28)	**4,012,258**	1,297,978	3,593,849
Amortization of service concession assets (Note 13)	**3,105,386**	1,286,456	–
Income from rate rebasing (Note 29)	**(1,404,059)**	–	–
Interest income (Notes 6 and 28)	**(499,221)**	(501,183)	(316,629)
Share in net earnings of associates and joint venture - net (Note 12)	**(432,239)**	(152,296)	(1,520,874)
Provision for doubtful accounts (Note 8)	**226,266**	115,145	–
Depreciation and amortization (Notes 6 and 14)	**185,130**	120,472	35,784
Unrealized foreign exchange gain (loss) - net	**(115,264)**	499,943	(376,447)
Retirement costs (Note 27)	**112,645**	59,603	–
Provision for decline in value of assets (Note 29)	**68,618**	367,251	200,854
Reversal of provision for decline in value of assets (Note 29)	**(57,086)**	(262,461)	(3,261)
Provision for contingencies (Note 29)	**54,847**	35,830	85,232
Provision for Executive Stock Option Plan (Notes 26 and 33)	**50,036**	183,440	–
Gain on disposal of Landco (Note 6)	**(25,202)**	–	–
Deferred toll revenue realized	**(19,344)**	(26,910)	–
Mark-to-market (gain) loss on derivatives (Note 29)	**19,219**	12,832	(1,065,713)
Actuarial (gain) loss (Note 29)	**11,860**	(19,898)	–
Loss (gain) on debt settlement - net (Note 29)	**9,896**	(173,025)	(1,053,943)
Loss (gain) on sale of property and equipment	**(13)**	(409)	19
Gain on dilution of minority interests (Note 29)	**–**	(757,591)	–
Gain on sale of investment (Notes 6 and 29)	**–**	(51,333)	–
Gain on sale of available-for-sale financial assets	**–**	(4,644)	(13,058)
Day 1 loss (Note 29)	**–**	–	305,056
Reversal of accruals (Note 29)	**–**	–	(60,239)
Operating income before working capital changes	**9,557,998**	3,006,789	253,425
Decrease (increase) in:			
Short-term deposits	**4,115,048**	(6,715,588)	–
Receivables	**(932,085)**	(707,580)	(1,509,060)
Advances to contractors and consultants	**(339,160)**	–	–
Inventories	**(11,607)**	(57,427)	–
Real estate for sale	**–**	280,404	74,895
Due from related parties	**(206,561)**	503,803	3,211
Other current assets	**(976,302)**	321,102	1,407,004
Increase (decrease) in:			
Accounts payable and other current liabilities	**1,021,183**	33,600	309,346
Provisions	**223,277**	48,538	(7,700)
Accrued retirement costs	**(15,575)**	(5,331)	(5,795)
Net cash generated from (used for) operations	**12,436,216**	(3,291,690)	525,326
Unearned toll revenue	**21,135**	23,603	–
Income tax paid	**(25,825)**	(16,769)	(350,234)
Interest received	**246,535**	501,183	9,232
Net cash provided by (used in) operating activities	**12,678,061**	(2,783,673)	184,324

Consolidated Statements of Cash Flows

(Amounts in Thousands)

	Years Ended December 31		
		(As restated - Note 4)	
	2009	2008	2007
CASH FLOWS FROM INVESTING ACTIVITIES			
Dividend received from associates	**403,104**	55,200	–
Decrease (increase) in:			
Long-term receivables	**–**	–	(275,576)
Other noncurrent assets	**49,607**	72,108	(81,861)
Proceeds from sale/disposal of:			
Available-for-sale financial assets	**411,286**	–	–
Property and equipment	**17,424**	19,576	13,775
Investment properties	**–**	32,479	–
Investments in associates	**–**	173,627	–
Acquisition/purchase of:			
Notes receivables	**(11,205,000)**	–	–
Available-for-sale financial assets	–	(31,356)	42,805
Investments in associates and joint venture (Note 12)	**(10,677,166)**	(1,327,104)	(123,114)
Service concession assets (Notes 13 and 40)	**(4,854,556)**	(2,809,838)	–
Investment in bonds	**(300,000)**	–	–
Property and equipment (Note 14)	**(190,773)**	(243,993)	(72,133)
Investment in subsidiary, net of cash acquired (Note 4)	**–**	(10,002,901)	–
Minority interests (Note 4)	**–**	(7,575,700)	–
Net cash used in investing activities	**(26,346,074)**	(21,637,902)	(496,104)
CASH FLOWS FROM FINANCING ACTIVITIES			
Decrease in deferred credits and other long-term liabilities	**(1,114,122)**	(622,725)	–
Proceeds from:			
Advances from related parties	**36,294**	2,377,134	368,095
Short-term loan (Note 19)	**4,500,000**	–	–
Long-term debt (Note 19)	**11,777,000**	30,392,376	2,753,189
Issuance of capital stock (Notes 22 and 40)	**14,342,775**	3,791,525	143,966
Deposit for future stock subscription	**–**	6,807,293	–
Payments of:			
Advances from related parties	**(445,158)**	(9,292,765)	(2,903,938)
Concession fees payable	**(1,346,983)**	(3,744,386)	–
Short-term loan (Note 19)	**(4,500,000)**	(210,814)	(15,526)
Long-term debt (Note 19)	**(676,700)**	(1,837,123)	–
Transaction costs on issuance of shares	**(627,532)**	(77,911)	–
Debt issue costs	**(230,032)**	–	–
Dividends paid to minority	**(330,731)**	(181,134)	(11,760)
Interest paid	**(3,540,967)**	(1,004,240)	(7,104)
Net cash provided by financing activities	**17,843,844**	26,397,230	326,922
EFFECT OF CHANGE IN EXCHANGE RATES IN CASH AND CASH EQUIVALENTS	**(2,243)**	(17,593)	(2,223)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**4,173,588**	1,958,062	12,919
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**2,206,143**	248,081	235,162
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 7)	**₱6,379,731**	₱2,206,143	₱248,081

See accompanying Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

1. Corporate Information

Metro Pacific Investments Corporation (the Parent Company or MPIC) was incorporated in the Philippines and registered with the Securities and Exchange Commission (SEC) on March 20, 2006 as an investment holding company.

MPIC is 55.6% owned by Metro Pacific Holdings, Inc. (MPHI). MPHI is a Philippine corporation whose stockholders are Enterprise Investment Holdings, Inc. (EIH) (60.0%), Intalink B.V. (26.7%) and First Pacific International Limited (13.3%). First Pacific Company Limited (FPC), a company incorporated in Bermuda and listed in Hong Kong, through its subsidiaries, holds a direct 40% equity interest in EIH and investment financing, and which under Hong Kong Financial Reporting Standards require FPC to account for the results and assets and liabilities of EIH and its subsidiaries as FPC group companies in Hong Kong. On such basis, FPC is referred to as the ultimate parent company of EIH and of MPIC.

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

The accompanying consolidated financial statements as of December 31, 2009 and 2008 and for each of the three years in the period ended December 31, 2009 were approved and authorized for issue by the Board of Directors (BOD) on March 3, 2010.

2. Summary of Significant Accounting Policies

Basis of Preparation
The consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments and available-for-sale (AFS) financial assets that have been measured at fair value. The consolidated financial statements are presented in Philippine peso, which is MPIC and Subsidiaries' (the Company) functional and presentation currency, and all values are rounded to the nearest thousands (000), except when otherwise indicated.

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

Changes in Accounting Policies
The accounting policies adopted are consistent with those of the previous financial year except for the voluntary change in accounting policy discussed below and the adoption of the new and amended standards and Philippine Interpretations based on International Financial Reporting Interpretations Committee (IFRIC) as of January 1, 2009.

Voluntary Change in Accounting Policy

- Under Philippine Accounting Standards (PAS) 1, "Presentation of Financial Statements," for presentation of statement of income, expenses are subclassified to highlight components of financial performance that may differ in terms of frequency, potential for gain or loss and predictability. This analysis is provided in one of two forms. The first form of analysis is the 'nature of expense' method. Under this method, an entity aggregates expenses within profit or loss according to their nature (for example, depreciation, purchases of materials, transport costs, employee benefits and advertising costs), and does not reallocate them among functions within the entity. The second form of analysis is the 'function of expense' or 'cost of sales' method and classifies expenses according to their function as part of cost of sales or, for example, the costs of distribution or administrative activities.

  With the consolidation of Maynilad Water Services, Inc. [Maynilad, a subsidiary through DMCI-MPIC Water Company, Inc. (DMWC)] and Metro Pacific Tollways Corporation [(MPTC), formerly, First Philippine Infrastructure, Inc. (FPII)], management revisited its presentation of the statement of income. Both Maynilad and MPTC use the function of expense presentation, which shows gross profit as a subtotal of the difference between operating revenues and cost of services. MPIC adopted the same presentation to align with the current presentation of the statement of income of these subsidiaries. Management believes that this presentation provides more meaningful and relevant financial information to readers of MPIC's consolidated financial statements.

  This voluntary change in accounting policy merely resulted to a change in the presentation of the consolidated statement of income, with operating revenues consisting of "water and sewerage services" and "toll fees" and gross profit being presented as subtotal of the difference between operating revenues and cost of services. Prior period consolidated statements of income are restated to conform with that of the current year's presentation. There is no impact on previously reported consolidated balance sheets, consolidated statements of changes in equity and consolidated statements of cash flows.

Adoption of New and Amended Standards and Interpretations

- PAS 1, "Presentation of Financial Statements (Revised)" — The revision introduces new disclosures to aggregate information in the financial statements on the basis of shared characteristics. It requires the following presentations: (a) all changes in equity arising from transactions with owners are to be presented separately from non-owner changes in equity, (b) income and expenses are to be presented in one statement (a statement of comprehensive income) or in two statements (a separate statement of income and a statement of comprehensive income), separately from owner changes in equity, (c) components of other comprehensive income to be displayed in the statement of comprehensive income and (d) total comprehensive income to be presented in the financial statements.

  The Company applied the revised PAS 1 and as a result, the Company now presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income. In particular, the adoption of this standard required the Company to reclassify certain accounts previously presented as "Other reserves" in equity to "Other comprehensive income" as they are deemed items outside profit and loss and are separate from owner changes in equity. A separate note is provided for the reclassification and for the accounting of other comprehensive income comparatively and prospectively (see Note 30).

The Company has also elected to present two linked statements: a consolidated statement of income and a consolidated statement of comprehensive income. The Company's consolidated financial statements have been prepared following the revised disclosure requirements with comparative information in conformity with the revised presentation. Since this change in accounting policy only impacts presentation aspects, there is no impact on financial position and performance.

- PAS 23, "Borrowing Costs" (Revised) — The standard has been revised to require capitalization of borrowing costs on qualifying assets. It has been the Company's policy to capitalize borrowing costs, and as such, adoption of this revised standard did not have any impact on the financial position or performance of the Company. See Note 13 for borrowing costs capitalized during the period.

- Amendments to PAS 32, "Financial Instruments: Presentation" and PAS 1 "Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation" — The standards have been amended to allow a limited scope exception for puttable financial instruments to be classified as equity if they fulfill a number of specified criteria. The adoption of these amendments did not have any impact on the financial position or performance of the Company.

- Amendments to PFRS 2, "Share-based Payment - Vesting Condition and Cancellations" — The standard has been revised to clarify the definition of a vesting condition and to prescribe the accounting treatment for an award that is effectively cancelled because a non-vesting condition is not satisfied. The adoption of this amendment did not have any impact on the financial position or performance of the Company.

- Amendment to PFRS 7, "Financial Instruments: Disclosures - Improving Disclosures about Financial Instruments" — The amended standard requires additional disclosure about fair value measurement and liquidity risk. Fair value measurements are to be disclosed by source of inputs using the three level hierarchy for each class of financial instrument. In addition, a reconciliation between the beginning and ending balance for Level 3 fair value measurements is now required, as well as significant transfers between Level 1 and Level 2 fair value measurements. The amendments also clarify the requirements for liquidity risk disclosures. The fair value measurement disclosures are presented in Note 38, and the liquidity risk disclosures are presented in Note 37.

- PFRS 8, "Operating Segments" — PFRS 8 replaces PAS 14, "Segment Reporting" and adopts a full management approach in identifying, measuring, and disclosing the results of an entity's operating segments. The information required to report is similar to what management uses internally for evaluating the performance of operating segments and allocating resources to those segments. In cases where such information is different from those required to be reported in the consolidated financial statements, the entity needs to provide explanations and reconciliation of the differences.

  Under PFRS 8, the Company now determines and presents operating segments based on the information that internally is provided to the Company's chief operating decision maker or management. Previously, operating segments were determined and presented in accordance with PAS 14, "Segment Reporting." The Company has determined that the operating segments determined in accordance with PFRS 8 are the same as the business segments used under PAS 14. Additional disclosures required by the new standard are shown in Note 5 to the consolidated financial statements.

  Comparative segment information has been revised to conform with the new presentation and disclosure requirements. Since the change in accounting policy only impacts presentation and disclosures, there is no impact on financial position and performance.

- Amendments to Philippine Interpretation IFRIC 9, "Reassessment of Embedded Derivatives" and PAS 39, "Financial Instruments: Recognition and Measurement" — These amendments require an entity to assess whether an embedded derivative must be separated from a host contract when the entity reclassifies a hybrid financial asset out of the fair value through profit or loss category. This assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. PAS 39, "Financial Instruments: Recognition and Measurement" now states that if an embedded derivative cannot be reliably measured, the entire hybrid instrument must remain classified as fair value through profit or loss. The adoption of this interpretation did not have any impact on the financial position or performance of the Company.

- Philippine Interpretation IFRIC 13, "Customer Loyalty Programmes" — This interpretation addresses accounting by entities that grant loyalty award credits (such as "points" or travel miles) to customers who buy goods or services. The adoption of the interpretation did not have any significant impact on the financial position or performance of the Company.

- Philippine Interpretation IFRIC 16, "Hedges of a Net Investment in a Foreign Operation" — This interpretation provides guidance on the accounting for a hedge of a net investment. The Company does not have an investment in a foreign operation. As such, adoption of this interpretation did not have any impact on the financial position or performance of the Company.

- Philippine Interpretation IFRIC 18, "Transfers of Assets from Customers" (effective for transfers of assets on or after July 1, 2009) — This interpretation clarifies the requirements of PFRS for agreements in which an entity receives from a customer an item of property and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services (such as a supply of electricity, gas or water). Under this interpretation, when the item of property and equipment is transferred from a customer meets the definition of an asset under the International Accounting Standards Board Framework from the perspective of the recipient, the recipient must recognize the asset in its financial statements. If the customer continues to control the transferred item, the asset definition would not be met even if ownership of the asset is transferred to the utility or other recipient entity. The deemed cost of that asset is its fair value on the date of the transfer. If there are separately identifiable services received by the customer in exchange for the transfer, then the recipient should split the transaction into separate components as required by PAS 18.

Improvements to PFRS and PAS

The omnibus amendments to PFRS in 2008 and 2009 were issued primarily with a view of removing inconsistencies and clarifying wordings. There are separate transitional provisions for each standard. These amendments were effective beginning January 1, 2009. The adoption of the following amendments resulted in changes to accounting policies but did not have any impact on the financial position or performance of the Company.

- PAS 18, "Revenue" — The amendment adds guidance (which accompanies the standard) to determine whether an entity is acting as a principal or as an agent. The features to consider are whether the entity:

    a. Has primary responsibility for providing the goods or service
    b. Has inventory risk
    c. Has discretion in establishing prices
    d. Bears the credit risk

    The Company has assessed its revenue arrangements against these criteria and has concluded that it is acting as principal in all arrangements. The revenue recognition policy has been updated accordingly.

- PAS 23, "Borrowing Costs" — This improvement revises the definition of borrowing costs to consolidate the types of items that are considered components of borrowing costs into one - the interest expense calculated using effective interest rate method and interest expense calculated in accordance with PAS 39. The Company has amended its accounting policy accordingly which did not result in any change in its financial position.

- PAS 38, "Intangible Assets" — Expenditure on advertising and promotional activities is recognized as expense when the entity either has the right to access the goods or has received the services. This amendment has no impact on the Company because it does not enter into such promotional activities.

    The reference to there being rarely, if ever, persuasive evidence to support an amortization method of intangible assets other than a straight-line method has been removed. The Company reassessed the useful lives of its intangible assets and concluded that the straight-line method is still appropriate.

The improvements to the following standards did not have any impact on the accounting policies, financial position or performance of the Company:

- PAS 1, "Presentation of Financial Statements" — Assets and liabilities classified as held-for-trading are not automatically classified as current in the balance sheet.

- PAS 16, "Property, Plant and Equipment" — The amendment replaces the term 'net selling price' with 'fair value less costs to sell,' to be consistent with PFRS 5, "Noncurrent Assets Held-for-Sale and Discontinued Operations" and PAS 36, "Impairment of Asset." Items of property, plant and equipment held for rental that are routinely sold in the ordinary course of business after rental, are transferred to inventory when rental ceases and they are held for sale. Proceeds of such sales are subsequently shown as revenue. Cash payments on initial recognition of such items, the cash receipts from rents and subsequent sales are all shown as cash flows from operating activities.

- PAS 19, "Employee Benefits" — Revises the definition of 'past service costs' to include reductions in benefits related to past services ('negative past service costs') and to exclude reductions in benefits related to future services that arise from plan amendments. Amendments to plans that result in a reduction in benefits related to future services are accounted for as a curtailment. Revises the definition of 'return on plan assets' to exclude plan administration costs if they have already been included in the actuarial assumptions used to measure the defined benefit obligation. Revises the definition of 'short-term' and 'other long-term' employee benefits to focus on the point in time at which the liability is due to be settled. Deletes the reference to the recognition of contingent liabilities to ensure consistency with PAS 37, "Provisions, Contingent Liabilities and Contingent Assets."

- PAS 28, "Investments in Associates" — If an associate is accounted for at fair value in accordance with PAS 39, only the requirement of PAS 28 to disclose the nature and extent of any significant restrictions on the ability of the associate to transfer funds to the entity in the form of cash or repayment of loans will apply. An investment in an associate is a single asset for the purpose of conducting the impairment test. Therefore, any impairment test is not separately allocated to the goodwill included in the investment balance.

- PAS 31, "Interests in Joint Ventures" — If a joint venture is accounted for at fair value in accordance with PAS 39, only the requirements of PAS 31 to disclose the commitments of the venture and the joint venture, as well as summary financial information about the assets, liabilities, income and expense will apply.

- PAS 34, "Interim Financial Reporting" — This improvement clarifies that the disclosure of earnings per share is mandatory in the interim financial reports if an entity is within the scope of PAS 33, "Earnings per Share."

- PAS 36, "Impairment of Assets" — When discounted cash flows are used to estimate 'fair value less cost to sell,' additional disclosure is required about the discount rate, consistent with disclosures required when the discounted cash flows are used to estimate 'value in use.'

- PAS 39, "Financial Instruments: Recognition and Measurement" — Changes in circumstances relating to derivatives - specifically derivatives designated or de-designated as hedging instruments after initial recognition are not reclassifications. It removes the reference to a 'segment' when determining whether an instrument qualifies as a hedge. It requires the use of the revised effective interest rate (rather than the original effective interest rate) when remeasuring a debt instrument on the cessation of fair value hedge accounting.

- PAS 40, "Investment Property" — Revises the scope (and the scope of PAS 16) to include property that is being constructed or developed for future use as an investment property. Where an entity is unable to determine the fair value of an investment property under construction, but expects to be able to determine its fair value on completion, the investment under construction will be measured at cost until such time as fair value can be determined or construction is complete.

<u>Future Changes in Accounting Policies</u>
The Company did not early adopt the following standards and Philippine Interpretations that have been approved but are not yet effective for the year ended December 31, 2009. Except for the adoption of the revised PAS 27 and PFRS 3 and for which effects are still being assessed, the Company expects that the adoption of these standards and interpretations will have no significant impact on the consolidated financial statements upon adoption.

- PAS 27, "Consolidated and Separate Financial Statements (Revised)" (effective for annual periods beginning on or after July 1, 2009) — The revision requires that change in the ownership interest of a subsidiary that does not result in loss of control will be accounted for as an equity transaction. Where change in ownership of interest results in the loss of control of a subsidiary, any retained interest will be remeasured to fair value and will impact the gain or loss recognized on disposal. Moreover, any losses incurred by the subsidiary will be allocated between the controlling and non-controlling (previously referred to as "minority") interests, even if the losses exceed the non-controlling equity investment in the subsidiary. The entity will no longer show the excess losses as part of its own equity. Revised PAS 27 must be applied retrospectively subject to certain exceptions.

- Amendment to PAS 39, "Financial Instruments: Recognition and Measurement - Eligible Hedged Items" (effective for annual periods beginning on or after July 1, 2009) — This amendment addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. The amendment also clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as hedged item.

- PFRS 3, "Business Combinations (Revised)" (effective for annual periods beginning on or after July 1, 2009) — The revision introduces a number of changes in the accounting for business combinations occurring after effectivity date that will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs, and future reported results. The changes introduced by PFRS 3 must be applied prospectively and will affect future acquisitions and transactions with non-controlling interests.

- PFRS 5, "Noncurrent Assets Held for Sale and Discontinued Operations" — clarifies that the disclosures required in respect of noncurrent assets and disposal groups classified as held for sale or discontinued operations are only those set out in PFRS 5. The disclosure requirements of other PFRSs only apply if specifically required for such non-current assets or discontinued operations.

- Philippine Interpretation IFRIC 15, "Agreement for the Construction of Real Estate" (effective for annual periods beginning on or after January 1, 2012) — This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. This interpretation also requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11, "Construction Contracts," or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis, will also be accounted for based on stage of completion.

- Philippine Interpretation IFRIC 17, "Distributions of Non-Cash Assets to Owners" (effective for annual periods beginning on or after July 1, 2009) — This interpretation provides guidance on the following types of non-reciprocal distributions of assets by an entity to its owners acting in their capacity as owners: (a) distributions of non-cash assets (e.g. items of property, plant and equipment, businesses as defined in PFRS 3, ownership interests in another entity or disposal groups as defined in PFRS 5, "Noncurrent Assets Held for Sale and Discontinued Operations"); and (b) distributions that give owners a choice of receiving either non-cash assets or a cash alternative.

<u>Improvements to PFRS</u>
The omnibus amendments to PFRSs issued in 2009 were issued primarily with a view to removing inconsistencies and clarifying wording. The amendments are effective for annual periods beginning January 1, 2010 except for the amendment to PFRS 2, which will be effective for financial years on or after July 1, 2009. The Company has not yet adopted the following amendments and anticipates that these changes will have no material effect on the financial statements upon adoption.

- PFRS 2, "Share-based Payment" — clarifies that the contribution of a business on formation of a joint venture and combinations under common control are not within the scope of PFRS 2 even though they are out of scope of PFRS 3 (Revised).

- PFRS 8, "Operating Segments" — clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker.

- PAS 1, "Presentation of Financial Statements" — clarifies that the terms of a liability that could result, at anytime, in its settlement by the issuance of equity instruments at the option of the counterparty do not affect its classification.

- PAS 7, "Statement of Cash Flows" — explicitly states that only expenditure that results in a recognized asset can be classified as a cash flow from investing activities.

- PAS 17, "Leases" — removes the specific guidance on classifying land as a lease. Prior to the amendment, leases of land were classified as operating leases. The amendment now requires that leases of land are classified as either "finance" or "operating" in accordance with the general principles of PAS 17. The amendments will be applied retrospectively.

- PAS 36, "Impairment of Assets" — clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in PFRS 8 before aggregation for reporting purposes.

- PAS 38, "Intangible Assets" — clarifies that if an intangible asset acquired in a business combination is identifiable only with another intangible asset, the acquirer may recognize the group of intangible assets as a single asset provided the individual assets have similar useful lives. Also clarifies that the valuation techniques presented for determining the fair value of intangible assets acquired in a business combination that are not traded in active markets are only examples and are not restrictive on the methods that can be used.

- PAS 39, "Financial Instruments: Recognition and Measurement" — clarifies the following:

    a. that a prepayment option is considered closely related to the host contract when the exercise price of a prepayment option reimburses the lender up to the approximate present value of lost interest for the remaining term of the host contract.

b. that the scope exemption for contracts between an acquirer and a vendor in a business combination to buy or sell an acquiree at a future date applies only to binding forward contracts, and not derivative contracts where further actions by either party are still to be taken.

c. that gains or losses on cash flow hedges of a forecast transaction that subsequently results in the recognition of a financial instrument or on cash flow hedges of recognized financial instruments should be reclassified in the period that the hedged forecast cash flows affect profit or loss.

- Philippine Interpretation IFRIC 9, "Reassessment of Embedded Derivatives" — clarifies that it does not apply to possible reassessment at the date of acquisition, to embedded derivatives in contracts acquired in a business combination between entities or businesses under common control or the formation of joint venture.

- Philippine Interpretation IFRIC 16, "Hedges of a Net Investment in a Foreign Operation" — states that, in a hedge of a net investment in a foreign operation, qualifying hedging instruments may be held by any entity or entities within the group, including the foreign operation itself, as long as the designation, documentation and effectiveness requirements of PAS 39 that relate to a net investment hedge are satisfied.

Basis of Consolidation
The consolidated financial statements of the Company include the accounts of the Parent Company and its subsidiaries as of December 31, 2009 and 2008 as listed below.

Subsidiaries are entities over which the Company has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity.

Subsidiaries are fully consolidated from the date the Company obtains control and continue to be consolidated until the date that such control ceases or transferred out of the Company.

When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative translation differences and goodwill, if any, is recognized in the consolidated statement of income.

The financial statements of the subsidiaries are prepared for the same reporting period as the Parent Company using consistent accounting policies for like transactions and other events in similar circumstances. All intra-company balances and transactions, including income, expenses, dividends and unrealized gains and losses arising from intra-company transactions are eliminated in full.

The subsidiaries of MPIC are as follow:

Name of Subsidiary	Place of Incorporation	Principal Activity	MPIC Ownership Interest	
			2009	2008
Metro Pacific Tollways Corporation (MPTC; formerly known as First Philippine Infrastructure, Inc.) and Subsidiaries[(a)]	Philippines	Investment holding	**99.85**	99.85
Metro Pacific Corporation (MPC) and Subsidiaries	Philippines	Investment holding and Real estate	**96.60**	96.60
DMCI-MPIC Water Company, Inc. (DMWC) and Subsidiary[(b)]	Philippines	Investment holding	**58.03**	58.03
Landco Pacific Corporation (Landco) and Subsidiaries[(c)]	Philippines	Investment holding and Real estate	**–**	51.00

MPTC and Subsidiaries

Name of Subsidiary	Place of Incorporation	Principal Activity	MPTC Ownership Interest	
			2009	2008
Operating Subsidiaries				
Metro Pacific Tollways Development Corporation (MPTDC; formerly known as First Philippine Infrastructure Development Corporation)	Philippines	Investment holding	**100.00**	100.00
Manila North Tollways Corporation (MNTC)	Philippines	Tollway operations	**67.10**	67.10
Dormant Subsidiary				
Luzon Tollways Corporation (LTC)	Philippines	Tollway operations	**100.00**	100.00

MPC and Subsidiaries

Name of Subsidiary	Place of Incorporation	Principal Activity	MPC Ownership Interest	
			2009	2008
Operating Subsidiaries				
First Pacific Bancshares Philippines, Inc.	Philippines	Investment holding	**100.00**	100.00
Metro Pacific Management Services, Inc.	Philippines	Management services	**100.00**	100.00
First Pacific Realty Partners Corporation (FPRPC)	Philippines	Investment holding	**50.67**	50.67

(Forward)

Name of Subsidiary	Place of Incorporation	Principal Activity	MPIC Ownership Interest	
			2009	2008
Dormant Subsidiaries				
Metro Capital Corporation	Cayman Islands	Investment holding	**100.00**	100.00
Metro Pacific Capital Ltd.	Cayman Islands	Investment holding	**100.00**	100.00
Pacific Plaza Towers Management Services, Inc.	Philippines	Management services	**100.00**	100.00
Philippine International Paper Corporation	Philippines	Investment holding	**100.00**	100.00
Pollux Realty Development Corporation	Philippines	Investment holding	**100.00**	100.00
Uptime Limited	Cayman Islands	Investment holding	**100.00**	100.00
Metro Asia Link Holdings, Inc. (MALHI)	Philippines	Investment holding	**60.59**	60.59

DMWC and Subsidiary

Name of Subsidiary	Place of Incorporation	Principal Activity	DMWC Ownership Interest	
			2009	2008
Maynilad Water Services, Inc. (Maynilad)	Philippines	Water and sewerage services	**94.11**	94.11

[a] *Acquired on November 13, 2008 (see Note 4).*

[b] *Obtained control and became a subsidiary on July 17, 2008. Previously accounted for as investment in joint venture with a 50% holding interest (see Note 4). Includes 5.88% direct ownership in Maynilad*

[c] *Classified as disposal group held for sale and discontinued operations in 2008 and was sold on June 18, 2009 with 34% retained ownership interest (see Note 6).*

MPTC and Subsidiaries

MPTC's main activity is the holding of shares of MPTDC whose main activity likewise is the holding of shares in MNTC, LTC and Tollways Management Corporation (TMC), an associate (see Note 12).

MPTDC established MNTC jointly with Philippine National Construction Corporation (PNCC) for the sole purpose of implementing the rehabilitation of the North Luzon Expressway (NLE) and the installation of appropriate collection system therein referred to as the "North Luzon Tollway Project" or the "Project" (see also Note 13).

The Project consists of three phases as follows:

Phase I	Rehabilitation and expansion of approximately 84 kilometers (km) of the existing NLE and an 8.8-km stretch of a Greenfield expressway
Phase II	Construction of the northern parts of the 17-km circumferential road C-5 which connects the current C-5 expressway to the NLE and the 5.85-km road from McArthur to Letre
Phase III	Construction of the 57-km Subic arm of the NLE to SBMA

The construction of Phase I was substantially completed in January 2005 and tollway operations commenced on February 10, 2005 following the issuance by the Toll Regulatory Board (TRB) of the Toll Operation Permit on January 27, 2005.

In April 2009, Segment 8.1, a portion of Phase II, which is a 2.7 km-road designed to link Mindanao Avenue to the NLE, had officially commenced construction which is expected to be completed by June 2010. The estimated cost of construction of Segment 8.1 is ₱2.1 billion. The remaining portion of Phase II and Phase III of the Project have not yet been started.

In addition, MNTC is also the assignee of all the rights, interests and privileges over Segment 7, known as the Tipo Road which connects Tipo in Hermosa, Bataan to Subic.

TMC, pursuant to the Operation and Maintenance Agreement (O&M) between MNTC and TMC, is tasked for the operation and maintenance of both the Project and Segment 7.

MPC and Subsidiaries

MPC and its subsidiaries are engaged in the business of real estate investments and property development, investment holding and management services. MPC also once engaged in the shipping business through Negros Navigation Co., Inc. (Nenaco) of which interest in such Company was entirely disposed in 2008 (see Note 6).

DMWC and Subsidiary

DMWC's main activity is the holding of shares of Maynilad. Maynilad holds the exclusive concession granted by the Metropolitan Waterworks and Sewerage System (MWSS), on behalf of the Philippine Government, to provide water and sewerage services in the area of West Metro Manila (see Note 13).

Landco and Subsidiaries

Landco and its subsidiaries are primarily engaged in all aspects of real estate business and projects involving commercial, residential, leisure as well as real estate consultancy encompassing project management and business planning services. It is also engaged to leasing tenements. Landco was classified disposal group as held for sale in 2008 but continued to be consolidated until it was sold on June 18, 2009 (see Note 6).

Acquisition of Minority Interests in a Subsidiary

Acquisition of minority interests is accounted for using the parent entity extension method, whereby the difference between the fair value of consideration given and the net book value of the share in the net assets acquired is recognized as goodwill. When the consideration is less than the net assets acquired, the difference is recognized as a gain in the consolidated statement of income. In an acquisition without consideration involved, the difference between the share of the minority interests in the net assets at book value before and after the acquisition is recognized either as goodwill or a gain from acquisition of minority interests.

Minority Interests
Minority interests represent the portion of profit or loss and the net assets not held by the Parent Company and are presented separately in the consolidated statement of income and within equity in the consolidated balance sheet, separately from total equity attributable to owners of the Parent Company. Any losses applicable to a minority shareholder of a consolidated subsidiary in excess of the minority shareholder's equity in the subsidiary are charged against the minority interests to the extent that the minority shareholder has binding obligation to, and is able to, make good of the losses.

Business Combination
Business combinations are accounted for using the purchase method of accounting except for involving entities under common control transactions for which pooling of interests method is used. Under purchase method of accounting, the cost of acquisition is the aggregate of the fair values of assets given, liabilities incurred or assumed at the date of exchange, and equity instruments issued by the acquirer, in exchange for control over the net assets of the acquired company, plus any directly attributable costs. The identifiable assets (including previously unrecognized intangible assets), liabilities and contingent liabilities (excluding future restructuring) that satisfy certain recognition criteria have to be measured initially at their fair values at acquisition date.

Goodwill
Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of business combination over the interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. If the cost of acquisition is less than the fair value of the net assets of the acquiree, the difference is recognized directly in the consolidated statement of income.

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

Where a business combination agreement provides for an adjustment to the consideration of the combination contingent on future events or achieving specified earnings level in future periods, we recognize the estimated amount of that adjustment as part of cost of the combination and a liability at the acquisition date if the adjustment is probable and can be measured reliably (within 12 months from the date of acquisition). Otherwise, such adjustment is not recognized until it becomes probable and can be measured reliably in the subsequent period. Where future events do not occur or the estimate needs to be revised, the cost of the business combination initially recognized shall be adjusted accordingly. Future changes in estimates are treated as an adjustment to the cost of the combination with an adjustment to the recorded liability and goodwill.

Following initial recognition, goodwill is measured at cost less any accumulated impairment loss. Goodwill is reviewed for impairment annually or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether our other assets or liabilities are assigned to those units or groups of units. Each unit or group of units to which the goodwill is allocated: (1) represents our lowest level at which the goodwill is monitored for internal management purposes; and (2) is not larger than a segment as determined in accordance with PFRS 8.

Where goodwill forms part of a cash-generating unit, or group of cash-generating units, and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Noncurrent Assets Held for Sale and Discontinued Operations
Non-current assets and disposal groups classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

A discontinued operation is a component of the Company's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative statement of income and statement of comprehensive income are re-presented as if the operation had been discontinued from the start of the comparative period. In the consolidated statement of income of the reporting period, and of the comparable period of the previous year, income and expenses from discontinued operations are reported separately from normal income and expenses down to the level of profit after taxes, even when the Company retains a non-controlling interest in the subsidiary after the sale. The resulting profit or loss (after taxes) is reported separately in the consolidated statement of income.

Investments in Associates
Investments in associates, where the Company has the ability to exercise significant influence since date of acquisition even though the Company holds less than 20% interest, are accounted for using the equity method. The existence and effect of potential voting rights that are currently exercisable or convertible, including potential voting rights held by other companies, are considered when assessing whether a company has significant influence. If the conversion or the potential voting rights results to significant influence, equity accounting is applied from the date on which the investee becomes an associate.

Under the equity method, investments are carried in the consolidated balance sheet at cost plus post-acquisition changes in the Company's share in net assets of investees, less any dividends declared and impairment loss. The consolidated statement of income reflects the Company's share in the financial performance of the associates. Where there has been a change recognized directly in equity of the associate, the Company recognizes its share of any changes and discloses this in the consolidated statements of comprehensive income and changes in equity. Unrealized gains arising from transactions with associates are eliminated to the extent of the Company's interests in the associates, against the respective investment account. When potential voting rights exist, the investor's share of profit or loss of the investee and of changes in the investee's equity is determined on the basis of present ownership interests and does not reflect the possible exercise or conversion of potential voting rights.

When the Company's share in the losses of associates equals or exceeds the carrying amount of an investment, the Company provides for additional losses to the extent that the Company was incurred obligations or made payments on behalf of the associate to satisfy the obligations of the associate that the Company has guaranteed or otherwise committed.

After the application of the equity method, the Company determines whether it is necessary to recognize an additional impairment loss on the Company's investments in associates. The Company determines at each end of reporting period whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Company calculates the amount of impairment as the difference between the recoverable amount of the investment in associate and its carrying value and recognizes the same in the consolidated statement of income.

The financial statements of all associates are prepared for in the same reporting period as the financial statements of the Parent Company. In 2008, the end of reporting periods of the Parent Company and DDH are different, therefore, for purposes of applying the equity method, DDH prepared consolidated financial statements as of September 30, 2008. As allowed by PAS 28, the end of reporting periods of the Company and that of the associate shall be no more than three (3) months. Where necessary, adjustments are made to bring the accounting policies in line with those of the Company. In 2009, DDH has changed its end of reporting period to December 31, 2009 to align to that of the Parent Company.

Interests in Joint Ventures
The Company recognizes its interest in a joint venture using the equity method. Under the equity method, such interest is stated at cost plus post-acquisition changes in the Company's proportionate share in the net assets of the joint venture, less any impairment in value. The consolidated statement of income reflects the Company's proportionate share of the results of operation of the joint venture from the date of incorporation of the joint venture to end of reporting period.

The financial statements of the joint venture are prepared for the same reporting period as the consolidated financial statements. Adjustments, if necessary, are made to bring the accounting policies in line with those of the Company and to eliminate share of unrealized gains and losses, if any, arising from intra-company transactions. The joint venture is carried at equity method until the date on which the Company cease to have joint control over the joint venture.

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

Short-term Deposits
Short-term investments are highly liquid money market placements with maturities of more than three months but less than one year from dates of acquisition.

Financial Instruments
The Company recognizes a financial asset or a financial liability in the consolidated balance sheet when it becomes a party to the contractual provisions of the instrument. All regular way purchases and sales of financial assets are recognized on the settlement date. Regular way purchases and sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace. Derivatives are also recognized on a trade date basis.

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

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

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

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

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

If the Company does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.

Determination of Fair Value
The fair value of financial instruments traded in active markets at the end of reporting period is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. When current bid and asking prices are not available, the price of the most recent transaction is used since it provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction. For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, options pricing models, and other relevant valuation models.

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

"Day 1" Profit or Loss
Where the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Company recognizes the difference between the transaction price and fair value (a "Day 1" profit or loss) in the consolidated statement of income unless it qualifies for recognition as some other type of asset. In cases where the data is not observable, the difference between the transaction price and model value is only recognized in the consolidated statement of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Company determines the appropriate method of recognizing the "Day 1" profit or loss amount.

Financial Assets

Financial Assets at FVPL. Financial assets at FVPL include financial assets held for trading and financial assets designated upon initial recognition at FVPL. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments or a financial guarantee contract. Gains or losses on investments held for trading are recognized in the consolidated statement of income. Interests earned on holding financial assets at FVPL are reported as interest income using the effective interest rate. Dividends earned on holding financial assets at FVPL are recognized in the consolidated statement of income when the right of payment has been established.

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

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the financial assets or recognizing gains or losses on them on a different basis; or
- the assets are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Assets and liabilities classified under this category are carried at fair value in the consolidated balance sheet, with any gains or losses being recognized in the consolidated statement of income.

The Company accounts for its derivative transactions (including embedded derivatives) under this category with fair value changes being reported directly in the consolidated statement of income, except when the derivative is treated as an effective accounting hedge, in which case the fair value change is either reported in the consolidated statement of income with the corresponding adjustment from the hedged transaction (fair value hedge) or deferred in equity (cash flow hedge) presented as "Fair value changes on cash flow hedges" under "Other comprehensive income reserve" account.

As of December 31, 2009 and 2008, the Company has outstanding cross currency swaps and interest rate swaps classified as financial assets at FVPL (see Note 38).

Loans and Receivables. Loans and receivables are nonderivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as financial assets at FVPL, HTM investments or AFS financial assets. After initial measurement, loans and receivables are subsequently measured at amortized cost using the effective interest method, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate. The amortization is included as part of interest income in the consolidated statement of income. Losses arising from impairment are recognized in the consolidated statement of income. Loans and receivables are included in current assets if maturity is within 12 months after the end of reporting period, otherwise these are classified as noncurrent assets.

Loans and receivables include cash and cash equivalents, short-term deposits, receivables, sinking fund, miscellaneous deposists and due from related parties (see Notes 7, 8, 11, and 21).

HTM Investments. HTM investments are quoted nonderivative financial assets with fixed or determinable payments and fixed maturities for which the Company's management has the positive intention and ability to hold to maturity. When the Company sells other than an insignificant amount of HTM investments, the entire category would be tainted and reclassified as AFS financial assets. After initial measurement, these investments are subsequently measured at amortized cost using the effective interest method, less impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortization is included as part of interest income in the consolidated statement of income. Gains and losses are recognized in the consolidated statement of income when the HTM investments are derecognized and impaired, as well as through the amortization process. The losses arising from impairment of such investments and the effects of restatement on foreign currency-denominated HTM investments are also recognized in the consolidated statement of income.

HTM investments consist of investment in fixed rate retail treasury bonds of the Republic of the Philippines (ROP) and investment in treasury bills included in "Other current assets" in the consolidated balance sheet.

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

After initial measurement, AFS financial assets that are quoted are subsequently measured at fair value. The unrealized gains and losses arising from the change in fair value of AFS financial assets are recognized as "Other comprehensive income." AFS financial assets that are unquoted are carried at cost less any impairment in value.

When an AFS financial asset is disposed of, the cumulative gain or loss previously recognized in other comprehensive income reserve is recognized in the consolidated statement of income. When the Company holds more than one investment in the same security, these are deemed to be disposed of on a first-in, first-out basis. The losses arising from impairment of such financial assets are also recognized in the consolidated statement of income. Interest earned on holding AFS financial assets are reported as interest income using the effective interest rate. Dividends earned on holding AFS financial assets are recognized in the consolidated statement of income when the right of payment has been established.

This category includes investments in shares of NE Pacific Shopping Center Corporation (NEPSCC) and Bonifacio Land Corporation (BLC) (see Note 10).

Financial Liabilities

Financial Liabilities at FVPL. Financial liabilities are classified in this category if these result from trading activities or derivative transactions that are not accounted for as accounting hedges, or when the Company elects to designate a financial liability under this category.

As of December 31, 2009 and 2008, the Company has outstanding cross currency swaps classified as financial liabilities at FVPL or derivatives (see Note 38).

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

Issued financial instruments or their components, which are not classified as financial liabilities at FVPL are classified as other financial liabilities, where the substance of the contractual arrangement results in the Company having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue. After initial measurement, other financial liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the effective interest rate. Any effects of restatement of foreign currency-denominated liabilities are recognized in the consolidated statement of income.

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

All of the Company's financial liabilities are classified as other financial liabilities which includes the following, among others:

a. Loans and Borrowings

   All loans and borrowings are initially recognized at fair value of the consideration received less directly attributable transaction costs (referred to as "debt issue costs"). Debt issue costs are amortized over the life of the debt instrument using the effective interest method.

   After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method.

   Gains and losses are recognized in the consolidated statement of income when the liabilities are derecognized, as well as through the amortization process.

b. Financial Guarantee Contracts

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

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

Impairment of Financial Assets
The Company assesses at each end of reporting period whether a financial asset or group of financial assets is impaired. Objective evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

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

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

If, in a subsequent year, the amount of the impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the consolidated statement of income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

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

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

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

Derecognition of Financial Instruments

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

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

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

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

Derivatives and Hedge Accounting

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

For the purpose of hedge accounting, hedges are classified primarily either as: (a) a hedge of the fair value of an asset, liability or a firm commitment (fair value hedge); or (b) a hedge of the exposure to variability in cash flows attributable to an asset or liability or a forecasted transaction (cash flow hedge); or (c) hedge of a net investment in a foreign operation. The Company has designated certain derivatives as cash flow hedges.

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

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

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

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

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

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

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

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

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

- Where the Company will hold a derivative as an economic hedge (and does not apply hedge accounting), for period beyond 12 months after the end of reporting period, the derivative is classified as non-current (or separated into current and non-current portions) consistent with the classification of the underlying item.
- Embedded derivatives that are not closely related to the host contract are classified consistent with the cash flows of the host contract.

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

Inventories
Inventories, which consist of transponders, magnetic cards, materials and supplies and spare parts are valued at the lower of cost and net realizable value (NRV). Cost includes purchase price and import duties, and is determined using a first-in, first-out method. For transponders and magnetic cards, NRV is the estimated selling price in the ordinary course of business less estimated costs necessary to make the sale. Net realizable value for materials and supplies and spare parts is the current replacement cost.

Real Estate for Sale
Real estate for sale is carried at the lower of cost and NRV. Cost includes the acquisition cost of the land plus all costs directly attributable to the acquisition for projects where the Company is the landowner, and includes actual development costs incurred up to end of reporting period for projects where the Company is both the landowner and developer. Where the Company is only a developer, the cost of real estate for sale pertains only to the actual development costs. NRV is the selling price in the ordinary course of business less estimated costs to complete and make the sale.

Condominium units (included under "Asset of disposal group held for sale") for sale represent the cost of condominium units not yet sold or leased. Cost includes the cost of land plus actual development costs incurred up to the end of reporting period.

Service Concession Arrangements
The Company accounts for its service concession arrangements under the intangible asset model as it receives the right (license) to charge users of public service.

In addition, the Company recognizes and measures revenue in accordance with PAS 11 and PAS 18 for the services it performs. When the Company provides construction or upgrade services, the consideration received or receivable by the Company is recognized at its fair value.

The Company recognizes any contractual obligations in relation to the concession agreements in accordance with PAS 37, "Provisions, Contingent Liabilities and Contingent Assets."

The Company recognizes its contractual obligations to restore the toll roads to a specified level of serviceability in accordance with PAS 37 as the obligations arises which is as a consequence of the use of the toll roads and therefore it is proportional to the number of vehicles using the toll roads and increasing in measurable annual increments.

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

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

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

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

Depreciation is computed on a straight line basis over the estimated useful lives of the assets (see Note 14).

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

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

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

Software Cost

Software cost (included as part of "Other noncurrent assets" account in the consolidated balance sheet) include the cost of software purchased from a third party, and other direct costs incurred in the software configuration and interface, coding and installation to hardware, including parallel processing, and data conversion. Software cost is amortized on a straight-line basis over the estimated useful life of five years. The carrying cost is reviewed for impairment on an annual basis, whether there is an indication that software cost maybe impaired.

Impairment of Nonfinancial Assets

Property and equipment, Service concession assets, Investments in associates and joint venture, and Software costs. The Company assesses at each end of reporting period whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses are recognized in the consolidated statement of income.

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

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

Non-current assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. Immediately before classification as held for sale, the assets, or components of a disposal group, are remeasured in accordance with the Company's accounting policies. Thereafter generally the assets, or disposal group, are measured at the lower of their carrying amount and fair value less cost to sell. Any impairment loss on a disposal group first is allocated to goodwill, and then to remaining assets and liabilities on pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets and investment property, which continue to be measured in accordance with the Company's accounting policies. Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

Customers' Guaranty Deposits

Customers' guaranty deposits (included as part of "Deferred credits and other noncurrent liabilities" in the consolidated balance sheet) are initially measured at fair value. After initial recognition, these deposits are subsequently measured at amortized cost using the effective interest rate method. The discount is amortized over the remaining concession period using the effective interest rate method.

Assets Held in Trust

Assets which are owned by MWSS but are used in the operations of Maynilad under the Concession Agreement are not reflected in the consolidated balance sheet but carried as Assets Held in Trust, except for certain assets transferred to Maynilad as mentioned in Note 36.

Equity

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

Preference share capital (preferred share) is classified as equity if it is non-redeemable, or redeemable only at the Company's option, and any dividends are discretionary. Dividends thereon are recognised as distributions within equity upon approval by the Company's shareholders. Preference share capital is classified as a liability if it is redeemable on a specific date or at the option of the shareholders, or if dividend payments are not discretionary. Dividends thereon are recognised as interest expense in the consolidated statement of income as accrued.

Retained earnings (deficit) represent accumulated earnings (losses) net of dividends.

Other comprehensive income reserve comprise items of income and expense, including reclassification adjustments, that are not recognized in profit or loss as required or permitted by other PFRS.

Minority interests represent the equity interest in DMWC, Maynilad, MPTC, MPTDC, MNTC, Landco, FPRPC and MALHI not held by the Parent Company.

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

All other borrowing costs are expensed as incurred.

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

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

Operating Segments
An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components. An operating segment's operating results are reviewed regularly by the chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the chief operating decision maker include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets (primarily the Company's main office), main office expenses, and income tax assets and liabilities.

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

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

Water and sewerage services revenue. Revenues from water and sewerage services are recognized upon supply of water to the customers. Billings to customers consist of water charges, environmental and sewerage charges.

Toll fees. Revenue from toll fees is recognized upon sale of toll tickets. Toll fees received in advance, through transponders or magnetic cards, is recognized as income upon the holders' availment of the toll road services, net of sales discounts. The unused portion of toll fees received in advance is reflected as "Unearned toll revenues" account in the consolidated balance sheet.

Sale of transponders and magnetic cards. Revenue is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, which is normally upon delivery.

Construction revenue. Revenue is recognized by reference to the stage of completion of the contract activity at the end of reporting period. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately.

Revenue from sale of real estate. Real estate revenue and cost from the sale of completed projects are accounted for using the full accrual method. On the other hand, the percentage of completion method is used to recognize income from sales of projects where the Company has material obligations under the sales contract to complete the project after the property is sold. Under this method, revenue and cost is recognized as the related obligations are fulfilled, measured principally on the basis of the ratio of the actual costs incurred to date over the estimated total costs of the project.

If none of the revenue recognition criteria is met, deposit method is applied until all the conditions for recognizing a sale are met. Pending recognition of sale, cash received from buyers is presented as "Customers' deposits" included in "Accounts payable and other current liabilities" account in the consolidated balance sheet.

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

The following revenue streams were included under "Other income" account in the consolidated statement of income:

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

Sale of AFS financial assets. Gain or loss is recognized when risk and rewards of ownership has been transferred to the buyer.

Rental income. Revenue from rent is recognized on a straight-line basis over the terms of the lease.

The following revenue streams relate to the revenues from Landco, which in 2008 and 2007 were presented under "Income (loss) from discontinued operations, net of tax." In 2009, rental income were continued to be presented under this account before the investment in Landco was reclassified under "Noncurrent asset held for sale."

Commission income. Revenue is recognized upon receipt of full downpayment from real estate buyers and upon execution of the contract to sell or the deed of absolute sale. Commission is computed as a certain percentage of the net contract price of the real estate project sold.

Consultancy fees. Revenue derived from property and project management and business planning services offered by the Company to real estate developers are recognized at the time the services are rendered.

Nomination fee. Revenue is recognized, net of related direct costs such as assignment and marketing fees, upon approval by the BOD of the lot buyers' membership.

Cost and Expenses Recognition
Cost and expenses other than the items mentioned below are recognized in the consolidated statement of income as incurred.

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

a. there is a change in contractual terms, other than a renewal or extension of the agreement;

b. a renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;

c. there is a change in the determination of whether the fulfillment is dependent on a specified asset; or

d. there is a substantial change to the asset.

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

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

Operating lease payments are recognized as income in the consolidated statement of income on a straight-line basis over the lease term.

Retirement Costs
The Company has a funded, noncontributory retirement benefit plan covering all its eligible regular employees. The cost of providing benefits under the defined benefit plan is determined using the projected unit credit actuarial valuation method. Actuarial gains and losses are recognized as income or expense immediately in the year when it is incurred.

The past service cost is recognized as an expense on a straight-line basis over the average period until the benefits become vested. If the benefits are already vested immediately following the introduction of, or changes to, a retirement plan, past service cost is recognized immediately.

The defined benefit asset or liability is the aggregate of the present value of the defined benefit obligation (using a discount rate of government bonds) reduced by past service cost not yet recognized and the fair value of plan assets out of which the obligations are to be settled directly. If such aggregate is negative, the asset is measured at the lower of such aggregate or the aggregate of cumulative unrecognized net actuarial losses and past service cost and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

Share-based Payment
The Company has an Executive Stock Option Plan (ESOP) for eligible executives to receive remuneration in the form of share-based payment transactions, whereby executives render services in exchange for the share option.

The cost of equity-settled transactions with employees is measured by reference to the fair value of the stock options at the date at which they are granted. Fair value is determined using an option-pricing model, further details of which are set forth in Note 33. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the share price of the Parent Company ("market conditions").

The cost of equity-settled transactions is recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ("vesting date"). The cumulative expense recognized for equity-settled transactions at each end of reporting period until the vesting date reflects the extent to which the vesting period has expired and the number of awards that will ultimately vest, in our opinion, at that date, based on the best available estimate. The consolidated statement of income credit or expense for a period represents the movement in cumulative expense recognized as at the beginning and end of that period.

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

Where the terms of an equity-settled award are modified and the modification increases the fair value of the equity instruments granted, as measured immediately before and after the modification, the entity shall include the incremental fair value granted in the measurement of the amount recognized for services received as consideration for the equity instruments granted. The incremental fair value granted is the difference between the fair value of the modified equity instrument and that of the original equity instrument, both estimated as at the date of the modification. If the modification occurs during the vesting period, the incremental fair value granted is included in the measurement of the amount recognized for services received over the period from the modification date until the date when the modified equity instruments vest, in addition to the amount based on the grant date fair value of the original equity instruments, which is recognized over the remainder of the original vesting period. If the modification occurs after vesting date, the incremental fair value granted is recognized immediately, or over the vesting period if the employee is required to complete an additional period of service before becoming unconditionally entitled to those modified equity instruments.

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

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

Foreign Currency Denominated Transactions and Translations
The consolidated financial statements are presented in Philippine peso, which is the Parent Company functional and presentation currency. All subsidiaries and associates evaluate their primary economic and operating environment and determine their functional currency. Items included in the financial statements of each entity are initially measured using that functional currency. Transactions in foreign currencies are initially recorded in the functional currency rate of exchange ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the end of reporting period. All differences are taken to the consolidated statement of income except when qualified as adjustment to borrowing costs.

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

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

Income Taxes

Current Tax. Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the tax authority. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the end of reporting period.

Deferred Tax. Deferred tax is provided, using the balance sheet liability method, on all temporary differences at the end of reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

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

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

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

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

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

Diluted earnings (loss) per share is computed by dividing the net income (loss) for the year attributable to the owners of the Parent Company by the weighted average number of common shares outstanding during the period, adjusted for any subsequent stock dividends declared and potential common shares resulting from the assumed exercise of outstanding stock options. Outstanding stock options will have dilutive effect under the treasury stock method only when the average market price of the underlying common share during the period exceeds the exercise price of the option.

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

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

3. Management's Use of Judgments, Estimates and Assumptions

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

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

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

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

Service Concession Arrangements. In applying Philippine Interpretation IFRIC 12, the Company has made a judgment that the service concession arrangements related to the Company's water and tollway businesses qualify under the intangible asset model as it receives the right to charge users of public service.

The carrying value of service concession assets amounted to ₱62,185.4 million and ₱56,664.1 million as of December 31, 2009 and 2008, respectively (see Note 13).

Classification as Investment in an Associate. As provided in PAS 28, significant influence must be present and currently exercisable over an investee to account any interest in that investee as investment in an associate and under the equity accounting. Notwithstanding a less than 20% interest in the investee company, if significant influence can be clearly demonstrated, the investor cannot be precluded from accounting an interest in the investee company as investment in an associate, thus equity account such investment.

The Company classifies and accounts for its 14.67% interest owned in Manila Electric Company (Meralco) as an investment in an associate by virtue of a Shareholders' Agreement entered into with Pilipino Telephone Corporation (Piltel), an associate of FPC, which defines the basic principles governing their conduct as common shareholders of Meralco and the exercise of their respective voting rights therein. The carrying value of investment in Meralco amounted to ₱24,367.0 million as of December 31, 2009 (see Note 12).

Discontinued Operations. In 2008, Landco was classified as a disposal group held for sale after management has assessed that it met the criteria of an asset held for sale following the provisions of PFRS 5 which include, among others:

- Landco is available for immediate sale and can be sold to a potential buyer in its current condition.
- The BOD is committed to sell Landco and had entered into preliminary negotiation with a potential buyer as of December 31, 2008. Should negotiations with the party not lead to a sale, a number of potential buyers have been then identified.
- The BOD expects negotiations to be finalized and the sale to be completed in 2009.

On February 20, 2009, the Company's BOD approved the sale of 21% ownership interest in Landco to AB Holdings, Inc., a minority shareholder of Landco. On June 18, 2009, the Company finally sold its 17% interest in Landco and consequently conceded control over Landco (see Note 6).

Classification as Noncurrent Asset Held for Sale. The remaining 34% investment in Landco is classified as noncurrent asset held for sale after management has assessed that it met the criteria of a noncurrent asset held for sale following the provisions of PFRS 5 which include, among others:

- The retained 34% investment in Landco is available for immediate sale and can be sold to a potential buyer in its current condition.
- The Company is committed to sell its investment in Landco in its entirety. The Company initially entered into a sale of a fraction or 17% interest in Landco on June 18, 2009, reduced its offer price for the 34% retained interest and has already identified potential buyers. The Company expects to complete the sale of its remaining interest in Landco by 2010 (see Note 6).

Transitional and Clarificatory Agreement (TCA). On August 9, 2007, Maynilad entered into a TCA with MWSS to prescribe the procedures for the resolution of their dispute (see Note 18). Pending resolution of the dispute, the disputed amounts of ₱3.8 billion and ₱3.5 billion as of December 31, 2009 and 2008, respectively are considered as contingent liabilities. In addition, Maynilad did not recognize the reversal of accrued interest payable to MWSS, which resulted from the Receiver's recommendation, pending final resolution of MWSS' disputed claims pursuant to the procedures prescribed under the TCA (see Note 34).

Classifying HTM Investments. The classification to HTM investments requires significant judgment. In making this judgment, the Company evaluates its intention and ability to hold such investments to maturity. If the Company fails to keep these investments to maturity, it will be required to reclassify the entire portfolio as part of AFS financial assets. The investments would therefore be measured at fair value and not at amortized cost.

The Company classified its investments in fixed rate retail treasury bonds and treasury bills as HTM investments and these have a total carrying value of ₱404.6 million and ₱100.6 million as of December 31, 2009 and 2008, respectively (see Note 38).

Financial Assets not Quoted in an Active Market. The Company classifies financial assets by evaluating, among others, whether the asset is quoted or not in an active market. Included in the evaluation on whether a financial asset is quoted in an active market is the determination on whether quoted prices are readily and regularly available, and whether those prices represent actual and regularly occurring market transactions on an arm's length basis.

Leases. The Company has entered into various lease agreements as a lessor of condominium units and as a lessee for the use of office space. The Company has determined that the significant risks and rewards are retained by the lessor and accounts for these leases as operating lease.

Rental income, included under the "Other income" account in the consolidated statements of income, amounted to ₱2.9 million, ₱3.3 million and ₱3.6 million for the years ended December 31, 2009, 2008 and 2007, respectively (see Note 29).

Rental expense, included under the "General and administrative expenses" account in the consolidated statements of income, amounted to ₱61.6 million, ₱22.9 million and ₱21.9 million for the years ended December 31, 2009, 2008 and 2007, respectively (see Note 25).

Estimates and Assumptions

The key assumptions concerning future and other key sources of estimation at the end of reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

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

Fair values of financial assets and financial liabilities are presented in Note 38.

Purchase Price Allocation in Business Combinations and Goodwill. Purchase method requires extensive use of accounting estimates and judgments to allocate the purchase price to the fair market values of the acquiree's identifiable assets, liabilities and contingent liabilities at acquisition date. Any excess in the purchase price over the estimated fair market values of the net assets acquired is recorded as goodwill in the consolidated balance sheet. Thus, the numerous judgments made in estimating the fair market value to be assigned to the acquiree's assets and liabilities can materially affect the Company's financial performance.

The Company's acquisitions have resulted to recognition of goodwill. The carrying values of goodwill as of December 31, 2009 and 2008 amounted to ₱12,551.8 million (see Note 4).

Allowance for Impairment of Loans and Receivables. The Company estimates the allowance for doubtful accounts related to receivables based on two methods. The amounts calculated using each of these methods are combined to determine the total amount of reserve. First, the Company evaluates specific accounts that are considered individually significant for any objective evidence that certain customers are unable to meet their financial obligations. In these cases, the Company uses judgment, based on the best available facts and circumstances, including but not limited to, the length of its relationship with the customer and the customer's current credit status based on third party credit reports and known market factors. The reserve provided is based on the difference between the present value of the receivable that the Company expects to collect, discounted at the receivables' original effective interest rate and the carrying amount of the receivable. These specific reserves are re-evaluated and adjusted as additional information received affects the amounts estimated. Second, if it is determined that no objective evidence of impairment exists for an individually assessed receivable, the receivable is included in a group of receivables with similar credit risk characteristics and is collectively assessed for impairment. The provision under collective assessment is based on historical collection, write-off, experience and change in customer payment terms. Impairment assessment is performed on a continuous basis throughout the year.

The carrying value of receivables, net of allowance for doubtful accounts, amounted to ₱13,475.3 million and ₱4,619.4 million (of which ₱3,010.6 million are included under "Assets of disposal group classified as held for sale" account in the 2008 consolidated balance sheet) as of December 31, 2009 and 2008, respectively. Allowance for doubtful accounts amounted to ₱511.3 million and ₱353.0 million (of which ₱67.3 million are included under "Assets of disposal group classified as held for sale" account in the 2008 consolidated balance sheet) as of December 31, 2009 and 2008, respectively (see Notes 6 and 8).

Impairment of AFS Financial Assets. The Company treats an AFS financial asset as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires judgment. The Company treats "significant" generally as 20% or more and "prolonged" as greater than six (6) months for quoted equity securities. In addition, the Company evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities.

Impairment loss on AFS financial assets amounted to ₱55.8 million for the year ended December 31, 2008 (see Note 29). No impairment loss was recognized for the years ended December 31, 2009 and 2007.

The carrying value of AFS financial assets amounted to ₱282.8 million and ₱465.4 million (of which ₱62.4 million are included under "Assets of disposal group classified as held for sale" account in the 2008 consolidated balance sheet) as of December 31, 2009 and 2008, respectively (see Notes 6 and 10).

Impairment of Goodwill. Goodwill is subject to annual impairment test. This requires an estimation of the value in use of cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Company to make an estimate of the expected future cash flows from the cash-generating unit and to choose a suitable discount rate in order to calculate the present value of those cash flows.

No impairment of goodwill is recognized in 2009 and 2008. The carrying value of goodwill amounted to ₱12,551.8 million as of December 31, 2009 and 2008 (see Note 4).

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

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

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

	2009	2008
	(In Thousands)	
Service concession assets (see Note 13)	**₱62,185,407**	₱56,664,128
Investments in associates and joint venture (see Note 12)	**27,370,023**	2,378,273
Property and equipment (see Note 14)	**634,405**	642,597
Noncurrent asset held for sale (see Note 6)	**329,570**	–
Software costs (see Note 15)	**19,908**	16,320
Non-financial assets included under "Assets of disposal group classified as held for sale" (see Note 6)	**–**	348,809

As discussed in Note 13, the MWSS Regulatory Office (MWSS-RO or Regulatory Office) issued MWSS-RO resolution No. 209-069, where certain issues were resolved that had an impact on the new rate rebasing adjustment or "R." Management noted that said resolution may have an impact on the expected cash flows from Maynilad's operations. Consequently, management performed an impairment calculation of the Service Concession Assets of Maynilad as at December 31, 2009 using the new "R" under said resolution. Based on the impairment analysis, management believes that the carrying value of the Service Concession Assets would not exceed its recoverable amount.

There was no impairment loss on investment in associates and joint venture recognized in 2009. Impairment losses on investments in associates amounted to ₱188.1 million and ₱135.0 million for the years ended December 31, 2008 and 2007, respectively. Impairment losses on property and equipment and investment properties amounted to ₱120.2 million and ₱3.2 million, respectively, for the year ended December 31, 2008 (see Note 29).

Except for the impairment loss recognized in 2007, all other impairment losses are charged against those corresponding amounts presented under "Assets of disposal group classified as held for sale" for the year ended December 31, 2008.

Estimating NRV of Inventories and Real Estate for Sale. Inventories and real estate for sale are presented at the lower of cost or NRV. Estimates of NRV are based on the most reliable evidence available at the time the estimates are made of the amount the inventories and real estate for sale are expected to be realized. A review of the items of inventories and real estate for sale is performed at each end of reporting period to reflect the accurate valuation of inventories and real estate for sale in the consolidated financial statements.

The carrying value of inventories amounted to ₱96.0 million and ₱84.4 million as of December 31, 2009 and 2008, respectively. The carrying value of real estate for sale amounted to ₱187.0 million and ₱2,018.3 million (of which ₱1,890.9 million are included under "Asset of disposal group classified as held for sale" account in the 2008 consolidated balance sheet) as of December 31, 2009 and 2008, respectively (see Notes 6 and 9).

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

There was no change in the estimated useful lives of property and equipment and software costs in 2009, 2008 and 2007.

As discussed in Notes 2 and 4, MNTC is the concession holder of certain toll roads. In October 2008, TRB approved the extension of the service concession for Phase 1 and Segment 8.1 of the Project from the original term ending December 2030 to December 2037, subject to the following conditions: (a) the immediate submission of an updated implementation schedule, including preparatory activities and studies for Phase 2 and 3 of the Project; and (b) TRB to conduct an audit in the determination of applicable toll rates. The first condition is a basic component of any project development while the fulfillment of the second condition depends on the initiative of TRB given that the Company's books are always available for TRB's audit. On the basis of the foregoing, management believes that the conditions will be easily complied with at no additional cost, thus, as allowed under PAS 38, starting October 2008, the revised life was used by the Company for purposes of determining the amount of amortization.

In accordance with PAS 38, the useful life of the service concession agreement for the water business was revised, to include the renewal period approved by the MWSS. Though Maynilad's extension is still subject to a written consent from the Department of Finance (DoF) as of December 31, 2009, Maynilad revised the estimated useful life of the Intangible Asset effective September 10, 2009 (MWSS approval date) due to the following: (1) there is evidence, based on a precedent approval of the DoF, that the term of the Concession Agreement will be extended. Management believes that a similar approval will be granted to them by the DoF as the extension of both concessions is critical to the attainment of the objectives of the extension; and (2) the cost of renewal is not significant when compared with the future economic benefits expected to flow to Maynilad from the renewal of the Service Concession Agreement.

As a result of the extension of concession term of Maynilad by 15 years, the remaining useful life for purposes of amortizing the concession assets has been increased to 27 years and the amortization expense computation and schedule have been revised accordingly. The effect of these changes on amortization expense (excluding future additions), recognized in cost of services, in current and future periods is as follows:

	For the year-end December 31				
	2009	2010 to 2021	2022	2023 to 2036	2037
			(In Thousands)		
Net increase (decrease) in amortization expense	**(₱395,738)**	(₱1,582,951)	₱782,212	₱1,570,600	₱392,650

Amortization expense of service concession assets amounted to ₱3,105.4 million and ₱1,286.4 million in 2009 and 2008, respectively. Total amortization and depreciation expense for software cost and property and equipment amounted to ₱185.1 million, ₱30.3 million, and ₱4.9 million in 2009, 2008 and 2007, respectively. The carrying values of the Company's nonfinancial assets are as follows:

	2009	2008
	(In Thousands)	
Service concession assets (see Note 13)	**₱62,185,407**	₱56,664,128
Property and equipment (see Note 14)	**634,405**	642,597
Software costs (see Note 15)	**19,908**	16,320
Long-lived assets included under "Assets of disposal group classified as held for sale" (see Note 6)	**–**	138,182

Realizability of Creditable Withholding Taxes (CWTs). The carrying amount of CWTs is reviewed at each end of reporting period and reduced to the extent that it will not be realized as there will be no sufficient taxable profit that will be available to allow utilization of such CWTs.

The carrying amount of CWTs is reduced through the use of an allowance account. The allowance is established by charges to income in the form of provision for decline in value of the CWTs. The amount and timing of recorded expenses for any period would therefore differ based on the judgment or estimates made. An increase in provision for decline in value of CWTs would increase the Company's recorded expenses and decrease current assets.

The carrying value of CWTs, included under "Other current assets" account in the consolidated balance sheets, amounted to ₱380.2 million and ₱373.9 million, respectively, as of December 31, 2009 and 2008. Allowance for decline in value of CWTs amounted to ₱347.6 million as of December 31, 2009 and 2008 (see Note 11).

Input/Output Value Added Tax (VAT). As further discussed in Note 34, upon the effectivity of Republic Act No. 9337 (RA 9337), the Bureau of Internal Revenue (BIR) issued Revenue Memorandum Circular (RMC) No. 52-2005 on September 28, 2005, which, for the first time, expressly referred to toll road operations as being subject to VAT.

In its letter dated October 28, 2005, the TRB directed MNTC to defer the imposition of VAT on toll fees. Accordingly, MNTC has deferred, and continues to defer, the imposition of VAT from motorists.

On December 21, 2009, BIR issued RMC 72-2009 as a reiteration of RMC 52-2005 imposing VAT on tollway operators. However, on January 21, 2010, the Tollways Association of the Philippines (TAP) issued a letter to tollway operators referring to a letter issued by TRB to TAP dated December 29, 2009 reiterating TRB's previous instruction to all toll operators to defer the imposition of VAT on toll fees until further orders from their office. The TRB directive resulted from the Cabinet meeting held last December 29, 2009 at Baguio City where the deferment of the implementation of RMC 72-2009 was discussed.

Thus, MNTC has deferred, and continues to defer, the imposition of VAT from motorists. Accordingly, MPTC, with VAT being a passed-on tax, did not recognize any VAT liability.

In the meantime, MNTC, together with other toll road operators, is currently discussing the issue of VAT with the concerned government agencies. Notwithstanding the foregoing, management believes, in consultation with its legal counsel, that in any event, the Supplemental Toll Operation Agreement (STOA) amongst the Company, ROP, acting by and through the TRB, and PNCC, provides the Company with legal recourse in order to protect its lawful interests in case there is a change in existing laws which makes the performance by MNTC of its obligations materially more expensive.

In view of the RMC No. 72-2009 which reaffirmed that toll operators are subject to 12% VAT, the latest directive from TRB for the continued deferment of the imposition of VAT, the various claims against MNTC on VAT, and MNTC's filing of amnesty for VAT for the years 2005 and prior years, the Company deemed it prudent to provide allowance for possible losses on input VAT amounting to ₱308.8 million representing accumulated input VAT from January 1 to December 31, 2009.

Upon finalization of the initial recognition of the Company's acquisition of MPTC in November 2008 as further discussed in Note 4, the Company allocated a portion of the purchase price of MPTC to the fair value of contingent liability relating to output VAT as of acquisition date and on one hand, determined that no amount of purchase price will be allocated to the input VAT of MNTC at acquisition date (see Notes 4 and 34).

Recognition of Deferred Tax Assets. The carrying amount of deferred tax assets is reviewed at each end of reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized.

Maynilad and MNTC recognized deferred tax assets or deductible temporary differences expected to reverse after the income tax holiday period while deferred taxes on deductible temporary differences expected to reverse during the income tax holiday and to items where doubt exists as to the tax benefits they will bring in the future were not recognized. The Company's assessment on the recognition of deferred tax assets on deductible temporary differences is based on the expected future results of operations.

Recognized deferred tax assets amounted to ₱215.0 million and ₱892.9 million (of which ₱324.5 million are included under "Assets of disposal group classified as held for sale" account in the 2008 consolidated balance sheet) as of December 31, 2009 and 2008, respectively. Unrecognized deferred tax assets related to deductible temporary differences, unused NOLCO and MCIT amounted to ₱8,848.7 million and ₱8,633.4 million as of December 31, 2009 and 2008, respectively (see Note 31).

On December 16, 2009, the Board of Investments (BOI) released the Certificate of Registration of Maynilad certifying 6-year income tax holiday incentive. As a result, the Company derecognized deferred tax assets that will reverse during the new income tax holiday period amounting to ₱1.3 billion.

Deferred FCDA and Deferred Credits. Maynilad is entitled to recover (refund) foreign exchange losses (gains) arising from restatement and payments of concession fees payable. For the unrealized foreign exchange losses, Maynilad recognized deferred FCDA as an asset since this is a resource controlled by Maynilad as a result of past events and from which future economic benefits are expected to flow to the Maynilad. Unrealized foreign exchange gains, however, which will be refunded to the customers are presented as deferred credits. As a result of the second rate rebasing, deferred credits that will no longer be subject to the FCDA mechanism were derecognized and presented as "Other income from rate rebasing resolutions" under "Other income" account in the 2009 consolidated statement of income (see Notes 20 and 29).

Net deferred credits pertaining to these foreign exchange gains amounted to ₱769.3 million and ₱2,655.2 million as of December 31, 2009 and 2008, respectively (see Note 20).

Retirement Costs. The determination of the obligation and retirement benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 27 and include, among others, discount rate and rate of increase in compensation. Actual results that differ from the Company's assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods. While it is believed that the Company's assumptions are reasonable and appropriate, significant differences in actual experience or significant changes in assumptions may materially affect the Company's retirement obligations.

As of December 31, 2009, pension assets amounted to ₱18.1 million. Accrued retirement costs amounted to ₱253.7 million as December 31, 2008 (see Note 27).

Share-based Payments. The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payments requires determining the most appropriate valuation model for a grant of equity instruments, which is dependent on the terms and conditions of the grant. This also requires determining the most appropriate inputs to the valuation model including the expected life of the option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payments are disclosed in Note 33. The Company recognizes expenses based on the estimated number of grants that will ultimately vest and will require settlement. The Company's average turnover rate over the past few years is used to determine the attrition rate in computing the benefit expense and the estimated liability.

Equity based compensation expense recognized in 2009 amounted to ₱50.0 million (see Note 26).

Revenue and Cost Recognition. The Company's revenue recognition policies on sale of real estate require management to make use of estimates and assumptions that may affect the reported amounts of revenues and costs. The Company's revenue and cost are recognized as the related obligations are fulfilled, measured principally on the basis of the ratio of actual costs incurred to date over the estimated total costs of the project.

Revenue and cost recognized on sale of real estate in MPC amounted to ₱20.4 million and ₱19.4 million, respectively, in 2007. No sales of real estate for sale in MPC for 2009 and 2008.

Revenue and cost recognized on sale of real estate in Landco, presented under "Income (loss) from discontinued operations, net of tax" account in the consolidated statements of income, amounted to ₱436.2 million and ₱253.5 million, respectively, in 2009; ₱1,456.3 million and ₱964.1 million, respectively, in 2008; and ₱1,922.6 million and ₱993.0 million, respectively, in 2007 (see Note 6).

Estimated Development Costs. The accounting for real estate requires the use of estimates in determining costs and profit to be recognized. Cost of real estate sold is based on the percentage of completion, which is measured on the basis of the ratio of actual costs incurred to date over the estimated total development costs of the project. The total development costs of the project are estimated by the Company's engineers. At each end of reporting period, these estimates are reviewed and revised when necessary to reflect the current conditions.

In 2008, in view of the current rise in the general level of prices of goods and services as a result of the global economic downturn and financial crisis, the Company reassessed its estimates relevant to its existing and ongoing projects. The Company is of the opinion that estimates for certain projects are no longer reasonable and has come up with new estimated development costs for these projects after thorough evaluation of each project's status. The change in estimated developments cost, which is considered as a change in accounting estimate, has increased cost of real estate sold and carrying values of real estate for sale.

Real estate for sale amounted to ₱187.0 million and ₱2,018.3 million (of which ₱1,890.9 million are included under "Assets of disposal group classified as held for sale" account in the consolidated balance sheet) as of December 31, 2009 and 2008, respectively (see Notes 6 and 9).

Cost of real estate sold recognized in the consolidated statements of income follows:

	2009	2008	2007
		(In Thousands)	
Included under:			
Costs of real estate sold	**₱–**	₱–	₱19,395
Income (loss) from discontinued operations, net of tax	**253,463**	964,124	992,984
	₱253,463	₱964,124	₱1,012,379

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

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

Total provisions amounted to ₱971.5 million and ₱676.9 million as of December 31, 2009 and 2008, respectively (see Note 17).

Contingencies. The Company is a party to certain lawsuits or claims arising from the ordinary course of business. However, the Company's management and legal counsel believe that the eventual liabilities under these lawsuits or claims, if any, will not have a material effect on the consolidated financial statements. No provision from contingencies was recognized as of December 31, 2009 and 2008 (see Note 34).

4. Business Combinations and Acquisitions of Minority Interests

2008 Acquisitions

Acquisition of MPTC. On August 26, 2008, thru a Share Purchase Agreement (SPA), the Parent Company acquired a total of 4,970,570,627 MPTC shares from Benpres Holdings Corporation (Benpres) and First Philippine Holdings Corporation (FPHC) for ₱2.47 per share or a total of ₱12,262.6 million representing 99.8% equity interests in MPTC. The acquisition also resulted in the Parent Company's owning 100% of MPTDC, a wholly owned subsidiary of MPTC, and an indirect ownership in following companies through MPTDC: (a) 100% in Luzon Tollways Corporation; (b) 67.1% in MNTC, the concession holder of NLE; and (c) 46.0% in TMC.

Pursuant to the SPA, the Parent Company remitted ₱11,800 million in cash and assumed the obligation to pay the advances received by Benpres and FPHC from MPTDC in the amount of ₱462.6 million or for a total amount of ₱12,262.6 million constituting the purchase price.

In connection with the acquisition, the Parent Company also offered to purchase (the Tender Offer) 7,484,150 common shares from the minority shareholders of MPTC for ₱2.47 per share or ₱18.5 million, which is the same price payable for the common shares of MPTC under the SPA. The Tender Offer period was from October 8 to November 10, 2008. On November 10, 2008, the Tender Offer expired unexercised.

The acquisition was completed on November 13, 2008. In 2008, the Parent Company recorded its share in the identifiable assets and liabilities using provisional fair values. In 2009, the Parent Company finalized the purchase price allocation and the purchase price consideration has been allocated to the assets and liabilities on the basis of fair values at the date of acquisition as follows:

	Fair Values (As restated)	Provisional Values
	(In Thousands)	
Cash and cash equivalents	₱1,853,678	₱1,853,678
Receivables	11,556	11,556
Inventories	26,977	26,977
Due from related parties	793,480	793,480
Derivative assets and other current assets	219,496	108,245
Investment in an associate	699,518	699,518
Property and equipment - net	107,398	107,398
Concession assets	16,901,482	16,901,482
Other noncurrent assets	176,950	1,632,519
	20,790,535	22,134,853
Accounts payable and other current liabilities	622,128	622,128
Unearned toll revenues	22,651	22,651
Due to related parties	343,956	343,956
Provisions (current and noncurrent)	166,860	166,860
Long-term debt	9,432,534	9,432,515
Accrued retirement costs	13,331	17,160
Deferred tax liabilities - net	524,994	468,617
Other long-term liabilities	492,017	1,947,587
	11,618,471	13,021,474
Net assets	9,172,064	9,113,379
Minority interests	(2,601,624)	(2,577,615)
Total net assets acquired	6,570,440	6,535,764
Goodwill arising on acquisition	5,748,778	5,783,454
Cost of business combination	₱12,319,218	₱12,319,218

The total cost of the combination amounting to ₱12,319.2 million consists of:

	Amount
	(In Thousands)
Cost of business combination:	
Cash paid	₱11,800,000
Offset against MPTDC's advances to former shareholders	462,639
Total purchase price	12,262,639
Costs associated with the acquisition	56,579
	₱12,319,218

	Amount *(In Thousands)*
Cash outflow on acquisition:	
Cash paid	11,856,579
Net cash acquired with the subsidiary	(1,853,678)
Net cash outflow	₱10,002,901

The provisional fair value of input VAT (included under “Other noncurrent assets” in the table above) pertains to accumulated input VAT of MNTC prior to acquisition. In the determination of its provisional fair value, management took the position that should MNTC be made liable to output VAT, it will be more of a retrospective application and therefore the input VAT can be offset against any output VAT.

Subsequently, management had discussions with Company’s legal counsel and taking into account the status of negotiations with regulators, management is now of the view that should MNTC be liable for VAT, it will be on prospective basis, that is output VAT will be paid if and when the Toll Regulatory Board (TRB) will allow MNTC to collect VAT from motorists. Under a prospective basis, input VAT from prior years may not be allowed to be offset against output VAT, thus, the final fair value of input VAT was reduced to zero.

While management took the position that output VAT will be most likely applied under a prospective scenario, the Bureau of Internal Revenue (BIR) continue to send tax assessments to MNTC for alleged prior years deficiency VAT. The provisional fair value of the contingent liability (included under “Other long-term liabilities” in the table above) represents the potential contingent liability on output VAT. Upon the finalization of the purchase price allocation, the fair value of the contingent liability was revisited pursuant to the developments on VAT (as discussed above) and it was therefore determined that the fair value of the contingent liability is the most likely amount of net cash flows to be paid which is total output VAT from revenues earned from commercial operations to date of acquisition less the amount of input VAT accumulated up to date of MPIC’s acquisition of MPTC, thus the amount of the contingent liability was reduced from ₱1,873.6 million to ₱418.0 million.

The change in the fair value of MNTC’s derivative assets, from ₱34.7 million to ₱146.0 million, was a result of the determination of the fair value of MNTC’s hedge transactions as of November 13, 2008.

The 2008 comparative information was restated to reflect the above adjustments. The value of input VAT (included under “Other noncurrent liabilities” account in the consolidated balance sheets) and contingent liabilities (included under “Deferred credits and other long-term liabilities” account in the consolidated balance sheets) was decreased and increased by ₱1,455.6 million, respectively. Net deferred tax liabilities decreased by ₱56.3 million, share of minority interest in the fair value of net assets increased by ₱24.0 million, and goodwill decreased by ₱34.7 million.

Likewise, the consolidated net income of the Company decreased by ₱34.9 million due to the finalization of the purchase price allocation.

From the date of acquisition to December 31, 2008, MPTC contributed ₱176.0 million to the consolidated net income of the Company from continuing operations. If the combination had taken place at the beginning of the year, MPTC’s contribution to the Company’s consolidated net income from continuing operations in 2008 would have been ₱782.7 million and its contribution to the Company’s consolidated revenues from continuing operations would have been ₱3,668.9 million.

The goodwill of ₱5,748.8 million represents the fair value of expected economic benefit that the Company will obtain arising from the acquisition of MPTC.

Acquisition of MPIC’s Additional Interest in DMWC. On July 17, 2008, MPIC acquired convertible note (herein referred to as Facility Loan B) which was issued by DMWC in 2007 to FPC and a foreign company (the original holders of the convertible note) with carrying value of ₱1,935.4 million from a foreign affiliate for a total consideration of ₱7,575.7 million. The convertible note carries an option to convert the same to DMWC shares. The acquisition of the convertible note by the Company resulted to potential voting rights equivalent to approximately 12.0% interest in DMWC and control is thereby obtained by the Company. Given that control was obtained from a former joint venture (see Note 12), at the date control was obtained, the Company:

- recognized the identifiable assets and liabilities of DMWC at 100% of their fair values; and
- treated any adjustment to those fair values relating to previously held interests as a revaluation.

On October 17, 2008, DMCI Holdings, Inc. (DMCI), MPIC’s join venture partner, infused US$20.0 million into DMWC which the latter initially recognized as advances but with intention to use the same to subscribe to additional DMWC shares.

Subsequently, in a Subscription Agreement dated November 27, 2008, DMCI and MPIC (collectively referred as “Parties”), subscribed for 961,600,000 common shares and 1,923,200,000 common shares of DMWC, respectively.

On November 27, 2008, the following transactions took place:

a. The Parties entered into two separate Deed of Assignments whereby portion of DMCI and MPIC advances, US$20 million advances and Facility Loan B, respectively, will be applied against their other liabilities to DMWC amounting to ₱379.7 million each. The remaining balance will be used to settle the subscription liabilities as further discussed below.

b. Pursuant to the Subscription Agreement, MPIC deemed exercised its conversion rights under the Facility Loan B, and acquired additional 1,923,200,000 DMWC shares for a total consideration of ₱1,923.2 million; while DMCI subscribed to additional 961,600,000 DMWC shares for a total consideration of ₱961.6 million. The remaining advances under the US$20.0 million advances from DMWC and the Facility Loan B for MPIC were used to settle the subscription price. Pending the issuance of DMWC shares, the amount subscribed and paid up were recorded under “Deposits for future stock subscription” in the 2008 consolidated balance sheet of DMWC.

c. Simultaneous with the execution of the above agreements, MPIC, DMCI and Maynilad entered into a Shareholders’ Agreement outlining the relationship of MPIC and DMCI as shareholders of DMWC. On the date of the said Shareholders’ Agreement, which was immediately executory, the parties confirmed that MPIC and DMCI each holds equity interests in the form of shares and share entitlements in DMWC equal to 55.4% and 44.6% interests, respectively.

The Company's acquisition of additional 5.4% equity interest in DMWC (from 50.0% to 55.4% interests) has been accounted for as an acquisition of minority interests which resulted to a net positive goodwill of ₱5,513.4 million.

Acquisition of DMWC's Additional Interest in Maynilad. Pursuant to the Subscription Agreement between DMWC and Maynilad, DMWC subscribed to additional 633,980 and 1,901,913; ₱1,000 par value common shares or a total of 2,535,893 shares on October 10, 2008 and November 28, 2008, respectively, for a total cash consideration of ₱2,535.9 million. These acquisitions increased DMWC's total ownership interest in Maynilad from 83.97% to 94.12%.

As a result of the acquisition, the Company's minority interest in Maynilad was diluted from 16.03% to 5.88%. The acquisition of minority interest resulted to the Company's recognition of a gain of ₱757.6 million, included under "Other income" account in the consolidated statement of income (see Note 29).

Acquisition of LAWL Pte. Ltd. (LAWL) Interests in Maynilad. On December 19, 2008, a Memorandum of Agreement (MOA) was executed among MPIC, MPHI and LAWL, where LAWL agreed to subscribe to 791,110,491 new common shares of MPIC at approximately ₱2.56 per share or ₱2,029.2 million (subscription price) through execution of a Subscription Agreement and MPIC agreed to purchase and acquire from LAWL 236,000 Class B Maynilad shares at ₱8,598.36 per share or ₱2,029.2 million (purchase price) thru execution of a Deed of Sale (see Note 22).

The above transaction shall result to MPIC's acquisition of the 5.8% interest held by LAWL in Maynilad in exchange for LAWL's 7.7% interest in MPIC.

Based on the terms of the MOA, risks and rewards have been transferred to the parties even before the closing conditions were met and therefore, MPIC treated the transaction as a direct acquisition of interest, specifically as an acquisition of minority interest in Maynilad, which resulted to the recognition of a positive goodwill of ₱1,289.6 million in 2008.

As of December 31, 2008, MPIC and LAWL have not issued to each other the aforementioned shares. As provided in the MOA, the parties agree to set off the subscriptions receivable and payable in as much as both the subscription price are of the same amounts and are due and payable on the same date which is as of the closing date. On July 9, 2009, the related shares were issued.

The total goodwill of ₱6,803.0 million comprises the fair value of the expected economic benefit the Company will obtain from obtaining control over DMWC and increase in direct equity interest in Maynilad.

Impairment Testing of Goodwill
Goodwill is tested for impairment annually and when circumstances indicate the carrying value may be impaired. The Group's impairment test of goodwill is based on value in use (VIU) calculations that uses discounted cash flow model. The key assumptions used to determine the recoverable amount for the different cash generating units were discussed below:

Goodwill allocated to Maynilad. On April 16, 2009, MWSS issued MWSS-RO Resolution No. 209-069. Under this resolution, certain issues were resolved that had an impact on the new rate rebasing adjustment or "R" that took effect on May 4, 2009 (see Note 20). Management noted that this resolution may have an impact on the expected cash flows from Maynilad's operation. Accordingly, management performed an impairment calculation as at December 31, 2009 using the new "R" under said resolution.

The following table sets out the assumptions used by management in performing impairment calculations as at December 31, 2009:

	December 31, 2009
Growth rate [a]	2.1%
Average forecast period [b]	27 years
Discount rate [c]	14.1%

[a] *Projected cash flows were updated to reflect the new "R".*
[b] *As a result of change in concession term as discussed in Note 3.*
[c] *Based on weighted cost of capital.*

As a result of the impairment analyses, management did not identify an impairment loss for this cash-generating unit to which goodwill of ₱6,803.0 million was allocated.

Goodwill allocated to MPTC. The Company finalized the purchase price allocation and determined that final goodwill related to the acquisition amounted to ₱5,748.8 million. The test for recoverability of MPIC's goodwill from the acquisition of MPTC was applied at the toll operations segment, which represents the lowest level for which identifiable cash flows are largely independent of the cash inflows of other group's assets and liabilities.

The VIU was based on the cash flow projections on the most recent financial budgets and forecast of MPTC. For the impairment testing conducted for the year ended December 31, 2009, average growth rate used was 2.0% for the forecast period of 27 years. The discount rate applied was 12.5% which was based on the weighted cost of capital. As a result of the impairment analyses, management did not identify an impairment loss for this cash-generating unit to which goodwill the ₱5,748.8 million was allocated.

With regard to the assessment of VIU of the above cash-generating units, management believes that no reasonably possible change in any of the key assumptions would cause the carrying value of the units to materially exceed its recoverable amount.

5. Operating Segment Information

In 2009 and 2008, for management purposes, the Company is organized into five major business segments based on services and products namely water utilities, toll operations, power distribution (only for 2009), healthcare, and others. In 2007, the Company was organized into two major business segments, namely water utilities and others.

Water Utilities
Water utilities primarily relate to the operations of DMWC and Maynilad in relation to the provision of water and sewerage services.

Toll Operations
Toll operations primarily relate to operations and maintenance of toll facilities by MPTC and its subsidiary MNTC and associate TMC.

Power Distribution
Power distribution primarily relate to the operations of Meralco in relation to the distribution and supply of electricity.

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

Others
Others represent operations of subsidiaries involved in real estate, provision of services and holding companies. Real estate primarily relates to the operations of MPC and Landco and its subsidiaries which are involved in the business of real estate of all kinds. Following management's decision in 2008 to divest its investment in Landco, total assets and liabilities and income and expense of Landco are presented under the "Other businesses" column in the segment report.

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

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 nonrecurring gains (losses).

EBITDA margin pertains to EBITDA divided by service revenues.

Management also assesses the performance of the operating segments based on a measure of recurring profit or core income contribution. This measurement basis is determined as profit attributable to owners of the parent company excluding the effects of foreign exchange and derivative gains/losses, one-off provisions and other non-recurring or non-core items.

Core income (or recurring profit) for the year is measured as net income attributable to owners of the Company excluding core income adjustment on equity in net earnings (losses) of associates and joint ventures, foreign exchange (gains) losses-net, gains (losses) on derivative financial instruments-net excluding hedge cost, asset impairment on noncurrent assets, net of tax effect of aforementioned adjustments and other nonrecurring gains (losses)-net. Non-recurring items represents gains or losses that, through occurrence or size, are not considered usual operating items.

Transfer prices between operating segments are on an arm's length basis similar to transactions with third parties. Segment revenues, segment expenses and segment results include transfers between business segments. These transfers are eliminated upon full consolidation.

The segment revenues, net income for the year, assets, liabilities, and other segment information of our reportable operating segments as at and for the years ended December 31, 2009, 2008 and 2007 are as follows.

The following table presents information on revenue and income and certain assets and liabilities regarding business segments for the year ended December 31, 2009:

	Water Utilities	Toll Operations	Healthcare	Power Distribution	Other Businesses	Eliminations	Consolidated
Total revenue from external sales	₱10,618,544	₱5,489,190	₱–	₱–	₱–	₱–	₱16,107,734
Cost of sales	(4,423,873)	(2,696,792)	–	–	–	–	(7,120,665)
Gross margin	6,194,671	2,792,398	–	–	–	–	8,987,069
Operating expenses	(1,839,306)	(528,515)	–	–	(311,415)	–	(2,679,236)
Other income (charges) - net	(130,331)	109,396	–	–	4,852	(608)	(16,691)
Profit before financing charges	4,225,034	2,373,279	–	–	(306,563)	(608)	6,291,142
Interest expense - net	(1,848,799)	(657,189)	–	–	(851,660)	–	(3,357,648)
Profit before minority and income tax	2,376,235	1,716,090	–	–	(1,158,223)	(608)	2,933,494
Minority interests	(1,113,257)	(531,653)	–	–	–	353	(1,644,557)
Provision for income tax	277,244	(38,177)	–	–	–	1,070	240,137
Contribution from subsidiaries	1,540,222	1,146,260	–	–	(1,158,223)	815	1,529,074
Equity in net income (losses) of associates and a joint venture	–	132,428	173,813	211,877	–	–	518,118
Contribution from operations (core)	1,540,222	1,278,688	173,813	211,877	(1,158,223)	815	2,047,192
Non-recurring income (charges)	781,353	(213,925)	47,276	(139,807)	(222,437)	–	252,460
Segment income (loss)	**₱2,321,575**	**₱1,064,763**	**₱221,089**	**₱72,070**	**(₱1,380,660)**	**₱815**	**₱2,299,652**
EBITDA	6,898,399	2,985,798	–	–	(299,346)	(608)	9,584,243
EBITDA margin	65%	54%	–	–	–	–	60%

(Forward)

	Water Utilities	Toll Operations	Healthcare	Power Distribution	Other Businesses	Eliminations	Consolidated
Non-recurring income (charges)	₱1,524,706	(₱325,246)	₱54,976	(₱139,807)	(₱247,730)	₱–	₱866,899
Provision for income tax	(181,437)		(7,700)	–	–	–	(189,137)
Minority	(561,916)	111,321	–	–	25,293	–	(425,302)
Net	₱781,353	(₱213,925)	₱47,276	(₱139,807)	(₱222,437)	₱–	₱252,460
Assets and Liabilities							
Segment assets	54,131,737	19,627,043	–	–	16,779,531	(1,314,453)	89,223,858
Investment in associates, at equity	–	677,510	2,055,230	24,366,978	270,305	–	27,370,023
Consolidated total assets	**₱54,131,737**	**₱20,304,553**	**₱2,055,230**	**₱24,366,978**	**₱17,049,836**	**(₱1,314,453)**	**₱116,593,881**
Segment liabilities	**₱36,488,778**	**₱10,506,002**	**₱–**	**₱–**	**₱20,907,350**	**(₱1,608,763)**	**₱66,293,367**
Other Segment Information							
Capital expenditures -							
Property, plant and equipment	₱8,473,266	₱362,013	₱–	₱–	₱21,558	₱–	₱8,856,837
Depreciation and amortization	2,673,365	612,519	–	–	7,217	–	3,293,101
Provision for decline in value of assets	–	–	–	–	–	–	–
Non-cash expenses, other than depreciation and amortization and provision for decline in value of assets	–	–	–	–	–	–	–

The following table presents information on revenue and income and certain assets and liabilities regarding business segments for the year ended December 31, 2008:

	Water Utilities	Toll Operations	Healthcare	Power Distribution	Other Businesses	Eliminations	Consolidated
Total revenue from external sales	₱7,920,753	₱715,079	₱–	₱–	₱–	₱–	₱8,635,832
Cost of sales	(5,556,509)	(305,875)	–	–	–	–	(5,862,384)
Gross margin	2,364,244	409,204	–	–	–	–	2,773,448
Operating expenses	(1,018,323)	(155,360)	–	–	(160,830)	–	(1,334,513)
Other income (charges) - net	(163,928)	2,437	–	–	472,773	(466,468)	(155,186)
Profit before financing charges	1,181,993	256,281	–	–	311,943	(466,468)	1,283,749
Interest expense - net	(637,677)	(55,838)	–	–	(80,940)	–	(774,455)
Profit before minority and income tax	544,316	200,443	–	–	231,003	(466,468)	509,294
Minority interests	(263,977)	(71,261)	–	–	–	2,195	(333,043)
Provision for income tax	(53,970)	17,122	–	–	(1,732)	–	(38,580)
Contribution from subsidiaries	226,369	146,304	–	–	229,271	(464,273)	137,671
Equity in net income (losses) of associates and a joint venture	–	19,624	109,866	–	–	79,914	209,404
Contribution from operations (core)	226,369	165,928	109,866	–	229,271	(384,359)	347,075
Non-recurring income (charges)	157,867	34,603	49,244	–	298,951	(362,194)	178,471
Segment income (loss)	₱384,236	₱200,531	₱159,110	₱–	₱528,222	(₱746,553)	₱525,546
EBITDA	1,250,216	259,545	–	–	360,568	(466,468)	1,403,861
EBITDA margin	16%	36%	–	–	–	–	16%
Non-recurring income (charges)	₱238,864	₱73,928	₱54,496	₱–	₱186,728	(₱362,194)	₱191,822
Provision for income tax	(103,543)	(22,607)	(5,252)	–	112,223	–	(19,179)
Minority	22,546	(16,718)	–	–	–	–	5,828
Net	₱157,867	₱34,603	₱49,244	₱–	₱298,951	(₱362,194)	₱178,471
Assets and Liabilities							
Segment assets	49,219,732	20,276,994	–	–	7,797,008	(360,963)	76,932,771
Investment in associates, at equity	–	635,736	1,259,011	–	244,383	449,770	2,588,900
Consolidated total assets	₱49,219,732	₱20,912,730	₱1,259,011	₱–	₱8,041,391	₱88,807	₱79,521,671
Segment liabilities	₱19,876,795	₱2,499,365	₱–	₱–	₱7,191,809	(₱455,412)	₱29,112,557
Other Segment Information							
Capital expenditures -							
Property, plant and equipment	₱7,209,890	₱–	₱–	₱–	₱53,979	₱–	₱7,263,869
Depreciation and amortization	68,223	3,264	–	–	48,625	–	120,112
Provision for decline in value of assets	51,205	–	–	–	431,191	–	482,396
Non-cash expenses, other than depreciation and amortization and provision for decline in value of assets	139,278	–	–		–	–	139,278

The following table presents information on revenue and income and certain assets and liabilities regarding business segments for the year ended December 31, 2007:

	Water Utilities	Toll Operations	Healthcare	Power Distribution	Other Businesses	Eliminations	Consolidated
Total revenue from external sales	₱–	₱–	₱–	₱–	₱1,943,004	₱–	₱1,943,004
Cost of sales	–	–	–	–	(1,012,379)	–	(1,012,379)
Gross margin	–	–	–	–	930,625	–	930,625
Operating expenses	–	–	–	–	(1,042,939)	–	(1,042,939)
Other income (charges) - net	–	–	–	–	3,345,033	(904,460)	2,440,573
Profit before financing charges	–	–	–	–	3,232,719	(904,460)	2,328,259
Interest expense - net	–	–	–	–	(3,277,854)	634	(3,277,220)
Profit before minority and income tax	–	–	–	–	(45,135)	(903,826)	(948,961)
Minority interests	–	–	–	–	(129,552)	(105,122)	(234,674)
Provision for income tax	–	–	–	–	(308,123)	(10,370)	(318,493)
Contribution from subsidiaries	–	–	–	–	(482,810)	(1,019,318)	(1,502,128)
Equity in net income (losses) of associates and a joint venture	1,682,312	–	–	–	36,889	(45,364)	1,673,837

(Forward)

	Water Utilities	Toll Operations	Healthcare	Power Distribution	Other Businesses	Eliminations	Consolidated
Contribution from operations (core)	1,682,312	–	–	–	(445,921)	(1,064,682)	171,709
Non-recurring income (charges)	(152,963)	–	–	–	(129,118)	–	(282,081)
Segment income (loss)	₱1,529,349	₱–	₱–	₱–	(₱575,039)	(₱1,064,682)	(₱110,372)
EBITDA	–	–	–	–	3,268,503	(904,460)	2,364,043
EBITDA margin	–	–	–	–	168%	–	122%
Non-recurring income (charges)	(₱152,963)	₱–	₱–	₱–	₱19,706	₱–	(₱133,257)
Provision for income tax	–	–	–	–	(140,692)	–	(140,692)
Minority	–	–	–	–	(8,132)	–	(8,132)
Net	(₱152,963)	₱–	₱–	₱–	(₱129,118)	₱–	(₱282,081)
Assets and Liabilities							
Segment assets	–	–	–	–	6,178,264	701,875	6,880,139
Investment in associates, at equity	4,466,455	–	–	–	582,920	–	5,049,375
Consolidated total assets	₱4,466,455	₱–	₱–	₱–	₱6,761,184	₱701,875	₱11,929,514
Segment liabilities	₱–	₱–	₱–	₱–	₱3,475,888	₱5,876	₱3,481,764
Other Segment Information							
Capital expenditures:							
Property, plant and equipment	₱–	₱–	₱–	₱–	₱50,910	₱–	₱50,910
Investment properties	–	–	–	–	21,222	–	21,222
Depreciation and amortization	–	–	–	–	35,784	–	35,784
Provision for decline in value of assets	–	–	–	–	–	–	–
Non-cash expenses, other than depreciation and amortization and provision for decline in value of assets	–	–	–	–	(704,267)	–	(704,267)

The following table shows the reconciliation of the Company's consolidated EBITDA to consolidated net income for the years ended December 31, 2009, 2008 and 2007.

	2009	2008	2007
		(In Thousands)	
Consolidated EBITDA	**₱9,584,243**	₱1,403,861	₱2,364,043
Depreciation and amortization	**(3,293,101)**	(120,112)	(35,784)
Consolidated operating profit for the year	**6,291,142**	1,283,749	2,328,259
Interest income	**499,221**	440,621	316,629
Foreign exchange (losses) - net	**(986,882)**	(499,943)	–
Equity in net earnings (losses) of associates and joint ventures	**399,535**	209,404	1,673,837
Interest expense	**(4,012,258)**	(1,215,076)	(3,593,849)
Non-recurring gains (loss) - net	**2,216,431**	771,512	(433,971)
Consolidated income before income tax	**4,407,189**	990,267	290,905
Provision for income tax	**(37,326)**	40,434	(166,603)
Consolidated net income	**₱4,369,863**	₱1,030,701	₱124,302

The following table shows the reconciliation of Company's consolidated core income to Company's consolidated net income for the years ended December 31, 2009, 2008 and 2007.

	2009	2008	2007
		(In Thousands)	
Consolidated core income for the year	**₱2,063,550**	₱347,075	₱171,709
Foreign exchange gains (losses) - net	**(986,882)**	(499,943)	–
Other non-recurring losses	**2,200,079**	771,512	(433,971)
Net tax effect of aforementioned adjustments	**(977,095)**	(93,099)	151,890
Net income for the year attributable to owners of the Parent Company	**2,299,652**	525,545	(110,372)
Net income for the year attributable to minority interests	**2,070,211**	505,156	234,674
Consolidated net income for the year	**₱4,369,863**	₱1,030,701	₱124,302

6. Discontinued Operations

Landco

Following a strategic review of the Company's businesses, and its focus on infrastructure, MPIC decided to divest its interest in Landco. In an agreement entered on September 9, 2008 between MPIC and the minority shareholder of Landco, the former expressed its intention to sell its interest in Landco to the latter. Landco is primarily engaged in all aspects of real estate business and is a separate reportable operating segment. As of December 31, 2008, negotiations for the sale are in progress and management expects that the sale will be completed in 2009. On the basis of the foregoing, the assets and liabilities of Landco, including that of its subsidiaries and associates, indirectly held by MPIC through Landco and MPC, were classified as "Assets of disposal group classified as held for sale" and "Liabilities directly associated with assets classified as held for sale," respectively, in the 2008 consolidated balance sheet.

The results of Landco's operations for all the periods presented until discontinuance have been presented in the consolidated statement of income as "Income (loss) from discontinued operations, net of tax."

The major classes of assets and liabilities of Landco classified as held for sale as at December 31, 2008 are as follows:

	Amount
	(In Thousands)
Assets:	
Cash and cash equivalents	₱177,310
Receivables - net (current and noncurrent)	3,010,558
Real estate for sale	1,890,868
Due from related parties	150,317
Other current assets	290,057
Investments in associates (see Note 11)	210,627
Available-for-sale financial assets (see Note 10)	62,440
Property and equipment at cost	134,548
Investment properties	3,634
Deferred tax assets	324,461
Other noncurrent assets	65,531
	₱6,320,351
Liabilities:	
Notes payable	₱257,063
Accounts payable and other current liabilities	3,058,732
Income tax payable	3,560
Due to related parties	178,032
Long-term debt	1,273,466
Deferred tax liabilities	269,150
	₱5,040,003
Reserve of disposal group classified as held for sale	₱16,881

Pursuant to PFRS 5, noncurrent assets held for sale shall be stated at its net realizable value, hence the Company recognized impairment loss amounting to ₱431.2 million for the year ended December 31, 2008, allocated to Landco's noncurrent assets on the basis of their carrying amounts. The impairment was included under provision for decline in value of assets (see Note 29).

The results of operations of Landco prior to disposal as discussed below are as follows:

	2009 (For the period January 1 to June 18, 2009)	2008	2007
		(In Thousands)	
Revenue from sale of real estate	**₱436,242**	₱1,456,328	₱1,922,646
Costs and expenses:			
Costs of real estate sold	**253,463**	964,124	992,984
General and administrative expenses	**553,255**	832,992	884,236
	806,718	1,797,116	1,877,220
	(370,476)	(340,788)	45,426
Other income - net	**203,960**	307,009	338,944
Interest income	**117,044**	222,350	282,136
Interest expense	**(53,353)**	(136,548)	(66,604)
Income (loss) before income tax	**(102,825)**	52,023	599,902
Provision for (benefit from) income tax	**(45,728)**	9,967	168,666
Income (loss) after income tax	**(₱57,097)**	₱42,056	₱431,236

The net cash flows of Landco prior to disposal are as follows:

	2009 (For the period January 1 to June 18, 2009)	2008	2007
		(In Thousands)	
Operating	**₱290,808**	(₱608,706)	(₱354,032)
Investing	**135,032**	(99,404)	(214,289)
Financing	**(405,273)**	739,798	486,208
Net cash inflows (outflows)	**₱20,567**	₱31,688	(₱82,113)
Net income (loss) per share attributable to owners of Parent Company (see Note 32):			
Basic, from discontinued operations	**(₱0.001)**	(₱0.002)	₱0.241
Diluted, from discontinued operations	**(₱0.001)**	(₱0.002)	₱0.109

During the regular meeting of the BOD of MPIC held on June 18, 2009, the BOD passed and approved resolutions relating to the execution of an agreement (the "Agreement") with AB Holdings Corporation (ABHC), minority shareholder of Landco, with the conformity of Landco, for ABHC to (i) acquire from MPIC 33.3% of MPIC's 51.0% shareholding in Landco representing 17.0% of the total issued shares of Landco and (ii) procure Landco to settle MPIC's outstanding loan to Landco in the principal amount of ₱500.0 million plus accrued interest (the "MPIC loan").

The Agreement was signed on June 19, 2009. Pursuant to the Agreement, ABHC shall pay to MPIC the amount of ₱203.3 million ("Share Purchase Price"). The payment of consideration is satisfied by way of a promissory note issued by ABHC in favor of MPIC ("ABHC Note"). The ABHC Note shall be issued with a face value equal to the Share Purchase Price and with maturity date on August 19, 2009. No interest shall accrue and be payable on the ABHC Note.

In full and complete settlement of the ABHC Note, ABHC shall procure the conveyance of in favor of MPIC of (i) certain assets of Landco and/or its subsidiaries (herein after referred as "Landco Assets") as specified in the Agreement and at their agreed upon values or, where applicable, as adjusted in accordance with the Agreement or (ii) where the Landco Assets are sold to a third party, the proceeds of any such sale or disposition to the extent of the concurrent amount of the ABHC Note. However, the conveyance of the Landco Assets in favor of MPIC in full and complete settlement of the ABHC Note may be done in tranches, provided that such conveyance with aggregate value equal to the ABHC Note shall be completed no later than maturity date.

Also, immediately after execution of the Agreement, ABHC shall cause Landco to set aside and segregate for the benefit of MPIC, the Landco Assets with an aggregate value of ₱743.3 million in a manner set forth in the Agreement. Likewise, any proceeds from the sale of said Landco Assets, which shall be applied to the ABHC Note or if already paid, to the MPIC Loan, should be directly remitted to MPIC within 10 days from receipt thereof of Landco and/or its subsidiaries. In the case of the conveyance of Landco Assets, the ABHC Note shall be deemed repaid only upon and to the extent that the said Landco Assets are actually transferred, conveyed and registered in the name of MPIC, free from any third party claims.

ABHC also agrees to create for the benefit of MPIC a first ranking charge over the Shares in accordance with a security agreement to be executed by ABHC in favor of MPIC.

Also, pursuant to the Agreement, Landco agrees to convey or cause to be conveyed in favor of MPIC, and ABHC shall procure the conveyance, Landco Assets or the proceeds from sale of Landco Assets, which have not been otherwise transferred or conveyed to MPIC as payment of the ABHC Note or used to settle the advances made by MPIC for taxes pursuant to the Agreement, (hereinafter referred as "Remaining Assets"). The MPIC Loan shall be deemed partially repaid only upon and to the extent that the Landco Assets are actually conveyed and registered in the name of MPIC or the cash proceeds are actually remitted, which should be made within 10 days from receipt thereof. Such payments conveyed to MPIC shall be applied on the manner set forth in the Agreement. The conveyance of the Remaining Assets (whether in the form of cash or property) in favor of MPIC may be done in tranches, provided that the conveyance of these Remaining Assets shall be completed no later than June 19, 2011; and, provided further, that the balance of MPIC Loan shall continue to be payable on demand.

Conditional upon various conditions being fulfilled as stipulated in the Agreement, the settlement of the ABHC Note shall be completed within two months from signing of the Agreement. The settlement of the MPIC Loan shall be partially settled through the conveyance of Landco Assets, which should be completed within two year from the date of signing of the Agreement, the balance thereof, shall be due and demandable.

Upon the signing of the Agreement, MPIC's interest in Landco decreased from 51.0% to 34.0%. Notwithstanding the significant interest retained by MPIC, the sale of its 17.0% interest in Landco shall be accounted for as a disposal of a subsidiary; accordingly, Landco ceased to be MPIC's subsidiary. Consequently, all the assets, liabilities, reserves, minority interest and other accounts pertaining and relating to Landco, which were previously being consolidated by MPIC, were derecognized. For the year ended December 31, 2009, the gain on the said disposal were all included under "Income from discontinued operations - net of income tax" in the 2009 consolidated statement of income.

Total income (loss) from discontinued operations consists of:

	Amount
	(In Thousands)
Loss from discontinued operations before tax	(₱102,825)
Gain on disposal of Landco	25,202
Benefit from income tax	45,728
Loss from discontinued operations after income tax	(₱31,895)

MPIC's remaining 34.0% interest in Landco is continued to be carried at the lower of carrying value and fair value less cost to sell and classified as "Noncurrent Assets held for sale" in the 2009 consolidated balance sheet in accordance with PFRS 5. The carrying value of the said remaining interest amounted to ₱329.6 million as of December 31, 2009.

The initial maturity of the ABHC Note was extended and such Note was finally settled on December 29, 2009 by a transfer of certain assets dissimilar in nature and at agreed values based on an independent valuation made. Shares of NE Pacific Shopping Center Corporation (NEPSCC), a mall operator, which the Company designated as "Available-for-sale financial assets," and properties, which the Company designated as "Real estate for sale," were conveyed to the Company as settlement for the Note and partial settlement of the MPIC loan and the related interest. The NEPSCC shares and the real estate for sale were initially recognized at fair values at the date of settlement.

Partial settlement has been made on the MPIC loan principal and accrued interest also by conveyance of Landco properties. Landco has also identified certain properties and shares to pay off the remaining MPIC loan balance, including interest, which amounted to ₱497.8 million (see Note 8).

Nenaco

On December 20, 2006, MPC's BOD approved the sale of the Company's 83.96% interest, equivalent to 2,531,843,830 common shares, in Nenaco to Negros Holdings and Management Corporation, a company owned by the management of Nenaco.

Prior to 2008, investments in and advances to Nenaco were fully provided with impairment on the basis that Nenaco had been incurring significant losses, experiencing financial difficulties and already in a capital deficiency position. These factors are strong indicators of impairment, thus, an impairment test using value in use was made, since Nenaco is not quoted and no readily available fair value. Value in use yielded a negative result as Nenaco had negative forecasted cash flows hence the full impairment.

Early in 2008, an investor expressed interest to venture in the shipping services, more particularly in Nenaco and such investor offered to purchase the interest held by the Company. The same approach as for the identification of impaired assets, the Company assessed whether there is an indication that the impairment loss previously recognized may have decreased. By that offer, management calculated the recoverable amount of both investment and advances which was based on the lowest expected selling price of the remaining interest and the expected recoverable amount of the advances totaling ₱253.0 million. With the investments and advances reduced to zero after recognition of impairment losses, the increase in recoverable amount of ₱253.0 million resulted in the reversal of the impairment losses for the same amount (included under the ₱262.5 million reversal of provision for decline of value of assets in Note 29). The impairment losses reversed did not exceed the original impairment loss recognized.

On May 6, 2008, MPC's BOD finally approved the sale of the Company's remaining 15.3% interest in Nenaco for ₱173.6 million resulting to recognition of a net gain on sale of investment amounting to ₱51.3 million (see Note 29). The proceeds of the sale of Nenaco were paid in cash. In addition, the Company was able to collect its advances for ₱130.7 million.

7. Cash and Cash Equivalents and Short-term Deposits

This account consists of:

	2009	2008
	(In Thousands)	
Cash and cash equivalents	**₱6,379,731**	₱2,028,833
Short-term deposits	**2,433,418**	6,715,588
	₱8,813,149	₱8,744,421

Cash in banks earn interest at the prevailing bank deposit rates. Cash equivalents are short-term deposits which are made for varying periods of up to three months depending on the immediate cash requirements of the Company, and earn interest at the prevailing short-term deposit rates. Interest earned from cash and cash equivalents and short-term deposits amounted to ₱248.4 million and ₱89.4 million for the years ended December 31, 2009 and 2008, respectively (see Note 28).

In 2008, short-term deposits includes ₱570.2 million cash deposits to Calyon Bank of Hongkong (Calyon), which serves as a collateral for the Standby Letter of Credit (SBLC) issued by the same Bank. Such deposits were withdrawn in 2009 and portion of it was extended as advances to DMCI (see Note 21). Also, deposits amounting to ₱6.1 billion which have original maturities of more than three months considered as cash equivalents in 2008 have been reclassified to "Short-term deposits" account to conform with the 2009 presentation.

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

	2009	2008	2007
		(In Thousands)	
Cash on hand and in banks	**₱508,597**	₱1,934,855	₱14,732
Short-term deposits that qualify as cash equivalents	**5,871,134**	93,978	102,100
	6,379,731	2,028,833	116,832
Cash on hand and in banks and short-term deposits attributable to discontinued operations (see Note 6)	**–**	177,310	131,249
	₱6,379,731	₱2,206,143	₱248,081

8. Receivables

This account consists of:

	2009	2008
	(In Thousands)	
Notes receivable (see Note 21)	**₱11,878,480**	₱195,000
Trade receivables (see Note 21)	**1,696,654**	1,380,287
Accrued interests receivable (see Note 21)	**81,500**	195
Advances to other affiliates (see Note 21)	**69,917**	72,695
Advances to officers and employees	**38,891**	32,881
Dividends receivable	**7,841**	–
Others	**213,316**	213,562
	13,986,599	1,894,620
Less allowance for doubtful accounts	**511,299**	285,738
	₱13,475,300	₱1,608,882

a. Notes receivable as of December 31, 2009 mainly includes a ₱11.2 billion note receivable from First Philippine Utilities Corporation (FPUC). The Note bears interest of 5% and payable on June 30, 2010 (see Note 35). It also includes ₱493.5 million loan to Landco that was used to defray certain maturing obligations as well as for continuing working capital requirements of Landco and bears interest of 10% per annum (see Notes 19 and 25).

   Notes receivable as of December 31, 2009 and 2008 also include: (i) a five-year note with a face value of ₱150.0 million that was issued by Steniel (Netherlands) Holdings B.V. (Steniel Netherlands) on December 12, 2000 as part of the consideration for the Steniel Manufacturing Corporation (Steniel) shares of stock which was sold by MPC on October 30, 2000. The said note was impaired at full amount when no payment was received from Steniel Netherlands on June 30, 2006, the maturity date of the note; and (ii) a noninterest-bearing loan of ₱45.0 million made to a certain individual due on February 21, 2009 subject to a 12.0% interest per annum in case of default. On June 11, 2009, the Company collected ₱15.0 million reducing the balance to ₱30.0 million as of December 31, 2009.

b. Trade receivables mainly include receivables from customers arising from provision of water and sewerage services, further classified as residential, semi-business, commercial and industrial customers depending on the purpose of the provision of water and sewerage services. These receivables are generally collectible over a period of 60 days.

c. Advances to other affiliates represent advances to former subsidiaries and affiliates of the Company which are fully provided with allowance.

d. Other receivables mainly represent advances to former subsidiaries and related parties which were provided with allowance.

Movements in the allowance of individually assessed impaired receivables in 2009 and 2008 are as follows:

	2009			
	Balance at January 1, 2009	**Charge for the year** (see Note 25)	**Reversal**	**Balance at December 31, 2009**
		(In Thousands)		
Trade receivables	**₱52,443**	**₱226,266**	**(₱705)**	**₱278,004**
Notes receivable	**150,000**	**–**	**–**	**150,000**
Advances to other affiliates	**69,917**	**–**	**–**	**69,917**
Advances to officers and employees	**9,894**	**–**	**–**	**9,894**
Others	**3,484**	**–**	**–**	**3,484**
	₱285,738	**₱226,266**	**(₱705)**	**₱511,299**

	2008					
	Balance at January 1, 2008	Charge for the year (see Note 25)	Reversal	Assets of Disposal Group classified as Held for Sale	Reclassifications	Balance at December 31, 2008
			(In Thousands)			
Trade receivables	₱2,485	₱113,008	₱–	(₱63,050)	₱–	₱52,443
Notes receivable	150,000	–	–	–	–	150,000
Advances to other affiliates	106,398	–	–	–	(36,481)	69,917
Advances to officers and employees	9,894	–	–	–	–	9,894
Receivable from sale of AFS financial assets	4,160	890	(808)	(4,242)	–	–
Advances to suppliers	95,267	11	–	–	(95,278)	–
Others	–	1,236	–	–	2,248	3,484
	₱368,204	₱115,145	(₱808)	(₱67,292)	(₱129,511)	₱285,738

There is no collectively assessed impaired receivables in 2009 and 2008.

9. Inventories and Real Estate for Sale

Inventories

Inventories, which consist of transponders, magnetic cards, chemicals, materials and supplies and spare parts, are valued at the lower of cost and net realizable value. All inventories amounting to ₱96.0 million and ₱84.4 million as of December 31, 2009 and 2008, respectively, are stated at cost.

Cost of inventories charged to “Cost of services” account in the consolidated statements of income amounted to ₱230.3 million and ₱104.3 million for the period ended December 31, 2009 and 2008 respectively (see Note 24).

Real Estate For Sale

This account is consist of:

	2009	2008
	(In Thousands)	
Land	**₱54,747**	₱54,747
Development costs:		
Residential resort community and Central Business District	**46,706**	46,706
Condominium units, including parking lots	**85,557**	26,020
	₱187,010	₱127,473

Condominium units include units which are carried at NRV. Had these been carried at cost, the carrying values of such units would have been ₱148.0 million and ₱88.5 million as of December 31, 2009 and 2008, respectively. The Company’s property operations, specifically for MPC’s condominium properties, were affected by the then general decline in the real estate industry resulting in the Company recording the real estate for sale at its NRV in prior years. The Company recognized impairment loss of ₱62.5 million in 2007. No impairment loss was recognized in 2009 and 2008 (see Note 29).

Additions to condominium units for the year, which amounted to ₱59.5 million, pertain to conveyed properties as settlement of the ABHC Note as discussed in Note 6. Condominium units with a carrying value of ₱18.9 million as of December 31, 2009 and 2008 were used to secure certain provisions (see Note 17).

Real estate for sale with a carrying value of ₱105.8 million as of December 31, 2008, included under “Assets of disposal group classified as held for sale” account in the 2008 consolidated balance sheet was pledged to secure certain long-term debt of Landco.

Cost of real estate sold included under “Income (loss) from discontinued operations” account in the consolidated statements of income amounted to ₱253.5 million, ₱964.1 million and ₱993.0 million for the years ended December 31, 2009, 2008 and 2007, respectively (see Note 6).

10. Available-for-sale Financial Assets

This account consists of:

	2009	2008
	(In Thousands)	
Shares of stock in:		
NEPSCC (see Note 6)	**₱236,262**	₱–
BLC	**46,525**	402,964
	₱282,787	₱402,964

NEPSCC shares, which are unquoted, were transferred to the Company in settlement of the ABHC Note as discussed in Note 6.

Investment in BLC consists of unquoted shares of stock totaling of 2,942,850 shares as of December 31, 2008. In 2009, MPC sold 2,603,078 of these BLC shares for ₱158.0 per share. Certain BLC shares were used to secure certain provisions as of December 31, 2009 and 2008 (see Note 17).

In 2008, investments in golf club shares with the carrying value of ₱62.4 million are presented under "Assets of disposal group classified as held for sale" account in the consolidated balance sheet (see Note 6). The fair values of the listed golf club shares were based on the quoted prices while fair value for the unquoted shares was determined based on cost.

11. Advances to Contractors and Consultants and Other Current Assets

Other current assets
This account consist of:

	2009	2008 (As restated - see Note 4)
	(In Thousands)	
Sinking fund	**₱796,302**	₱572,974
Deposits	**554,400**	–
Creditable Withholding Taxes (CWT)	**380,233**	373,906
Input Value-added Tax (VAT)	**33,641**	28,867
Prepaid expenses	**32,746**	23,637
Miscellaneous deposits and others	**181,629**	3,266
	1,978,951	1,002,650
Less allowance for decline in value	**385,119**	385,119
	₱1,593,832	₱617,531

Sinking fund represents amount set aside to cover semi-annual principal and interest payment of certain long-term debts (see Note 19).

In 2009, the deposit account represents short-term pledged deposits to secure Maynilad's US$12.0 million performance bond in compliance with the terms of its Concession Agreement with MWSS.

The allowance for decline in value mainly represents provision for impairment of CWT recognized in prior years as management believes that it may not be able to utilize the same. No further provision for decline in value of CWT was recognized in 2009 and 2008.

Advances to contractors and consultants
Advances to contractors and consultants mainly represent unapplied mobilization advances and advanced payments for various contracts relating to Segment 8.1 Project and Maynilad operations. These are progressively reduced upon receipt of the equivalent amount of services rendered by the contractors and consultants. Advances to contractors and consultants in 2008 amounting to ₱188.4 million was reclassified from other current assets and presented as a separate line item in the 2008 consolidated balance sheet to conform with the 2009 presentation.

12. Investments in Associates and Joint Venture

This account consists of:

	2009	2008
	(In Thousands)	
Acquisition costs:		
Balance at beginning of year	**₱5,150,370**	₱6,695,268
Acquisitions during the year	**24,962,615**	1,139,011
Acquisition of an associate through business combination	**–**	699,400
Associates previously treated as subsidiaries before discontinued operation	**–**	129,016
Discontinued operation (see Note 6)	**–**	(390,031)
Effect of consolidation of DMWC	**–**	(3,000,000)
Disposal during the year	**–**	(122,294)
Balance at end of year	**30,112,985**	5,150,370

(Forward)

	2009	2008
	(In Thousands)	
Accumulated equity in net losses:		
Balance at beginning of year	**(1,252,878)**	(131,553)
Share in net earnings during the year	**432,239**	152,296
Share in net earnings during the year from discontinued operation (see Note 6)	**–**	(8,362)
Discontinued operation (see Note 6)	**–**	(327)
Effect of consolidation of DMWC	**–**	(1,209,732)
Dividends	**(403,104)**	(55,200)
Balance at end of year	**(1,223,743)**	(1,252,878)
	28,889,242	3,897,492
Less allowance for impairment loss:		
Balance at beginning of year	**1,519,219**	1,514,340
Provision during the year (see Note 29)	**–**	188,093
Provision during the year from discontinued operation (see Note 6)	**–**	(188,093)
Associates previously treated as subsidiaries before discontinued operation	**–**	127,173
Disposal during the year	**–**	(122,294)
	1,519,219	1,519,219
	₱27,370,023	₱2,378,273

Details of investments in associates and joint ventures are as follow:

	Place of Incorporation	Principal Activities	Ownership Interest 2009	Ownership Interest 2008
Associates:				
Costa De Madera Corporation [(a)]	Philippines	Real estate	**59.89**	59.89
Prime Media Holdings, Inc.	Philippines	Media holding company	**47.33**	47.33
Metro Pacific Land Holdings, Inc.	Philippines	Real estate	**47.33**	47.33
TMC	Philippines	Tollways	**45.93**	45.93
Metro Strategic Infrastructure Holdings, Inc.	Philippines	Investment holding	**38.64**	38.64
Davao Doctors Hospital, Inc. (DDH)	Philippines	Hospital	**34.85**	34.63
Medical Doctors Inc. (MDI)	Philippines	Hospital	**34.79**	32.40
Landco NE Resources Ventures, Inc. (LNERVI) [(b)]	Philippines	Real estate	**24.95**	44.04
Manila Electric Company (Meralco)	Philippines	Power distribution	**14.67**	–
Joint Ventures:				
Manila North Harbour Port, Inc.(MNHPI)	Philippines	Port Operator	**35.00**	–
DMWC [(c)]	Philippines	Investment holding	**–**	50.00

[(a)] Not consolidated as control rests with the minority shareholders

[(b)] Joint ownership by MPC and Landco owning 24.95% and 38.70%, respectively

[(c)] DMWC is a 50% owned joint venture of MPIC until July 17, 2008; thereafter became a subsidiary.

The carrying values of investments in associates and joint venture accounted for under the equity method as of December 31 are as follow:

	2009	2008
	(In Thousands)	
Associates:		
Meralco	**₱24,366,978**	₱–
MDI	**1,475,210**	1,135,746
TMC	**677,511**	663,139
DDH	**580,020**	545,632
LNERVI	**30,763**	31,721
Others	**1,776**	2,035
Joint Venture -		
MPHPI	**237,765**	–
	₱27,370,023	₱2,378,273

Condensed combined financial information of the associates as of December 31 are as follows:

	2009	2008
	(In Thousands)	
Current assets	**₱47,953,598**	₱2,933,614
Noncurrent assets	**141,901,987**	6,506,693
Current liabilities	**44,733,036**	2,201,095
Noncurrent liabilities	**78,415,696**	2,599,071

	2009	2008	2007
		(In Thousands)	
Revenue	**₱192,158,578**	₱4,538,234	₱10,428,293
Costs and expenses	**181,766,480**	3,808,451	7,774,603
Net income	**7,241,759**	436,590	4,058,414

The above information as of and for the year ended December 31, 2009 includes the financial information of Meralco as shown below:

	Amount
	(In Millions)
Current assets	₱45,341
Noncurrent assets	135,062
Current liabilities	42,751
Noncurrent liabilities	76,506

	Amount
	(In Millions)
Revenue	₱184,872
Costs and expenses	175,610
Net income	6,356

Additional unrecognized share in net losses of associates amounted to ₱5.1 million for the year ended December 31, 2009. Reversal of unrecognized share in net losses if associates amounted to ₱141.7 million, ₱21.8 million for the years ended December 31, 2008 and 2007, respectively. Cumulative unrecognized share in net losses of associates amounted to ₱416.0 million, ₱410.9 million and ₱552.6 million as of December 31, 2009, 2008 and 2007, respectively.

Investments in Associates

Meralco. Meralco is the largest electric power distribution company and the largest private sector utility in the Philippines. It is incorporated in the Philippines and is subject to the rate-making regulations and regulatory policies of the Philippine Energy Regulatory Commission. Its subsidiaries are mainly engaged in engineering, construction and consulting services, information systems and technology, real estate, insurance and other electricity-related services.

From July 2009 through October 2009, the Company acquired a total of 163,602,961 common shares of Meralco for an aggregate purchase price of ₱24,540.3 million representing 14.67% of the issued and outstanding share capital of Meralco as of December 31, 2009, through a series of negotiated transactions and open market purchases. Details of acquisitions of Meralco shares are as follows:

- At various dates in July and August, 2009, MPIC acquired a total of 15,254,294 Meralco shares in open market for a total purchase price of ₱4,441.6 million, substantially all of which was financed through the incurrence of indebtedness under the Parent Company's bridge financing facility (see Note 19).

- On October 2, 2009, MPIC entered into a Sale and Purchase Agreement to purchase 113,313,389 common shares of Meralco held directly by Philippine Long Distance Telephone Company (PLDT) Beneficial Trust Fund (BTF) and its wholly owned subsidiary New Gallant Limited (Gallant). MPIC purchased the shares at ₱126.0 per share or for a total consideration of ₱14,277.5 million.

- At the same time, MPIC entered into a Sale and Purchase Agreement with Crogan Limited (Crogan), a corporation organized and existing under the laws of the British Virgin Islands and a subsidiary of FPC, to purchase 31,072,388 common shares of Meralco held directly by Crogan. MPIC agreed to purchase the shares at ₱126.0 per share or for a total consideration of ₱3,915.1 million.

- The acquisition of Meralco shares from BTF and Crogan was partially funded by MPIC from proceeds of share issuances made by it, as follows: (i) 3,159,162,337 MPIC common shares at ₱3.0 per share or a total of ₱9,477.5 million, in favor of BTF. Fair value of MPIC share at acquisition date was ₱3.2 per share and the total fair values of MPIC shares issued to BTF amounted to ₱10,109.3 million; and (ii) 1,305,040,296 MPIC's common shares at a subscription price of ₱3.0 per share in favor of MPHI.

- In addition, MPIC likewise entered into another agreement with Crogan to purchase additional 3,962,890 Meralco shares from the latter for ₱231.45 a piece and the purchase price amounting to ₱917.2 million was paid in cash on October 7, 2009.

The total consideration for the acquired interest in Meralco amounted to ₱24,540.3 million as follows: (a) cash consideration of ₱10,158.9 million; (b) fair value of MPIC shares issued of ₱14,285.4 million; and (c) transaction costs of ₱96.0 million.

On September 2, 2009, MPIC entered into a Shareholders' Agreement (the "Agreement") with Piltel and such Agreement defines the basic principles governing their conduct as common shareholders of Meralco and the exercise of their respective voting rights therein. Piltel directly holds a 20.0% interest of Meralco's current outstanding capital stock at that date and both Piltel and MPIC are under First Pacific Group, thus, related parties. With the Agreement, MPIC believes that, upon consummation of the acquisition of Meralco common shares held by BTF which was eventually executed on October 2, 2009 as discussed above, it has the ability to exercise significant influence in Meralco and accordingly, MPIC account for its 14.67% interest in Meralco under the equity method (see also Note 21).

The Company engaged the services of an independent appraiser to determine the fair value of Meralco's specific identifiable assets and liabilities and allocate the purchase price of the Company's investment in Meralco among the identified assets and liabilities based on fair values. Based on the final purchase price allocation, the difference of ₱16,163.0 million between the Company's share on the total fair value of Meralco's specific identified assets and liabilities and the Company's total cost of investments was allocated as follows: (a) ₱874.0 million for utility, plant and others; (b) ₱235.0 million for investment properties; (c) ₱23.0 million for investment in associates and joint ventures; (d) ₱961.0 million for intangible assets particularly for franchise; and (e) ₱14,070.0 million for goodwill.

As of December 31, 2009, the carrying value of investment in Meralco amounted to ₱24,367.0 million, after recording the share in net earnings of Meralco of ₱72.0 million (net of amortization of intangible assets of ₱12.0 million and depreciation of fair value adjustment on utility, plant and others of ₱13.0 million) and dividends declared of ₱245.0 million.

As of December 31, 2009, the market value of the Company's investment in Meralco, based on quoted price of ₱204.0 per share, amounted to ₱33,375.0 million (see Note 38).

MDI. On May 9, 2007, the Company has subscribed for a total of ₱750.0 million worth of convertible notes (Notes) of MDI. The Notes are subject to 7.0% interest per annum, payable semi-annually up to the date of conversion.

The Notes are convertible to common shares of MDI at the rate of ₱800.0 per share, but not lower than the par value of the common shares. The Notes are convertible into shares anytime after the Note's issue date and all outstanding convertible notes will be mandatorily converted into common shares on the 5th anniversary date.

As of December 31, 2007, ₱120.0 million convertible notes have already been converted into 150,000 common shares, making the Company a holder of 7.5% interest in MDI. The remaining unconverted portion of the Notes amounting to ₱630.0 million, representing 787,500 common shares of MDI, was included in "Notes Receivable" under "Receivables" account in the 2007 consolidated balance sheet.

On January 18, 2008, all the remaining portion of the convertible note was converted resulting to an additional 25.9% interest in MDI for the Company. On August 14, 2008, the Company purchased 5,284 additional shares from a stockholder of MDI at ₱980.0 per share or ₱5.2 million.

On September 8, 2009, MDI offered to issue new common shares to existing stockholders by way of a pre-emptive rights offering. The offer shares amounted to 181,226 common shares at the offer price of ₱1,150.0 per share. Eligible shareholders shall be entitled to subscribe on the ratio of one share for every sixteen shares held.

On October 14, 2009, the Company subscribed for a total of ₱161.0 million or an equivalent of 58,924 shares exercised from the pre-emptive rights offering and 81,059 additional subscription. The shares subscribed represent 2.6% additional interest, thus, resulting to a total of 1,082,767 MDI common shares or 34.8% ownership in MDI. As of December 31, 2009, the Company holds 1,082,767 MDI common shares representing 32.4% interest in MDI.

In relation to the purchase price allocation related to the acquisitions made in 2008, the excess of fair values of identifiable assets, liabilities and contingent liabilities of MDI over the acquisition cost, amounting to ₱224.8 million, was recognized as negative goodwill and is included under "Share in net earnings of associates" account in the 2008 consolidated statement of income. In 2009, the additional acquisitions resulted to an additional negative goodwill of ₱16.0 million.

DDH. On May 15, 2008, the BOD approved the purchase and acquisition of up to 34% of the issued share capital (including treasury shares) of DDH for ₱1,600.0 per share. As of December 31, 2008, MPIC has acquired a total of 311,612 common shares representing 34.6% interest in DDH. Provisional goodwill from the acquisition amounting to ₱129.8 million was determined on the basis that the Company has yet to determine the fair values of the assets, liabilities and contingent liabilities of the investee. Provisional goodwill was included in the carrying value of investments. Upon finalization of the purchase price allocation in 2009, it was determined that no adjustment needs to be made on the provisional goodwill.

In May 2009, MPIC acquired an additional 2,048 common shares representing 0.3% interest in DDH, thereby increasing its percentage ownership to 34.9% as of December 31, 2009.

In 2009, the Company recognized its share of dividends amounting to ₱17.3 million from DDH. Of the ₱17.3 million dividends, ₱7.8 million remains to be receivable from DDH as of December 31, 2009.

TMC. With MPIC's acquisition of MPTC on November 13, 2008 as discussed in Note 4, TMC became an associate of the Company at 45.9%.

In 2009, TMC's BOD approved the declaration of cash dividends of ₱304.0 million, of which MPTC recognized its share of the dividends amounting to ₱139.8 million.

Nenaco. As discussed in Note 6, the Company sold its remaining interest in Nenaco in 2008.

Investment in Joint Venture

Manila North Harbour Port, Inc. (MNHPI). Manila North Harbour Port, Inc. (MNHPI), a joint venture between MPIC and Harbour Centre Port Terminal, Inc. (HCPTI) was incorporated on November 5, 2009 for the purpose of developing, maintaining and operating the Manila North Harbor and other port facilities. The authorized capital stock of MNHPI is 700.0 million, divided into 7,000,000 shares with the par value of ₱100.0 per share. On the basis of the subscribed capital stock, MNHPI is 35% and 65%-owned by MPIC and HCPTI, respectively.

On August 14, 2009, MNHPI formally submitted its bid to be the sole and exclusive operator of the Manila North Harbor. In a letter dated October 8, 2009, the Notice of Award of the Contract for the Development, Management and Maintenance of the Manila North Harbor (the Contract) was made to MNHPI by the Philippine Ports Authority (PPA). The Contract, which was dated November 19, 2009, is effective for a period of 25 years, renewable for another 25 years under such terms and conditions as the parties may agree unless sooner modified, cancelled or terminated. Under the Contract, a fixed fee totaling ₱6,818.8 million shall be remitted to the PPA based on a schedule of payments from year 1 to year 25, with the first payment to be made on the first quarter after the date of takeover of operations by MNHPI. As of March 3, 2010, MNHPI has not yet taken over the operations of the Manila North Harbor.

DMWC. Prior to July 17, 2008, MPIC has 50.0% interest in DMWC, a joint venture with DMCI, which was incorporated to acquire equity interest, purchase, negotiate or otherwise deal with or dispose of stocks, bonds of Maynilad. The investment in the joint venture was accounted under the equity method in 2007.

As discussed in Note 4, MPIC acquired control over DMWC on July 17, 2008, and DMWC became a subsidiary of MPIC. Share in net losses from the joint venture before control was obtained amounted to ₱256.7 million in 2008. In 2007, share in net earnings (losses) from the joint venture amounted to ₱1,529.3 million.

Condensed combined financial information of MNHPI and DMWC are as follows:

	2009	2008
	(In Thousands)	
Current assets	**₱4,247,727**	₱–
Noncurrent assets	**6,216**	–
Current liabilities	**178,208**	–
Noncurrent liabilities	**3,529,787**	–

	2009	2008*	2007
		(In Thousands)	
Revenue	**₱–**	₱8,654,837	₱7,377,042
Costs and expenses	**35,258**	7,854,509	5,006,229
Net income (loss)	**(29,053)**	(397,040)	2,557,504

**The amounts for 2008 include balances of DMWC, which became a subsidiary of MPIC as of July 2008.*

13. Service Concession Assets

The movements in the service concession assets follow:

		2009	
	MPTC	**DMWC**	**Total**
		(In Thousands)	
Cost:			
Balance at beginning of year	**₱16,921,047**	**₱41,029,537**	**₱57,950,584**
Additions	**319,820**	**8,306,845**	**8,626,665**
Balance at end of year	**17,240,867**	**49,336,382**	**66,577,249**
Accumulated amortization:			
Balance at beginning of year	**₱75,146**	**₱1,211,310**	**₱1,286,456**
Additions (see Note 24)	**578,978**	**2,526,408**	**3,105,386**
Balance at end of year	**654,124**	**3,737,718**	**4,391,842**
	₱16,586,743	**₱45,598,664**	**₱62,185,407**

		2008	
	MPTC	DMWC	Total
		(In Thousands)	
Cost:			
Acquisition of subsidiaries (see Note 4)	₱16,901,482	₱38,122,218	₱55,023,700
Additions	19,565	2,907,319	2,926,884
Balance at end of year	16,921,047	41,029,537	57,950,584
Accumulated amortization -			
Amortization for the year (see Note 24)	75,146	1,211,310	1,286,456
	₱16,845,901	₱39,818,227	₱56,664,128

Maynilad's Service Concession Agreement with MWSS.
On February 21, 1997, Maynilad entered into a Concession Agreement with MWSS, a government-owned and controlled corporation organized and existing pursuant to Republic Act (RA) No. 6234 (the Charter), as clarified and amended, with respect to the MWSS West Service Area. The Concession Agreement sets forth the rights and obligations of Maynilad throughout the concession period. The MWSS Regulatory Office (MWSS-RO or Regulatory Office) acts as the regulatory body of the Concessionaires [Maynilad and East Concessionaire - Manila Water Company, Inc. (Manila Water)].

Under the Concession Agreement, MWSS grants Maynilad (as contractor to perform certain functions and as agent of certain rights and powers under the Charter), the sole right to manage, operate, repair, decommission and refurbish all fixed and movable assets (except certain retained assets) required to provide water and sewerage services in the West Service Area for 25 years commencing on August 1, 1997 (the Commencement Date) to May 6, 2022 (the Expiration Date) or the early termination date as the case may be.

While Maynilad is also tasked to manage, operate, repair, decommission and refurbish certain specified MWSS facilities in the West Service Area, legal title to these assets remains with MWSS. The legal title to all property, plant and equipment contributed to the existing MWSS system by Maynilad during the concession period remains with Maynilad until the Expiration Date (or on early termination date) at which time, all rights, titles and interest in such assets will automatically vest to MWSS.

Under the Concession Agreement, Maynilad is entitled to the following rate adjustments:

a. annual standard rates adjustment to compensate for increases in the Consumer Price Index (CPI) subject to rates adjustment limit;

b. extraordinary price adjustment (EPA) to account for the financial consequences of the occurrence of certain unforeseen events subject to grounds stipulated in the Concession Agreement; and

c. rate rebasing (Rate Rebasing) mechanism allows rates to be adjusted every five (5) years to enable Maynilad to recover expenditures efficiently and prudently incurred, Philippine business taxes and payments corresponding to debt service on concession fees and concessionaire's loans incurred to finance such expenditures.

In addition, Amendment No.1 on the Concession Agreement provided Maynilad certain reliefs including, without limitation, to the implementation of effective foreign exchange recovery mechanisms which are as follows:

a. a rate adjustment of ₱4.21 per cubic meter (Accelerated EPA or AEPA) beginning October 15, 2001 (although actual implementation commenced only on October 20, 2001 after publication of rates) up to December 31, 2002 to enable Maynilad to recover foreign exchange losses incurred for the period August 1, 1997 to December 31, 2000;

b. a Special Transitory Mechanism (STM) beginning July 2002 to enable Maynilad to recover foreign exchange losses for the period January 1, 2001 to December 31, 2001 and such losses arising from the repayment of Maynilad's US$100.0 million bridge loan and short-term loan and other payments relating thereto, the payment of concession fees suspended, and past foreign exchange losses unrecovered through the adjustment in (a) above as of December 31, 2002; and,

c. the FCDA to enable Maynilad to recover/account for present and future foreign exchange losses/gains including all accrual and carrying costs thereof for the period beginning January 1, 2002 until the Expiration Date on a quarterly basis, excluding such losses or gains required to be recovered or accounted for through the special transitory mechanism described in (b) above.

Amendment No.1 further provided for rate rebasing on January 1, 2003 which requires, among others, an agreement between Maynilad and MWSS covering the action plan relating to water and sewerage service targets.

Extension of Maynilad's Concession Agreement. On September 10, 2009, the MWSS Board of Trustees (BoT) approved the extension of the expiry of its Concession Agreement with the Company by an additional (15) years or from May 6, 2022 to May 6, 2037. Subsequently, on September 16, 2009, the MWSS Administrator wrote the Department of Finance (DoF) to inform them of the Board's decision and seek DOF's written consent to the extension, as well its extension of the letter of undertaking covering the government's obligation under the Concession Agreement. The DoF is presently reviewing the extension but the Company expects to receive the DoF's Letter of Consent and Undertaking within six months from the MWSS BoT approval, similar to the timeframe established when the East Concessionaire received its extension.

Also, in 2009, Maynilad recognized additional concession fees pertaining to the following:

a. Incremental MOE resulting from the extension of the life of the Concession Agreement to 2037, specifically the 100% increase in regulatory fees to be paid to MWSS. Maynilad remeasured the concession liability related to MOE using the present value of the revised cash flows starting 2010 until 2037. The increase in the concession liability resulting from the revised cash flows, which amounted to ₱2.8 billion, was capitalized as part of the Service Concession Assets.

b. Acceptance of incremental concession fees pertaining to MWSS loans from ADB and BNP Paribas amounting to ₱1.0 billion. Although said loans were previously obtained by MWSS to fund common purpose facilities of Maynilad and the East Concessionaire, Maynilad did not recognize these as concession fees as such were prohibited under Maynilad's Rehabilitation Plan. Upon exit from rehabilitation in 2008, Maynilad and MWSS began to negotiate payment terms for these outstanding loans for incorporation into Maynilad's rebasing business plans. Such terms were only finalized in October 2009.

As further discussed in Note 3, Maynilad revised the estimated useful life of its service concession assets effective September 10, 2009.

<u>Supplemental Toll Operation Agreement (STOA)</u>
PNCC is the franchise holder for the construction, operation and maintenance of toll facilities in the North and South Luzon Tollways and the Metro Manila Expressway by virtue of Presidential Decree (PD) No. 1113 issued on March 31, 1977, as amended by PD No. 1894 issued on December 22, 1983. PNCC has an existing Toll Operation Agreement (TOA) with the Government of the ROP, by and through the TRB.

Pursuant to the Joint Venture Agreement (JVA) entered into by PNCC and MPTDC on August 29, 1995, PNCC assigned its rights, interests and privileges under its franchise to construct, operate and maintain toll facilities in the NLE in favor of MNTC, including the design, funding and rehabilitation of the NLE, and installation of the appropriate collection system therein. MPTDC, in turn, assigned all its rights, interests and privileges to the Binictican-Bo. Tipo road project, as defined in the Memorandum of Understanding dated March 6, 1995, to MNTC, which assumed all the rights and obligations as a necessary and integral part of the NLE project. The assignment of PNCC's usufructuary rights, interests and privileges under its franchise, to the extent of the portion pertaining to the NLE, was approved by the then President of the ROP. On October 10, 1995, the Department of Justice issued Opinion No. 102, Series of 1995, affirming the authority of the TRB to grant authority to operate a toll facility and to issue the necessary Toll Operation Certificate in favor of PNCC and its joint venture partner, as reiterated and affirmed by the Secretary of Justice in his letter to the Secretary of Public Works and Highways dated November 24, 1995, for the proper and orderly construction, operation and maintenance of the NLE as a toll road during the service concession period.

In April 1998, the ROP (Grantor), acting by and through the TRB, PNCC (Franchisee) and MNTC (Concessionaire) executed the STOA for the Manila-North Expressway, whereby the ROP granted MNTC the rights, obligations and privileges including the authority to finance, design, construct, operate and maintain the project roads as toll roads (Concession) commencing upon the date the STOA comes into effect until December 31, 2030 or 30 years after the issuance of the TOP for the last completed phase, whichever is earlier, unless further extended pursuant to the STOA.

The PNCC franchise expired on May 1, 2007. Pursuant to the STOA, the ROP issued the necessary TOC for the NLE in order to allow the continuation of the Concession. MPTC pays a certain amount to PNCC.

Also, under the STOA, MNTC shall pay for Grantor's project overhead expenses based on certain percentages of total construction costs or of periodic maintenance works on the project roads. Fees billed by TRB amounted to ₱6.0 million, ₱11.7 million and ₱15.7 million in 2009, 2008 and 2007, respectively.

Upon expiry of the service concession period, MNTC shall hand-over the project roads to the Grantor without cost, free from any and all liens and encumbrances and fully operational and in good working condition, including any and all existing land required, works, toll road facilities and equipment found therein directly related to and in connection with the operation of the toll road facilities.

Extension of MNTC's Concession Agreement
As discussed in Note 3, in October 2008, the TRB approved MNTC's proposal to extend the service concession term for Phase 1 and Segment 8.1 of the Project until December 31, 2037, subject to certain conditions.

Capitalization of Borrowing Costs
Portion of the additions during 2009 pertain to the construction of Segment 8.1, a portion of Phase II of the Project. Borrowing costs capitalized during the year ended December 31, 2009 amounted to ₱31.7 million. There were no borrowing costs capitalized in 2008 as the actual construction of Segment 8.1 has just started in April 2009. The interest rate used to determine the amount of borrowing costs eligible for capitalization was 9.6% in 2009.

14. Property and Equipment

This account consists of:

December 31, 2009

	December 31, 2008	Additions	Disposals/ Reclassifications	**December 31, 2009**
		(In Thousands)		
Cost:				
Leasehold improvements	₱2,716	₱4,023	₱–	**₱6,739**
Building and building improvements	95,920	73,767	(1,601)	**168,086**
Office and other equipment, furniture and fixtures	203,178	48,087	162,994	**414,259**
Transportation equipment	199,887	29,822	19,491	**249,200**
Instruments, tools and other equipment	219,776	35,074	61,389	**316,239**
Total	₱721,477	₱190,773	₱242,273	**₱1,154,523**
Accumulated depreciation:				
Leasehold improvements	1,770	783	–	**2,553**
Building and building improvements	843	4,761	(815)	**4,789**
Office and other equipment, furniture and fixtures	26,714	74,254	142,123	**243,091**
Transportation equipment	24,133	44,026	31,803	**99,962**
Instruments, tools and other equipment	25,420	61,306	82,997	**169,723**
	78,880	185,130	256,108	**520,118**
	₱642,597	₱5,643	(₱13,835)	**₱634,405**

December 31, 2008

	December 31, 2007	Acquisition of Subsidiaries	Additions	Disposals/ Reclassifi-cations	Discontinued operation (see Note 6)	December 31, 2008
			(In Thousands)			
Cost:						
Land	₱70,115	₱–	₱2,317	(₱216)	(₱72,216)	₱–
Land improvements	16,471	–	–	–	(16,471)	–
Leasehold improvements	2,716	–	–	–	–	2,716
Building and building improvements	119,745	89,096	30,856	(100)	(143,677)	95,920
Office and other equipment, furniture and fixtures	147,622	144,855	95,766	(15,073)	(169,992)	203,178
Transportation equipment	65,885	137,328	55,506	(5,557)	(53,275)	199,887
Instruments, tools and other equipment	–	163,098	59,548	(2,870)	–	219,776
	422,554	534,377	243,993	(23,816)	(455,631)	721,477
Accumulated depreciation:						
Land improvements	658	–	659	–	(1,317)	–
Leasehold improvements	831	–	939	–	–	1,770
Building and building improvements	46,552	–	9,413	(81)	(55,041)	843
Office and other equipment, furniture and fixtures	77,871	–	51,154	(709)	(101,602)	26,714
Transportation equipment	42,305	–	32,887	(2,864)	(48,195)	24,133
Instruments, tools and other equipment	–	–	25,420	–	–	25,420
	168,217	–	120,472	(3,654)	(206,155)	78,880
	254,337	534,377	123,521	(20,162)	(249,476)	642,597
Construction in progress	4,567	–	658	–	(5,225)	–
	₱258,904	₱534,377	₱124,179	(₱20,162)	(₱254,701)	₱642,597

Property and equipment classified under discontinued operation is provided with an allowance for impairment amounting to ₱120.2 million for the year ended December 31, 2008 (see Notes 6 and 29).

Depreciation is computed on a straight-line basis over the following estimated useful lives of property and equipment:

Land improvements	5 years
Leasehold improvements	2–5 years
Building and building improvements	5–50 years
Office and other equipment, furniture and fixtures	2–5 years
Transportation equipment	2–5 years
Instruments, tools and other equipment	5 years

As further discussed in Note 19, all existing and future assets of MNTC are mortgaged in favor of the lenders in line with the requirements of the Mortgage Assignment and Pledge Agreement known as the Master Security Agreement (MSA).

15. Other Noncurrent Assets

This account consists of:

	2009	2008
	(In Thousands)	
Miscellaneous deposits	**₱71,734**	₱66,807
Pension assets (see Note 27)	**18,095**	–
Software cost - net of accumulated amortization of ₱15,000 in 2009 and ₱12,000 in 2008	**19,908**	16,320
Others	**21,829**	72,765
	₱131,566	₱155,892

Miscellaneous deposits mainly represent rental deposits and deposits for restoration works.

16. Accounts Payable and Other Current Liabilities

This account consists of:

	2009	2008
	(In Thousands)	
Trade payables	**₱1,517,808**	₱1,244,183
Accrued expenses	**3,112,198**	2,030,406
Accrued construction costs (see Note 21)	**1,726,337**	1,912,797
Interest and other financing charges payable	**515,451**	782,313
Provision for ESOP	**259,336**	183,440
Dividends payable (see Note 23)	**170,477**	28,588
Withholding taxes payable	**39,216**	68,918
Retention payable	**16,901**	11,460
Accounts payable	**7,350**	33,005
Unearned rental income and other deposits	**2,441**	3,860
Output taxes payable	**–**	57,318
Others	**164,923**	56,082
	₱7,532,438	₱6,412,370

Trade payables includes unpaid billings of creditors, suppliers and contractors. It also includes liabilities relating to assets held in trust (see Note 36) used in Maynilad's operations amounting to ₱402.8 million and ₱402.5 million as of December 31, 2009 and 2008, respectively. Trade payables are noninterest-bearing and are normally settled on 30 to 60 day terms.

Accrued expenses mainly consist of accruals of salaries, wages and benefits, professional fees, contracted services other than from construction, repairs and maintenance and taxes.

Accrued constructions costs represent unbilled construction costs from contractors (see Note 21).

Interest payable is generally settled semi-annually.

Provision for ESOP represents the excess of the carrying value of the DMWC's investment in Maynilad over the expected amount to be paid by Maynilad when Maynilad will procure the shares to be issued to its employees from the DMWC in compliance with the Concession Agreement.

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

17. Provisions

Movements in this account follow:

	December 31, 2009		
	Warranties and Guarantees	**Heavy Maintenance and Others**	**Total**
		(In Thousands)	
Balance at the beginning of year	**₱461,476**	**₱215,398**	**₱676,874**
Additions (see Notes 24 and 29)	**54,847**	**266,549**	**321,396**
Accretion of interest (see Note 28)	**–**	**16,469**	**16,469**
Payments	**–**	**(43,272)**	**(43,272)**
	516,323	**455,144**	**971,467**
Less current portion	**516,323**	**39,317**	**555,640**
	₱–	**₱415,827**	**₱415,827**

	December 31, 2008		
	Warranties and Guarantees	Heavy Maintenance and Others	Total
		(In Thousands)	
Balance at the beginning of year	₱461,476	₱–	₱461,476
Acquisition of a subsidiary (see Note 4)	–	166,860	166,860
Additions (see Note 24)	–	66,668	66,668
Payments	–	(18,130)	(18,130)
	461,476	215,398	676,874
Less current portion	461,476	45,123	506,599
	₱–	₱170,275	₱170,275

Provisions include estimated expenses related to the concluded and ongoing debt settlement negotiations and certain warranties and guarantees extended by MPC in relation to debt for asset swap arrangements entered in prior years. Certain warranties and guarantees are secured by Pacific Plaza Tower (PPT) condominium units and BLC shares (see Notes 9 and 10).

Provision for heavy maintenance pertains to the contractual obligations of MPTC to restore the service concession assets to a specified level of serviceability. MPTC recognizes provision as the obligation arises which is a consequence of the use of the roads and therefore it is proportional to the number of vehicles using the road and increasing in measurable annual increments.

Other provisions consist of estimated liabilities for certain fees under the STOA and Operation and Maintenance Agreement entered into by MPTC.

18. Service Concession Fees Payable

This account consists of:

	2009	2008
	(In Thousands)	
Service concession fees payable	**₱10,280,140**	₱7,595,219
Less current portion	**1,208,467**	974,521
	₱9,071,673	₱6,620,698

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

The schedule of undiscounted estimated future concession fee payments, based on the original life of the Concession Agreement, is as follows:

	In Original Currency		
Year	Foreign Currency Loans (Translated to US$)	Peso Loans/ Project Local Support	Total Peso Equivalent*
	(In Millions)		
2010	$27.2	₱411.6	₱1,668.2
2011	35.3	410.9	2,041.8
2012	19.1	410.5	1,292.9
2014-2022	89.9	4,093.4	8,246.8
	$171.5	₱5,326.4	₱13,249.7

** Peso equivalent is translated using the December 31, 2009 exchange rate of ₱46.20:US$1.*

Estimated future concession fee payments, excluding MOE, relating to the extension of the Concession Agreement (see Note 13) is still not determinable. It is only determinable upon loan drawdown of MWSS and Maynilad's actual construction of the related concession projects.

19. Long-term Debts

This account consists of:

	December 31, 2009				
	Loans	**Convertible Preferred Shares**	**Long-term Bonds**	**Convertible Notes**	**Total**
			(In Thousands)		
MPIC	**₱17,916,250**	**₱–**	**₱–**	**₱–**	**₱17,916,250**
DMWC and subsidiary (Maynilad)	**16,729,638**	**–**	**–**	**–**	**16,729,638**
MPTC and subsidiary (MNTC)	**8,759,838**	**–**	**–**	**–**	**8,759,838**
MPC	**–**	**57,267**	**14,322**	**37,231**	**108,820**
	43,405,726	**57,267**	**14,322**	**37,231**	**43,514,546**
Less unamortized debt issue costs	**728,146**	**–**	**–**	**–**	**728,146**
	42,677,580	**57,267**	**14,322**	**37,231**	**42,786,400**
Less current portion of long-term debt - net of unamortized debt issue costs of ₱32.1 million	**849,275**	**57,267**	**14,322**	**37,231**	**958,095**
	₱41,828,305	**₱–**	**₱–**	**₱–**	**₱41,828,305**

	December 31, 2008				
	Loans	Convertible Preferred Shares	Long-term Bonds	Convertible Notes	Total
			(In Thousands)		
MPIC	₱6,750,000	₱–	₱–	₱–	₱6,750,000
DMWC and subsidiary Maynilad	16,894,638	–	–	–	16,894,638
MPTC and subsidiary MNTC	9,036,624	–	–	–	9,036,624
MPC	–	57,267	14,731	37,231	109,229
Landco	1,273,466	–	–	–	1,273,466
	33,954,728	57,267	14,731	37,231	34,063,957
Less Landco debt presented under “Liabilities directly associated with assets classified as held for sale” (see Note 6)	1,273,466	–	–	–	1,273,466
	32,681,262	57,267	14,731	37,231	32,790,491
Less unamortized debt issue costs	522,751	–	–	–	522,751
	32,158,511	57,267	14,731	37,231	32,267,740
Less current portion of long-term debt - net of unamortized debt issue costs of ₱8.5 million	746,026	57,267	14,731	37,231	855,255
	₱31,412,485	₱–	₱–	₱–	₱31,412,485

The movements in debt issue cost are as follows:

	2009	2008
	(In Thousands)	
Balance at beginning of year	**₱522,751**	₱–
Amortization during the year charged to interest expense (see Note 28)	**(24,637)**	(14,030)
Debt issue costs paid during the year	**230,032**	536,781
Balance at end of year	**₱728,146**	₱522,751

Repayment schedule of the long-term debts follow:

	2009	2008
	(In Thousands)	
Current	**₱990,221**	₱863,756
2010	**1,403,271**	735,523
2011	**2,197,473**	7,912,853
2012 and onwards	**38,923,581**	23,278,359
	₱43,514,546	₱32,790,491

MPIC

₱12.0 Billion Loan. On November 6, 2009, the Company entered into a ₱12.0 billion Omnibus Agreement from various financing institutions for the purpose of partially financing the Company’s series of acquisitions of Meralco common shares. The loan is available in two drawdowns, on which the first drawdown shall not be less than ₱11.0 billion while the second drawdown shall not exceed the loan amount. The loan shall be payable in semi-annual installments and bears an interest rate based on a spread of 2.5% over the benchmark rate. The benchmark rate is the interpolated 9-year rate to be determined by referring to 7 to 10 year bids from PDST-F.

On November 13, 2009, the Company made its first drawdown amounting to ₱11.2 billion. As of December 31, 2009, outstanding balance of the current and noncurrent portion of this loan amounted to ₱120.0 million and ₱11,080.0 million, respectively.

All legal and professional fees incurred in relation to the debt, totaling ₱230.0 million, were capitalized. Debt issue costs are amortized using the effective interest method. Amortization of debt issue costs attributed to this loan, amounting to ₱2.8 million for the year ended December 31, 2009, is presented as part of “Interest expense” account in the consolidated statement of income (see Note 28).

The loan shall be secured by a pledge on Meralco shares owned by the Company or by any third party procured by the Company. The Company shall, from the date of the pledge over the Meralco shares maintain the loan to value ratio at 50%. As of December 31, 2009, MPIC is in compliance with the required ratio.

The Omnibus Agreement also provides for the maintenance of a Debt Service Account (DSA) to be used by the Company to service interest and principal payments. The Company shall fund the DSA no later than 15 days prior to the relevant payment dates for the principal and interest. The Company will start funding the related DSA in 2010.

₱4.5 Billion Bridge Financing Facility. On August 3, 2009, MPIC incurred indebtedness of ₱4,500.0 million by drawing on the Bridge Financing (the "Promissory Note") obtained from local banks, in order to consummate the purchase of common shares of Meralco in the open market amounting to ₱4,441.6 million (see Note 12). The principal amounts of these promissory notes are payable in a single payment sixty days from the execution of the promissory notes or on October 3, 2009. Interest on the outstanding principal amount of the Promissory Note is payable monthly in arrears on each interest payment date for the interest period then ending at a fixed rate which shall be equal to the 30-day PDST-F rate prevailing on an Interest Rate Setting Date plus a spread of 3.5%. The Promissory Note is secured by a pledge of 48,385,278 shares of common stock of Meralco, of which 13,350,000 shares are owned by the MPHI and 35,035,278 shares are owned by Crogan, as a third party pledgor at that time. On September 28, 2009, the principal amount of the Promissory Note and any accrued interest therein were paid and the pledged shares of Meralco have been released. Debt issue costs included under "General and administrative expenses" account in the consolidated statement of income and interest expense incurred with respect to this financing facility amounted to ₱27.6 million and ₱55.3 million, respectively (see Notes 25 and 28).

₱6.8 Billion Loan. On November 4, 2008, MPIC entered into an Omnibus Notes Facility and Security Agreement (the MPIC Omnibus Agreement) with a certain local bank for a ₱6.8 billion note (the Note) for the purpose of partially financing its acquisition of MPTC common shares. The note bears a fixed interest rate equivalent to a 10-year Philippine Dealing System Treasury-Fixing (PDST-F) interest prevailing on one banking day prior to November 13, 2008 (Issue Date) plus applicable margin of 1.75% or such rate not exceeding 2.25% per annum, as agreed between the parties, subject to a floor of nine percent (9%) per annum. Interest shall be paid semi-annually commencing on the Issue Date. The Note is payable in twenty (20) consecutive semi-annual installments to commence at the end of the 9th month after Issue Date. After four (4) years from the Issue Date, MPIC may redeem in whole or in part the Note on any interest payment date falling thereafter.

All legal and professional fees incurred in relation to the debt totaling ₱85.0 million were recognized as debt issue costs and amortized using the effective interest method over the term of the Note. Amortization of debt issuance costs, amounting to ₱7.6 million and ₱1.1 million is presented as part of "Interest expense" account in the consolidated statements of income for the years ended December 31, 2009 and 2008, respectively (see Note 28).

As a continuing security for the due and punctual payment and performance of the Note, MPIC pledged the acquired MPTC shares (see Note 4).

The MPIC Omnibus Agreement also provides for the maintenance of a DSA from the Issue Date until payment in full of all amounts due to the lenders for the purpose of holding funds on reserve to service MPIC's payments of the Notes. The Debt Service Account amounting to ₱270.2 million and ₱65.3 million as of December 31, 2009 and 2008, respectively, is presented as part of "Other current assets" account in the consolidated balance sheets (see Note 11).

Moreover, the MPIC Omnibus Agreement requires MPIC to ensure during the terms of the Notes that its debt-to-equity ratio does not exceed 70:30, and its debt service coverage ratio is at a minimum of 1.3x. As of December 31, 2009 and 2008, MPIC is in compliance with the required financial ratios.

As of December 31, 2009, outstanding balance of the current and noncurrent portion of this loan amounted to ₱67.5 million and ₱6,648.8 million, respectively. As of December 31, 2008, outstanding balance of the current and noncurrent portion of this loan amounted to ₱33.6 million and ₱6,716.3 million, respectively.

Convertible Notes from MPHI and Inframetro Holdings Pte. Ltd. (Inframetro). On January 8 and May 16, 2007, the Parent Company availed of US dollar-denominated loans (Dollar Loans) amounting to $61.9 million (Tranche 1) and $15.9 million (Tranche 2) from MPHI and Ashmore [Global Special Situations Fund Limited, Ashmore Global Special Situations Fund 2 Limited, Ashmore Global Special Situations Fund 3 Limited, Asset Holder PCC No. 2 Limited in Respect of Ashmore Asian Recovery Fund and EMDCD Ltd. (collectively referred to as Ashmore)], respectively, or for an aggregate amount of ₱3,765.2 million to finance the Company's investments in Maynilad and MDI. The Dollar Loans carry a conversion option by written notice by the lenders to the Company to convert all or part of the principal amount of the Dollar Loans to equity at ₱1/share.

Interest on Dollar Loans is floating (LIBOR plus 300 basis points), payable in 12 months from date of grant. The Company shall pay interest on the outstanding Dollar Loans, unless the lenders convert the loans into shares of the Company. The interest shall continue to accrue on any remaining balance on the Dollar Loans after the conversion into shares and shall continue to apply until such time as all of the Dollar Loans have been converted into shares. The Dollar Loan's principal and interest will mature on January 8, 2008 and May 16, 2008, respectively, if no conversion happens.

The conversion option of the Dollar Loans was separately accounted for as an embedded derivative. The day 1 loss related to the convertible note from MPHI amounting to ₱286.1 million was recognized directly under "Other reserves" account in the equity section of the 2007 consolidated balance sheet and consolidated statement of changes in equity (see Note 22). The day 1 loss amounting to ₱305.1 million related to the Ashmore loan was recognized under "Other expense" account in the 2007 consolidated statement of income (see Note 29). The Dollar Loans were recorded at present value and interests were recognized using the effective interest method. Interest expense representing the accretion of the Dollar Loans amounted to ₱12.6 million in 2008 and ₱3,211.5 million in 2007 (see Note 28).

Interest payable and derivative liability amounted to ₱245.2 million and ₱3,222.8 million as of December 31, 2007. These were subsequently extinguished upon the issuance of the Peso-denominated loans as further discussed below. Mark to market gain related to the derivative liability amounting to ₱1,065.7 million was presented under "Other income" account in the consolidated statement of income for the year ended December 31, 2007 (see Note 29).

In 2007, Ashmore conveyed to Inframetro their rights, title, interests and obligations in and to the Dollar Loans as if Inframetro was named a party in the Dollar Loans agreement.

On December 31, 2007, the Company replaced the Dollar Loans with Peso-denominated loans (Peso Loans) amounting to ₱2,766.4 million (Tranche 1) and ₱691.0 million (Tranche 2). Upon and conditional on such issuance, the Dollar Loans shall be surrendered to, and cancelled by the Company and all obligations of the Company under the Dollar Loans shall be discharged and become obligations under the Peso Loans, however, all accrued rights of MPHI and Inframetro against the Company are not discharged.

The Peso Loans pay interest based on PDST-F benchmark rate plus 3.0%. The interest shall continue to accrue on any remaining balance on the loans after the conversion into shares and shall continue to apply until such time all of the loans have been converted into shares. The Peso Loans matured and paid on February 28, 2008 and May 26, 2008.

The Peso Loans also carry a conversion option by written notice by the lenders to the Company to convert all or part of the principal amount of the Peso Loans into equity at ₱1.08236 (Tranche 1) and ₱1.05286 (Tranche 2) per share. However, throughout 2007, MPHI and Inframetro had already been in discussion to find resolution to the dollar loans agreement that it had signed with the Company. As mentioned under the dollar loans agreement, Company had granted MPHI and Inframetro the right to convert their loans to the Company to common shares of the Company. Additionally, MPHI and Inframetro, gave each other the right to force the conversion of the other party's loan into equity in the Company should one of them decide to convert its loan.

Pursuant to an agreement effective December 31, 2007, MPHI and Inframetro, agreed on the following: (a) for Inframetro to waive its right to convert its portion of the Tranche 1 Peso Loans, and; (b) for MPHI and Inframetro to waive each of their right to force conversion of the Peso Loans.

On both the Dollar and Peso Loans, the Company may prepay the loans in full or in part, without premium or penalty, at anytime during the term of the loans. The Company may not prepay the loans in full or in part to defeat the conversion option of the lenders. In any case, the lender's exercise of their option shall override any notice of prepayment by the Company.

The exchange of the Peso Loans against the Dollar Loans, after considering the waiver of a portion of the option, resulted in a net gain of ₱1,054.0 million, representing the difference of the gain on extinguishment of ₱2,945.0 million on the Dollar Loan and the loss on recognition of ₱1,891.0 million on the Peso Loans (see Note 29). The value of the conversion option of ₱1,903.6 million embedded in the Peso Loan was recognized directly in equity and included under "Other reserves" account in the consolidated balance sheet and consolidated statement of changes in equity (see Note 22).

On March 3, 2008, a Deed of Assignment was executed between MPHI and Inframetro where the latter assigns to the former its right over Inframetro's Tranche 2 loan amounting to ₱258.4 million. On the same date, MPHI issued a Notice of Conversion signifying its intention to convert to equity Tranche 1 and Tranche 2 loans amounting to ₱1,338.9 million and ₱432.6 million, respectively. Further, MPHI also intended to convert to equity the assigned Inframetro Tranche 2 loan amounting to ₱258.4 million. Upon issuance of the shares, MPHI confirmed that MPIC is deemed to have fully repaid the loans with all interests and other charges thereon waived.

On June 27, 2008, MPIC and Inframetro agreed that the Inframetro Tranche 1 loan of ₱1,427.5 million shall be paid and settled in the equivalent amount of $32.1 million at fixed exchange rate of ₱44.45. Only upon the date of receipt by Inframetro of the payment did Inframetro render its quittance, discharge, release in full of the entire obligation of MPIC and waived any and all accrued interests on the loan, without necessity for the execution of any other document. Eventually on July 7, 2008, Inframetro Tranche 1 loan was paid in cash.

On August 31, 2008, all the convertible notes issued to MPHI mentioned above were converted to 1,893,282,845 common shares of MPIC (see Note 22).

DMWC and Subsidiary Maynilad

Loans. On June 30, 2008, Maynilad entered into an Omnibus Notes Facility and Security Agreement (the Maynilad Omnibus Agreement) with certain local banks (Noteholders) for US$365.0 million notes ("the Notes") for the purpose of financing the capital expenditures and payment of advances from shareholders. The Notes comprise Series 1 amounting to US$240.0 million and Series 2 amounting to US$125.0 million. Series 1 is a peso-denominated loan which consists of US$120.0 million fixed-rate note and US$120.0 million floating-rate note. Series 2 is a US$125.0 million floating-rate dollar-denominated note. The Notes are payable 10 years from the issue date.

Series 1 Fixed and Floating Rate Note. Bears interest of fixed benchmark rate plus 2.0% spread per annum and is payable within ten years to commence at the end of the 36th month after the initial issue date.

Series 2 Floating Rate Note. Bears interest of LIBOR and CDS rate plus 2.0% spread per annum and is payable within ten years to commence at the end of the 36th month after the initial issue date.

Maynilad's existing Note Holders are secured by a first ranking mortgage over all of the company's mortgageable assets and an assignment of all rights, title and interest of Maynilad to its assigned accounts, accounts receivable, project documents and performance guarantee with Banco De Oro as collateral agent. The Noteholders are secured further by a third party mortgage of the Company shares representing 40.9% of the outstanding shares of Maynilad and a voting trust over 31.0% of the outstanding shares of Maynilad. The third party mortgage and voting trust over the Maynilad shares shall cease, terminate, and become void at such time that Maynilad's non-revenue water or NRW is reduced to 45%.

Debt Issuance Costs. All legal, professional and registration fees incurred in relation to the availment of the Notes, totaling ₱451.8 million, were capitalized starting July 2008. Debt issuance costs are amortized using the effective interest rate method. Amortization of debt issuance costs amounting to ₱14.2 million in 2009 and ₱13.0 million in 2008 is presented as part of "Interest expense" account in the consolidated statements of income (see Note 28).

Covenants. The Omnibus Agreement contains provisions regarding the maintenance of certain financial ratios such as debt-to-equity ratio and debt service coverage ratio, and maintenance of debt service reserve account. As of December 31, 2009 and 2008, Maynilad has complied with these ratios.

As of December 31, 2009 and 2008, outstanding balance of the Notes amounted to ₱16,729.6 million and ₱16,894.6 million, respectively.

MPTC and Subsidiary MNTC
Loans consist of:

	2009	2008
	(In Thousands)	
Fixed Rate Corporate Notes (FXCN)	**₱5,485,651**	₱5,565,975
Asian Development Bank Loan (ADB)	**1,016,532**	1,351,521
USD Bank Facility (USD)	**845,702**	1,061,038
Philippine National Bank Loan (PNB)	**577,000**	–
Calyon S.A. Corporate and Investment Bank (COFACE)	**421,806**	535,815
Export Finance and Insurance Corporation (EFIC)	**413,147**	522,275
	₱8,759,838	₱9,036,624

In 2001, MNTC entered into a Common Terms Agreement (CTA) with the lenders, the security trustee, the co-security trustee and inter-creditor agent. The CTA specifies the mechanics on the funding under the term facilities, payment and prepayments, as well as the conditions precedent to drawdown set forth by the secured lenders. The CTA also contains covenants concerning restrictions with respect to, among others, waiver, modification, amendment or assignment of the key project agreements, hedge agreements, restricted payments, and the maximum debt-to-base equity ratio and the level of the debt-service-coverage ratio. Total financing facility availed by MNTC under the original CTA amounted to US$252.2 million.

The loans were granted under a limited-recourse project finance structure. Substantially all existing and future assets of MNTC are mortgaged in favor of the lenders in line with the requirements of the Mortgage, Assignment and Pledge Agreement, known as the Master Security Agreement (MSA). In addition, MPTDC and Egis Projects S.A. (Egis) provided completion support as agreed under the Sponsor Support Agreement (SSA).

On November 8, 2006, MNTC refinanced its outstanding loans through partial prepayment and restructuring of MNTC's U.S. dollar-denominated long-term debt using the proceeds of a ₱5.5 billion FXCN issue. The refinanced debt package consisted of a total of US$100.0 million in U.S. dollar term loan facilities participated in by majority of the original project lenders and a ₱5.5 billion FXCN issue participated in by sixteen (16) qualified local institutional investors (Issuer).

The aggregate U.S. dollar term loan facilities consist of direct loan facilities from multi-lateral and bi-lateral institutions like ADB and EFIC and syndicated facilities, including a covered loan from COFACE, the French export credit agency, participated in by a mix of four (4) foreign commercial banks. The loans are payable in 16 equal semi-annual installments starting December 15, 2006 up to June 15, 2014 which is the original maturity date.

The FXCNs are payable within seven years from issue date under a bullet-like structure, i.e., 94% of the principal is payable on maturity date (November 17, 2013) while the balance of 6% is payable over the term of the notes in minimal annual installments. The simultaneous prepayment and drawdown on refinancing date (November 17, 2006) was facilitated through a US$96 million Conversion Bridge Facility (Bridge Loan) provided by Mizuho Corporate Bank, Ltd. (Singapore). This was a cash-secured temporary dollar facility backed by the FXCN proceeds that allowed MNTC to obtain the necessary dollars for the lump sum prepayment on refinancing date. The Bridge Loan was fully paid on December 5, 2006. Under the Notes Purchase Agreement covering the FXCN, the Issuer may at its option redeem the notes prior to the maturity date in whole but not in part subject to the terms and conditions of the agreement.

In connection with the refinancing, the CTA, MSA and other loan agreements were amended to reflect the revised covenants and security package covering all MNTC's debt on a parri-passu basis. The major amendments are: (a) the removal of pledge of shares and other forms of sponsor support in the security package; (b) the release of trapped cash in the form of maintenance reserves, the principal portion of the debt reserve, and undrawn base equity contributions; (c) the reduction of assigned contracts; (d) the removal of assignment of operator assets and contracts as well as PNCC rights under certain contracts; and (e) the relaxation of the loan covenants. Certain agreements like the SSA were terminated and the sponsor guarantees along with other elements of the original security package were released effective November 17, 2006.

On November 13, 2008, MNTC entered into an amendment agreement to the CTA to reflect the replacement of FPHC by MPIC as project sponsor. On January 19, 2009, the CTA was further amended mainly to incorporate the option to convert the ADB Direct Loan from U.S. dollar to Philippine peso which took effect on March 11, 2009. As a result of the conversion, MNTC recognized a loss on extinguishment of debt amounting to ₱9.9 million (see Note 29).

On March 16, 2009, MNTC also entered into a seven-year term loan agreement for a facility amount of ₱2.1 billion with PNB to finance the project cost of Segment 8.1. The PNB Loan qualified as senior debt which entitles the lender to share in the same security package as Phase I lenders. As of December 31, 2009, loan drawdowns on the facility amounted to ₱577.0 million.

On April 27, 2009, MNTC entered into a credit agreement with Security Bank for a standby letter of credit facility of up to ₱100.0 million for a period of 24 months to secure MNTC's Segment 8.1 construction obligation in favor of the TRB. The letter of credit for an amount of ₱80.3 million was issued effective April 27, 2009. There were no availments on the letter of credit as of December 31, 2009.

Interest rates on direct facilities, consisting of fixed rates, range from 8.03% to 8.24% in 2009 and 8.03% to 8.25% in 2008. Interest rates on syndicated facilities, consisting of fixed and floating rates, range from 4.0% to 9.75% in 2009 and 5.94% to 9.75% in 2008.

The security for the outstanding loans is embodied in the following agreements:

a. Trust and Retention Agreement (TRA) with the secured lenders' designated trustees and the inter-creditor agent. The TRA provides for the establishment and regulation of the security accounts and the security account collateral where the inflows and outflows of project revenues may be monitored. The security accounts form part of "Cash and cash equivalents" account in the consolidated balance sheets.

b. The MSA which grants to the trustees, on behalf of the secured lenders, the security interest in MNTC's various assets. The agreement provides for the establishment of real estate mortgage and chattel mortgage as well as the assignment of key project agreements, insurances, and bank accounts and investments in favor of the co-security trustee for the benefit of the secured lenders.

As of December 31, 2009 and 2008, MNTC is in compliance with the required financial ratios and other loan covenants.

MPC

Convertible Preferred Shares Restructured into Term Loan. On July 23, 1999, MPC issued convertible preferred shares at a subscription price of ₱1,000 per share or an aggregate subscription price of ₱720.0 million. The shares carried a dividend rate of 10.0% per annum, with a premium to be paid on redemption that will equate to a cumulative yield over the full term of 15.0% per annum. The shares are also redeemable after three years, with conversions permitted throughout the period at a conversion price of ₱2.25 per share, representing a premium of 12.5% over the prevailing market price. MPC accrued and paid dividends of ₱72.0 million on the shares up to December 31, 2001, but was unable to meet obligations from January 1, 2002 onwards. Consequently, the preferred shareholders opted to exercise its put option and demanded redemption of the shares, thereby warranting the reclassification of the portion of the equity represented by the preferred shares into debt in July 2002.

In various dates in 2009 and 2008, a total of ₱462.8 million of shares due from redemption were settled via asset-for-debt exchange of PPT condominium units, Central Country Estate, Inc. shares and certain Landco properties. Out of the ₱720.0 million convertible preferred shares, ₱200.0 million were restructured into term loans of which as of December 31, 2009 and 2008, ₱57.3 million, remains outstanding and forms part of "Current portion of long-term debts" account in the consolidated balance sheets.

Long-term Bonds. These long-term bonds were issued by Metro Pacific Company Limited (MPCL), a subsidiary, on April 11, 1996. The bonds are guaranteed by MPC, are unsecured and bear a fixed interest rate of 2.5% per annum payable annually in arrears. The bonds can be converted into common shares of MPC from June 11, 1996 to March 28, 2003 at a conversion price of ₱5.08 per share adjusted for the stock dividend in 1997 of 33.0%, and based on a fixed rate of exchange of ₱26.19 = US$1.00.

The bondholders have the option to have the bonds redeemed in whole or in part on April 11, 2001 at 128.9% of their principal amount, together with accrued interest. Through January 2001, a subsidiary bought back from the market about US$12.2 million of the outstanding principal amount at an average unit price of 120.0% of the face value of the bond for a total purchase price of US$14.7 million including premium and accrued interest. As at the redemption date on April 28, 2001, bondholders of US$66.3 million of the total US$66.6 million outstanding bonds opted for redemption and were paid a total of US$87.1 million including interest and premium.

As the guarantor, MPC assumed the balance of US$0.3 million following MPCL's default in payment. The balance as of December 31, 2008 remains at US$0.3 million (₱14.3 million and ₱14.7 million as of December 31, 2009 and 2008, respectively) and form part of "Current portion of long-term debts" account in the consolidated balance sheet.

Convertible Notes. Convertible notes represent the unsettled balance of three-year convertible notes issued by MPC at par in 1999 with an aggregate value of ₱1,514.0 million.

The notes bear interest at the rate of 9.5% per annum, payable semi-annually in arrears, with a premium on redemption to provide for a yield of 12.0% per annum. The notes are convertible into common shares of MPC at a price of ₱2.25 per share. The notes were issued to the creditors of Nenaco in order to refinance the latter's obligations that matured on September 30, 2002.

Prior to their maturity dates in 2002, negotiations for settlement of the notes were initiated and resulted in the restructuring of ₱744.0 million into a five-year to ten-year loan, bearing annual interest based on the 91- day Treasury Bill rate plus spread of 3.0%, and the settlement through dacion of property with carrying value of ₱193.0 million. Between 2003 and 2006, the debts were partially settled primarily via dacion of the Company's and Landco's certain assets.

As of December 31, 2009 and 2008, convertible notes amounting to ₱37.2 million remains outstanding and forms part of the "Current portion of long-term debts" account in the consolidated balance sheet.

20. Deferred Credits and Other Long-term Liabilities

	2009	2008 (As restated - see Note 4)
	(In Thousands)	
Contingent liabilities arising from business combinations (see Note 4)	**₱1,183,560**	₱2,639,129
Accrued interest payable to MWSS	**985,292**	904,100
Payables arising from rate rebasing exercise	**942,279**	–
Customers' guaranty deposits	**494,453**	417,091
Deferred credits and others	**769,338**	2,655,189
	4,374,922	6,615,509
Less current portion	**942,279**	1,214,301
	₱3,432,643	₱5,401,208

Maynilad's second Rebasing Adjustment was supposed to have taken effect and implemented beginning January 1, 2009 pursuant to the Concession Agreement and the Transitional and Clarificatory Agreement dated August 9, 2007. In a letter to MWSS and the Regulatory Office dated March 20, 2009, Maynilad submitted a tariff scheme proposal pending the full implementation of the rate rebasing adjustment or "R."

On April 16, 2009, after a careful evaluation of such proposal, the Regulatory Office issued MWSS-RO Resolution No. 209-069, which recommended that Maynilad be authorized to implement, on a staggered basis, the "R" equivalent to 22.60% of the current basic charge or ₱5.02 per cubic meter in addition to the inflationary increase ("C") equivalent to ₱2.42 per cubic meter, which was implemented effective February 20, 2009. The said recommendations of the Regulatory Office were approved and confirmed by the MWSS BOT. After completion of the required publication pursuant to Section 12 of the MWSS Charter, such approved tariff scheme was implemented by Maynilad pursuant to and in accordance with the said resolutions. The new "R" took effect on May 4, 2009. In addition, the new base foreign exchange rate was changed from ₱51.86 to ₱48.045, effective May 4, 2009. As a result of the change in the base foreign exchange rate, deferred credits pertaining to remaining unrealized foreign exchange gains were derecognized.

Under this resolution, the MWSS resolved, among others, two pending issues that had an impact on the new "R" that took effect on May 4, 2009. These issues pertain to the excess collection of Accelerated Extraordinary Price Adjustment (AEPA) and realized foreign exchange gains arising from the prepayment of SBLC and Tranche B Concession fees, which are presented as part of "Deferred credits" account in the 2008 consolidated balance sheet. These were treated as part of the opening cash position, thus, were taken into consideration when the new "R" was set. Consequently, these deferred credits will no longer be subject to the FCDA mechanism that will be reflected in future billings.

In addition, to further mitigate the impact of the rate increase, the Regulatory Office further required the simultaneous implementation of the following: (1) the Prepayment Adjustment (PA), and (2) the Payment Incentive Adjustment (PIA) within an accelerated period of two (2) years, resulting in a downward adjustment of 8.15% or - ₱2.22 per cubic meter and 5.73% or - ₱1.56, respectively, based on the 2009 average basic charge which already includes the staggered "R" and the "C". Payables arising from rate rebasing, which are recorded at present value, consist of PA amounting to ₱1.0 billion and PIA amounting to ₱709.7 million. As of December 31, 2009, these payables arising from rate rebasing amounted to ₱942.3 million, and are expected to be applied against future billings within next year (shown as current liabilities in the 2009 balance sheet).

The above MWSS resolutions resulted to a derecognition of deferred credits of about ₱2.0 billion and a recognition of a provision for PIA of about ₱709.7 million, with a net effect of about ₱1.4 billion recognized as "Other income" in the 2009 consolidated statement of income (see Note 29).

21. Related Party Transactions

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

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

		Management Income (see Note 29)	Guarantee Income (see Note 29)	Operator's Fee (see Note 24)	Rentals (see Notes 24 and 25)	Utilities Expense (see Notes 24 and 25)	Interest Incomes (see Note 28)	PNCC Fee (see Note 24)
					(In Thousands)			
TMC	**2009**	**₱50,603**	**₱18,453**	**₱1,338,522**	**₱–**	**₱–**	**₱16,456**	**₱–**
	2008	1,800	2,299	187,632	–	–	2,570	–
	2007	–	–	–	–	–	–	–
PNCC	**2009**	**–**	**–**	**–**	**–**	**–**	**–**	**291,872**
	2008	–	–	–	–	–	–	38,026
	2007	–	–	–	–	–	–	–
Meralco	**2009**	**–**	**–**	**–**	**–**	**105,000**	**–**	**–**
	2008	–	–	–	–	–	–	–
	2007	–	–	–	–	–	–	–
PLDT	**2009**	**–**	**–**	**–**	**6,382**	**–**	**–**	**–**
	2008	–	–	–	4,511	–	–	–
	2007	–	–	–	–	–	–	–
Total	**2009**	**₱50,603**	**₱18,453**	**₱1,338,522**	**₱6,382**	**₱105,000**	**₱16,456**	**₱291,872**
	2008	1,800	2,299	187,632	4,511	–	2,570	38,026
	2007	–	–	–	–	–	–	–

In the normal course of business, the Company also has other transactions with related parties which consist mainly of availment of non-interest bearing cash advances with no fixed repayment terms.

<u>TMC</u>
Transactions with TMC, an associate, follow:

- TMC provides services as operator to the NLE under the O&M. The O&M Agreement contains the terms and conditions for the operation and maintenance by TMC of Phase I of the NLE and subsequently, of Segment 7, and sets forth the scope of its services. TMC is assisted by Transroute Philippines, Inc. as service provider in accordance with the Technical Assistance Agreement. Under the O&M Agreement, MNTC pays TMC a minimum fixed annual amount for the NLE and for Segment 7, to be escalated on a quarterly basis plus a variable component. The O&M Agreement also provides for certain bonuses and penalties as described in the O&M Agreement. Total operator's fee recognized by MPIC in the 2009 consolidated statement of income amounted to ₱1,338.5 million. Total operator's fee recognized by MPIC in the 2008 consolidated statement of income amounted to ₱187.6 million which corresponds to operator's fee from November 13, 2008, acquisition date of MPTC up to December 31, 2008 (see Note 24).
- In 2003, MNTC has extended a financing facility to TMC under the Operator Equipment Loan Agreement (OELA) with an aggregate principal amount not exceeding US$5.0 million for the acquisition of the equipment together with minor items of equipment or plant as may be reasonably required for the performance of the contracted services and for payment of deposits required for utilities. TMC has availed of the entire US$5.0 million from the facility. Interest rate is at LIBOR plus 1%. The loan shall be due in one lumpsum payment, the loan less the book value of any Operator's Equipment will be returned to MNTC on the last day of the term of the O&M, which is at the end of the service concession period. In 2009, TMC made full payment of the operator equipment loan.

- TMC also pays annual guarantee fee to MPTDC equivalent to 2.5% of the gross value of the corporate guarantee issued by MPTDC. The guarantee was issued in favor of MNTC for the liability of TMC under the O& M agreement. Total guarantee fee recognized by MPIC in the 2009 consolidated statement of income amounted to ₱18.5 million. Total guarantee fee recognized by MPIC in the 2008 consolidated statement of income amounted to ₱2.3 million which corresponds to guarantee fees from November 13, 2008, acquisition date of MPTC up to December 31, 2008 (see Note 29).

  The Company recognized a receivable from TMC equivalent to the financial guarantee obligation, which is initially recorded at the present value of the guaranteed portion of the liability of TMC under the O&M. Receivable from TMC and the financial guarantee obligation amounted to ₱65.6 million and ₱64.3 million as of December 31, 2009 and 2008, respectively. Interest income on receivable from TMC and interest expense on financial guarantee obligation amounted to ₱12.4 million in 2009 and ₱1.3 million in 2008 (see Note 28).

- In 2008, TMC appointed MPTDC to perform management and financial services for a fixed monthly fee of ₱1.2 million for a period of 12 months. The management contract between TMC and MPTDC was not subsequently renewed. In 2009, MPTC replaced MPTDC to perform management and financial services for TMC for a fee amounting to ₱50.6 million. Income for 2008 which amounted to ₱1.8 million corresponds to fees from November 13, 2008, acquisition date of MPTC, up to December 31, 2008. These income are considered and included in "Other income" account in the 2009 and 2008 consolidated statements of income (see Note 29).

- Due from TMC amounted to ₱142.7 million and ₱347.0 million as of December 31, 2009 and 2008, respectively. Due to TMC amounted to ₱281.7 million and ₱264.1 million as of December 31, 2009 and 2008, respectively.

PNCC
PNCC is a minority stockholder in MNTC. In consideration of the assignment by PNCC of its usufructuary rights, interests and privileges under its franchise, PNCC is entitled to receive a payment equivalent to 6.0% and 2.0% of the toll revenue from the NLE and Segment 7, respectively. Any unpaid balance carried forward will accrue interest at the rate of the latest Philippine 91-day Treasury bill rate plus 1% per annum. This entitlement, as affirmed in the Shareholders' Agreement (SA), shall be subordinated to operating expenses and the requirements of the financing agreements and shall be paid out subject to availability of funds. In December 2006, MNTC entered into a letter agreement with PNCC to set out the detailed procedure for the payment.

The PNCC franchise expired in May 2007. However, since the payment is a continuing obligation under the SA, PNCC remains entitled to receive the same.

As of December 31, 2009, MNTC has unpaid dividends to PNCC amounting to ₱143.6 million (see Note 16).

Meralco
Meralco is a significant associate of the Company. In the ordinary course of business, Meralco provides electricity to MPIC and certain subsidiaries' offices within its franchise area. The rates charged by Meralco are the same as those with unrelated parties. Total electricity costs amounted to ₱105.0 million for the period from October 2, 2009 (MPIC acquired 14.67% equity interest in Meralco) to December 31, 2009. As of December 31, 2009, outstanding utilities payable amounted to ₱33.4 million which is included under "Accounts payable and other current liabilities" in the consolidated balance sheet.

PLDT
PLDT is an associate of FPC, thus a related party. The balance represents fees payable to PLDT for various administrative assistance extended to the Company. It also includes unpaid rent expense from lease of office space. Rent expense and other fees accruing to PLDT amounted to ₱6.4 million and ₱4.5 million for the period December 31, 2009.

DMCI
DMCI is a minority stockholder in DMWC, thus a related party. Maynilad entered into construction contracts with DMCI totaling ₱2.3 billion in 2009 and ₱611.6 million in 2008. Unpaid construction contracts amounted to ₱370.2 million and ₱179.6 million as of December 31, 2009 and 2008, respectively, and are presented as part of "Accounts payable and other current liabilities" account (see Note 16).

In January 2009, DMWC extended non-interest bearing cash advances to DMCI amounting to ₱243.7 million.

HCPTI
HCPTI is a joint venture partner of MPIC in MNHPI. In 2009, MPIC extended non-interest bearing advances amounting to ₱105.0 million and such amount is payable on demand.

Smart
Smart is a wholly owned subsidiary of PLDT, thus a related party. The balance represents various non-interest bearing advances received in prior years for the Company's operations.

MPHI
The following are transactions with MPHI, a majority stockholder of MPIC, in 2009 and 2008:

- The Company entered into a Placement and Subscription Agreements with MPHI on September 19, 2009 in order to raise capital (see Note 22).
- In 2008, other transactions with MPHI mainly relate to advances. The outstanding amount represents advances made to partially finance MPIC's acquisition of MPTC common shares and funds given for working capital funding to Landco. Total cash advances received from MPHI in 2008 amounted to ₱2,159.0 million.
- Also, refer to Note 22 for other transactions with MPHI.

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

Also refer to Note 12 for other related parties transactions with respect to the Company's acquisition of Meralco shares.

Outstanding balances of receivable from/payable to related parties are carried in the consolidated balance sheets under the following accounts:

	2009	2008
	(In Thousands)	
Due from related parties	**₱566,649**	₱354,754
Due to related parties	**429,718**	2,823,555

Composition of amounts due to/from related parties follows:

	2009	2008
	(In Thousands)	
Due from related parties:		
DMCI	**₱247,207**	₱–
TMC	**142,737**	347,319
Harbour Center Port Terminal, Inc. (HCPTI)	**105,000**	–
Landco	**97,413**	–
Metro Pacific Investments Foundation, Inc. (MPIF)	**32,576**	–
MNHPI	**4,042**	–
FPC	**1,584**	2,733
Others	**4,708**	4,702
	635,267	354,754
Less allowance for impairment	**68,618**	–
	566,649	354,754
Less current portion	**501,080**	32,088
	₱65,569	₱322,666
Due to related parties:		
TMC	**₱281,734**	₱264,070
Smart Communications, Inc. (Smart)	**71,786**	71,786
Landco	**40,899**	–
MPHI	**16,667**	2,327,825
Philippine Long Distance Telephone Company (PLDT)	**11,204**	7,764
DMCI	**3,494**	141,692
Others	**3,934**	10,418
	₱429,718	₱2,823,555

Directors' Remuneration

Annual remuneration of the directors amounted to ₱4.4 million and ₱1.2 million in 2009 and 2008, respectively.

Non-executive directors are entitled to a per diem allowance of ₱20 thousand for each attendance in the Parent Company's BOD meetings. The Parent Company's By-Laws provide that an amount equivalent to 1.0% of net profit after tax of the Parent Company shall be allocated and distributed among the directors of the Parent Company who are not officers of the Parent Company or its subsidiaries and affiliates, in such manner as the Board may deem proper. There are no other special arrangements pursuant to which any director will be compensated.

Compensation of Key Management Personnel

Compensation of key management personnel of the Company are as follows:

	2009	2008	2007
		(In Thousands)	
Short-term employee benefits	**₱146,294**	₱97,195	₱77,274
ESOP expense (see Note 33)	**50,036**	–	–
Retirement costs	**8,924**	1,225	2,239
Other long-term benefits	**2,641**	338	920
	₱207,895	₱98,758	₱80,433

22. Equity

In 2009, Article VII of the Company's Article of Incorporation has been amended to reflect the increased in its authorized capital stock as follows:

		2009	
	2008	First Increase	Second Increase
Total authorized capital stock *(In Thousands)*	₱12,000,000	**₱21,550,000**	**₱24,238,518**
Types and number of shares:			
Common stock - ₱1.00 par	11,950,000,000	**20,000,000,000**	**22,688,518,336**
Class A Preferred stock - ₱0.01 par	5,000,000,000	**5,000,000,000**	**5,000,000,000**
Class B Preferred stock - ₱1.00 par		**1,500,000,000**	**1,500,000,000**
Dates of approval:			
Board of Directors		**October 9, 2008**	**May 28, 2009**
Stockholders		**November 24, 2008**	**May 28, 2009**
SEC		**February 13, 2009**	**December 21, 2009**

Details of authorized and issued capital stock follow:

	2009		2008		2007	
	No. of Shares	**Amount**	No. of Shares	Amount	No. of Shares	Amount
		(In Thousands)		*(In Thousands)*		*(In Thousands)*
Authorized common shares - ₱1 par value	**22,688,518,336**	**22,688,518**	11,950,000,000	11,950,000	4,600,000,000	4,600,000
Authorized preferred shares:						
Class A - ₱0.01 par value	**5,000,000,000**	**50,000**	5,000,000,000	50,000	–	–
Class B - ₱1 par value	**1,500,000,000**	**1,500,000**	–	–	–	–
	29,188,518,336	**24,238,518**	16,950,000,000	12,000,000	4,600,000,000	4,600,000
Issued - common shares:						
Balance at beginning of year	**7,027,726,813**	**7,027,727**	1,342,918,793	1,342,919	1,198,952,522	1,198,953
Issuance on existing subscriptions from MPHI	**2,389,040,000**	**2,389,040**	–	–	–	–
Additional subscriptions of MPHI	**4,770,000,000**	**4,770,000**	3,791,525,175	3,791,525	–	–
Conversion of advances/loan from MPHI to equity	**672,129,584**	**672,130**	1,893,282,845	1,893,283	–	–
Issuance on existing subscriptions from LAWL	**791,110,491**	**791,110**				
Issuance in exchange for Meralco shares (see Notes 12 and 21)	**4,464,202,634**	**4,464,203**	–	–	–	–
Exercise of stock option plan (see Note 33)	**13,945,000**	**13,945**	–	–	–	–
Tendered shares of MPC minority shareholders in exchange for MPIC shares	**–**	**–**	–	–	143,966,271	143,966
Balance at end of period	**20,128,154,522**	**20,128,155**	7,027,726,813	7,027,727	1,342,918,793	1,342,919
Issued - preferred shares:						
Conversion of advances from MPHI to equity (see Note 21)	**5,000,000,000**	**50,000**	–	–	–	–
Total number of stockholders	**1,378**	**–**	1,386	–	1,568	–

Authorized Capital Stock

MPIC was incorporated with original authorized capital stock of 100,000 common shares having par value of ₱1 per share. On March 27, 2006, the MPIC's BOD approved a resolution to increase its authorized capital stock to 4,600,000,000 common shares with a par value of ₱1 per share. Such increase in authorized capital stock was approved by the SEC on June 5, 2006.

On October 23, 2006, MPIC purchased from MPHI, MPRI, Intalink B.V., and FPIL (all related parties of MPIC and major shareholders of MPC) 725,160,154 MPC common shares or 76.1% interest. MPIC issued 181,290,038 common shares in exchange for 725,160,154 MPC common shares.

On November 28, 2006, the closing date of the Tender Offer, and as result of a Tender Offer made by the Company, a total of 195,367,956 MPC shares were tendered equivalent to 48,841,989 MPIC common shares and 146,525,967 MPIC warrants. Out of the total warrants available for conversion, 143,976,804 warrants were converted as of December 31, 2007 and 2,549,163 warrants expired on December 15, 2007.

On August 12, 2008, the SEC approved the increased in Parent Company's authorized capital stock to ₱12.0 billion divided into 11.95 billion common shares with a par value of ₱1 per share and 5.0 billion preferred shares with par value of ₱0.01 per share from 4.6 billion common shares at ₱1 par value.

Further on October 9, 2008, the Parent Company's BOD approved the increase in the authorized capital stock of MPIC from ₱12.0 billion to up to ₱21.6 billion divided into 20.0 billion common shares with a par value of ₱1 per share, 5.0 billion Class A preferred shares with a par value of ₱0.01 per share and 1.5 billion Class B preferred shares with a par value of ₱1 per share. On February 13, 2009, the SEC approved such increase in the Company's authorized capital stock.

On May 28, 2009, the BOD approved the increase of the authorized capital stock from ₱21.6 billion to ₱24.2 billion, divided into 22.7 billion common shares with the par value of ₱1.0 per share, 5 billion Class A preferred shares with a par value of ₱0.01 per share and 1.5 billion Class B Preferred Shares at ₱1.0 par value per share. On December 21, 2009, the SEC approved the increase of the authorized capital stock.

Issued Common Shares

The following issuances of shares to MPHI were approved by the Parent Company's BOD on June 30, 2008:

- 3,791,525,175 common shares at a price of ₱2 per share; and
- Conversion of ₱2.0 billion MPHI convertible loans to 1,893,282,845 common shares (see Note 19).

Issuances to MPHI during 2009 are as follows:

- On February 13, MPHI's deposits for future stock subscription amounting to ₱4.8 billion have been applied for payment of its subscription to 2,389,040,000 common shares from the increase in authorized capital stock as approved by SEC.
- On September 19, the Company has undergone a re-launch of its shares and as a result, a total of 4,770,000,000 common shares were issued to MPHI. Information on the Re-launch of MPIC shares are provided below.
- On December 21, advances by MPHI to MPIC amounting to ₱2,016.4 were also converted into and issued with 672,129,584 common shares at ₱3.00 per share. Detailed information related to the conversion are provided below.

Other issuances of the Company during 2009 are as follows:

- On July 9, the subscription of LAWL of 791,110,491 common shares of the Company for ₱2,029.2 million, as discussed in Note 4, was likewise issued.
- On October 2, a total of 4,464,202,634 common shares were issued to BTF and Crogan/MPHI in exchange for certain Meralco shares held by BTF and Crogan (see Notes 12 and 21).
- At various dates in 2009, the Company issued a total of 13,945,000 common shares in connection with the Parent Company stock option plan (see Note 33).

Issued Class A Preferred Shares
On July 29, 2009, the Company issued to MPHI 5.0 billion Class A Preferred Shares with a par value of ₱0.01 per share. The holders of the Class A Preferred Shares (the "Class A Preferred Shareholders") shall be entitled to vote and receive a preferential cash dividends at the rate of ten percent (10%) per annum, to be calculated based on the par value of the Class A Preferred Shares, upon declaration made at the sole option of the BOD.

Dividends on the Class A Preferred Shares shall be paid out of the Company's unrestricted retained earnings. Such dividends shall be cumulative from and after the issue date of the Class A Preferred Shares, whether or not in any period the amount thereof is covered by available unrestricted retained earnings.

No dividends shall be paid or declared and set apart for payment, or other distribution made in respect of the common shares, unless the full accumulated dividends on all Class A Preferred Shares for all past dividend periods and for the then current dividend period shall have been paid or declared and set apart for payment by the Company. Class A Preferred Shareholders shall not be entitled to any participation or share in the retained earnings remaining after dividend payments shall have been made on the Class A Preferred Shares in accordance with the foregoing paragraphs.

Class B Preferred Shares
Class B Preferred Shares may be issued from time to time in one or more series as the BOD may determine. The BOD shall establish and designate each particular series of Class B Preferred Shares, to fix the number of shares to be included in each of such series, and to determine the cash dividend rate, which in no case to exceed 10% per annum, the amount and the price, and the rate, period and manner of conversion and redemption, of the Class B Preferred Shares for each of such series. To the extent not set forth in the Article Seventh of the Corporation's Articles of Incorporation, the specific terms and restrictions of each series of the Class B Preferred Shares shall be specified in the "Enabling Resolutions" as may be adopted by the BOD. Dividends shall be cumulative from and after the date of issue of the Class B Preferred Shares, whether or not in any period the amount thereof is covered by available unrestricted retained earnings. No dividends shall be declared or paid on the common shares or Class A Preferred A Shares unless the full accumulated dividends on all Class B Preferred Shares for all past dividend periods and for the then current dividend period shall have been declared and paid by the Corporation. The holders of Class B Preferred Shares shall not be entitled to any participation or share in the retained earnings remaining after dividend payments shall have been made on the Class B Preferred Shares.

Holders of Class B Preferred Shares may be convertible to common shares of the Corporation at such rate, in such manner and within such period as may be fixed in the Enabling Resolutions for such series.

Class B Preferred Shares shall be redeemable in such manner and within such period as may be fixed in the Enabling Resolutions for such series. Any and all Class B Preferred Shares redeemed, whether pursuant to a share conversion or otherwise, shall not be considered retired and may be re-issued by the Corporation.

In the event of liquidation, dissolution, bankruptcy or winding up of the affairs of the Corporation, the holders of Class B Preferred Shares shall be entitled to be paid in full or ratably to the extent that the remaining assets of the Corporation will permit, an amount equivalent to the issue price of such Class B Preferred Shares plus all accumulated and unpaid dividends up to the then current dividend period, before any assets of the Corporation shall be paid or distributed to the holders of the common shares or Class A Preferred Shares.

Equity Restructuring
On November 8, 2009, MPIC's BOD approved the restructuring of the Company's stockholders' equity to apply or offset a portion of its additional paid-in capital in the amount of ₱1,620.9 million against the accumulated deficit as of December 31, 2008 to wipe out the same deficit. On December 17, 2009, the SEC approved the Company's application for equity restructuring subject to the condition that the remaining additional paid-in capital amounting to ₱4,132.9 million shall not be used to wipe out future losses without prior approval of the SEC.

Other Reserves
This account consists of:

	2009	2008	2007
		(In Thousands)	
Effect of MPIC acquisition of MPC shares	**₱690,386**	₱690,386	₱690,386
Day 1 loss (see Note 19)	**(286,122)**	(286,122)	(286,122)
Other reserve from ESOP	**46,827**	–	–
Equity component of a financial instrument (see Note 19)	**–**	–	1,903,624
	₱451,091	₱404,264	₱2,307,888

Other accounts previously presented under "Other reserves" were reclassified to "Other comprehensive income reserve" as a result of adoption of the revised PAS 1 (see Notes 2 and 30).

Transactions Related to Issuances of Shares
Conversion of Advances to Equity. Further to the resolutions of the BOD and stockholders passed on May 28, 2009 authorizing the increase in the capital stock of MPIC, the Board of Directors of MPIC resolved to implement the capitalization and/or conversion by MPHI of its advances to MPIC in the amount of ₱2,016.4 million. On December 21, 2009, MPIC issued 672,129,584 common shares in favor of MPHI at a subscription price of ₱3.00 per share.

Also on July 1, 2009, MPIC issued 5,000,000,000 shares of Class A preferred share with par value of 0.01 per share to MPHI as payment of the Company's ₱50.0 million advances from MPHI. Holder of Class A preferred share shall be entitled to vote and receive a preferential cash dividends at the rate of ten percent (10%) per annum, to be calculated based on the par value of the Class A Preferred Shares, upon declaration made at the sole option of the Board of Directors

Re-launch of MPIC shares. On September 19, 2009, the Company has undergone a "Re-launch" of its shares. A "Re-Launch" is a public offering or an old-for-new share placement that would result in an offering to public shareholders of a minimum of 15% of the MPIC's fully diluted equity or US$100 million worth of shares (valued at the Re-launch Issue Price), whichever is lower, in the PSE. The Re-launch Price is Php3.0 per share.

Placement and Subscription Agreement. In connection with the Re-launch of MPIC shares, the Company engaged into a Placement Agreement and Subscription Agreement, both dated September 19, 2009, with MPHI in order to raise capital. As stated in the Placement Agreement, MPHI shall offer its 4.15 billion MPIC Common Shares (the "Firm Shares") with a par value of ₱1.0 per share at ₱3.0 per share offer price to purchasers procured by CLSA Singapore Pte. Ltd. and UBS AG, the Lead Managers. In addition and by virtue of the Over-Allotment Option, the Lead Managers may require MPHI to sell an additional 620.0 million MPIC Common Shares (the "Option Shares"). The 4.15 billion and the 620.0 million MPIC common shares (aggregate total of 4.77 billion MPIC common shares) are referred to in the Placement Agreement as the "Offer Shares."

MPHI, pursuant to a Greenshoe Agreement dated September 19, 2009 (the "Greenshoe Agreement"), unconditionally and irrevocably granted the Lead Managers the Over-allotment Option to require MPHI to sell up to the number of Option Shares to the Lead Managers at the Offering Price (₱3.0/share) to purchasers procured by the Lead Managers.

With the proceeds of the Offer and pursuant to the Subscription Agreement, MPHI has conditionally agreed to subscribe for, and the Company has conditionally agreed to issue and sell, (i) new Common Shares in an amount equal to the aggregate number of Firm Shares sold by MPHI in the Offer and (ii) an additional number of new Common Shares in an amount agreed between the Company and MPHI, each at a price equivalent to the Offering Price of ₱3.0 per share.

The Subscription Agreement provides that MPIC will not directly receive any proceeds from the Offer, but MPHI has agreed to subscribe for, and the Company shall issue, new Common Shares in an amount equal to the aggregate number of Firm Shares sold by MPHI in the Offer (the "Subscription Shares") at a price equivalent to the Offering Price. Neither will MPIC will receive any proceeds in the event that the Over-allotment Option is exercised. In the event, however, that the gross proceeds realized by MPIC from its issuance of the Subscription Shares is less than the Peso equivalent, as of the date of the Subscription Agreement, of US$300 million, MPHI has agreed to likewise subscribe for, and MPIC has agreed to issue, additional new Common Shares at the same Offering Price per Share (₱3.0), the number of which shall be up to but shall not exceed the aggregate number of Option Shares actually sold by MPHI as a result of the exercise by CLSA of its Over-allotment Option and the gross proceeds of which, when aggregated with the gross proceeds realized by MPIC from the Subscription Shares, shall not exceed the Peso equivalent, as of the date of the Agreement, of US$300 million (the "Additional Subscription Shares").

MPHI was able to sell through the Lead Managers the total Offer Shares of 4.77 billion MPIC common shares (4.15 billion Firm Shares and 620.0 million Option Shares). Likewise, failure to meet the condition as provided in the Subscription Agreement and as discussed above, MPHI subscribed for and MPIC issued to MPHI the same number of new MPIC common shares. The proceeds of ₱14,310.0 million, net of transaction costs of ₱561.2 million which were capitalized, add up to the capital of the Company. MPHI ownership interest in MPIC was reduced to 56.6% from 97.26% partly as a result of consummation of the aforementioned agreements.

Issuances in Relation to the Acquisition of Meralco Shares. In relation to the acquisition of the investment in Meralco, MPIC entered into separate subscription agreements with each of BTF and MPHI wherein they subscribed to 3,159,162,337 and 1,305,040,296 common shares of MPIC, respectively. Proceeds of said subscriptions were used to partially fund MPIC's acquisition of a certain number Meralco common shares held by BTF/New Gallant and Crogan. The agreed subscription price was ₱3.0 per share but the subscription was recorded at ₱3.2 per share or for a total subscription price of ₱14,285.4 million which represents the fair value of MPIC shares on October 2,2009, the acquisition date of the investment in Meralco (see Notes 12 and 21).

23. Minority Interests

Movements in this account are as of December 31 follows:

	2009	2008 (As restated - see Note 4)
	(In Thousands)	
Beginning balance, as previously reported	**₱7,865,363**	₱965,388
Restatement as result of the finalization of the purchase price allocation of MPIC's acquisition of MPTC	**(11,256)**	–
Beginning balance, as restated	**7,854,107**	965,388
Share in other comprehensive income	**6,768**	–
Share in net income	**2,070,211**	493,164
Dividends paid to minority interests	**(472,620)**	(181,134)
Disposal of subsidiary (see Note 6)	**(448,300)**	–
Minority interests arising from business combinations during the year (see Note 4)	**–**	7,886,593
Acquisition of minority interests (see Note 4)	**–**	(863,141)
Share in expenses recognized directly in equity	**–**	(446,763)
Balance at end of year	**₱9,010,166**	₱7,854,107

As of December 31, 2009, the Company has unpaid dividends to minority amounting to ₱170.5 million, included under "Accounts payable and other current liabilities" account in the 2009 consolidated balance sheet (see Note 16).

24. Costs of Services

This account consists of:

	2009	2008
	(In Thousands)	
Amortization of service concession assets (see Note 13)	**₱3,105,386**	₱1,286,456
Operator's fee (see Note 21)	**1,338,522**	187,632
Personnel costs (see Notes 26 and 27)	**848,236**	392,620
Repairs and maintenance	**409,061**	104,596
Utilities	**379,931**	86,616
PNCC fee (see Note 21)	**291,872**	38,026
Materials and supplies	**229,241**	104,325
Contracted services	**226,863**	37,909
Provision for heavy maintenance (see Note 17)	**204,538**	25,451
Insurance	**42,172**	5,297
Rental	**22,859**	13,777
Toll collection and medical services	**20,906**	2,826
Others	**1,078**	85,484
	₱7,120,665	₱2,371,015

Cost of services relates to MPTC and DMWC/Maynilad operations. Given that MPTC was acquired and DMW/Maynilad consolidated in 2008, there were no cost of services in 2007.

25. General and Administrative Expenses

This account consists of:

	2009	2008	2007
		(In Thousands)	
Personnel costs (see Notes 26 and 27)	**₱673,031**	₱384,151	₱12,835
Outside services	**257,637**	146,572	3,027
Provision for doubtful accounts (see Note 8)	**226,266**	115,145	–
Professional fees	**201,780**	157,531	13,738
Depreciation and amortization (see Notes 13 and 14)	**185,130**	30,323	4,920
Taxes and licenses	**181,728**	149,359	10,003
Commissions	**102,727**	45,173	–
Provision for corporate initiatives	**98,180**	–	–
Maintenance and operating expenses of MWSS	**98,038**	–	–
Entertainment, amusement and representation	**95,097**	40,310	2,242
Transportation and travel	**69,779**	78,379	3,278
Advertising and promotion	**65,647**	14,420	–
Insurance	**65,180**	25,175	18,622
Rental expense	**61,583**	22,911	21,852
Utilities	**49,156**	114,557	2,632
Repairs and maintenance	**36,830**	69,348	143
Administrative supplies	**26,375**	1,202	9,005
Public relation	**15,962**	–	–
Business development costs	**5,537**	82	30,784
Association dues	**634**	121	13,573
Miscellaneous	**124,577**	47,958	12,048
	₱2,640,874	₱1,442,717	₱158,702

26. Personnel Costs

This account consists of:

	2009	2008	2007
		(In Thousands)	
Salaries and wages	**₱1,039,860**	₱580,621	₱11,426
Retirement costs (see Note 27)	**112,645**	59,603	1,409
Provision for ESOP (see Note 33)	**50,036**	–	–
Other employee benefits	**318,726**	136,547	–
	₱1,521,267	₱776,771	₱12,835

27. Retirement Costs

MPIC, and its subsidiaries DMWC and MPTC, has an unfunded and funded noncontributory retirement benefit plan, respectively, covering all its eligible regular employees. The benefits provided in the plan are based on the years of credited service and compensation of employees.

The following tables summarize the components of the retirement costs included in "Personnel costs" under "Cost of services" and "General and administrative expenses" account in the consolidated statements of income and "Pension assets" under "Other noncurrent assets" account and "Accrued retirement costs" account in the consolidated balance sheets.

	2009	2008	2007
		(In Thousands)	
Current service cost	**₱57,100**	₱35,899	₱6,287
Interest cost	**66,700**	30,267	1,450
Expected return on plan assets	**(11,155)**	(6,563)	(193)
Past service cost	**–**	–	206
Actuarial net loss	**–**	–	22,706
	112,645	59,603	30,456
Less discontinued operation	**–**	–	29,047
Retirement costs for the year	**₱112,645**	₱59,603	₱1,409
Actual return on plan assets	**₱75,592**	₱1,400	₱303

Movements in the present value of defined benefit obligation (PVDBO) are as follows:

	2009	2008	2007
		(In Thousands)	
Balance at beginning of year	**₱518,030**	₱53,724	₱23,281
PVDBO from acquired subsidiaries	**–**	551,122	–
Interest cost	**66,700**	30,267	1,450
Current service cost	**57,100**	35,899	6,287
Actuarial loss (gain)	**(88,434)**	(95,336)	28,501
Benefits paid	**(15,575)***	(5,331)	(5,795)
	537,821	570,345	53,724
Less discontinued operation	**–**	52,315	–
Balance at end of year	**₱537,821**	₱518,030	₱53,724

**Includes benefits paid out of Maynilad's operating fund amounting to ₱4.7 million.*

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

	2009	2008
	(In Thousands)	
Balance at beginning of year	**₱278,877**	₱2,118
FVPA from acquired subsidiaries	**–**	315,474
Return on plan assets	**70,055**	(36,737)
Contributions during the year	**200,411**	–
Benefits paid	**(10,871)**	–
Actuarial loss	**5,584**	140
	544,056	280,995
Less discontinued operation		2,118
Balance at end of year	**₱544,056**	₱278,877

Maynilad and MPTC expect to contribute ₱70.8 million and ₱14.8 million to their respective plan assets in 2010.

The reconciliation of the PVDBO to the accrued retirement costs (pension assets) recognized in the consolidated balance sheets follows:

	2009	2008
	(In Thousands)	
PVDBO	**₱537,821**	₱518,030
FVPA	**(544,056)**	(278,877)
Unfunded PVDBO	**(6,235)**	239,153
Unamortized nonvested past service cost	**–**	–
Actuarial gain (loss)*	**(11,860)**	19,898
Payments	**–**	(5,331)
Accrued retirement costs (pension assets)	**(₱18,095)**	₱253,720

**Included under "Other income and Other expense" accounts in the consolidated statements of income (see Note 28).*

Actuarial gains and losses are recognized in full in the year the gain or losses occurred.

The major categories of plan assets as a percentage of the fair value of total plan assets follow:

	2009	
	Maynilad	**MPTC**
Investments in:		
Government securities	**55.8%**	**39.8%**
Unit trust funds	**18.2%**	**–**
Investment in stocks	**15.2%**	**–**
Perpetual preferred shares	**–**	**16.9%**
Cash in banks	**9.8%**	**20.1%**
Receivables and others	**1.0%**	**23.2%**
	100.00%	**100.00%**

	2008	
	Maynilad	MPTC
Investments in:		
Government securities	61.0%	45.4%
Unit trust funds	22.6%	–
Investment in stocks	5.7%	–
Perpetual preferred shares	–	24.9%
Cash in banks	2.9%	28.5%
Receivables and others	7.8%	1.2%
	100.0%	100.0%

The principal assumptions used to determine pension benefit obligations as of December 31, 2009 and 2008 are as follows:

	2009	2008
Discount rates	**9.6%–10.7%**	8.3%–37.6%
Rates of increase in compensation	**7.0%–10.0%**	4.0%–8.0%
Expected rate of return on plan assets	**5.0%–7.8%**	10.0%

The overall expected rates of return on assets were determined based on the market prices prevailing on that date, applicable to the period over which the obligation is to be settled.

The unfunded status and experience adjustments for the current period and for proceding periods follows:

	2009	2008	2007
PVDBO	**₱537,821**	₱518,030	₱53,724
FVPA	**(544,056)**	(278,877)	(2,118)
	(₱6,235)	₱239,153	₱51,606
Experience adjustments on retirement obligation	**₱54,297**	₱11,001	₱–
Experience adjustments on plan assets - gain	**₱5,584**	₱–	₱–

28. Interest Income and Interest Expense

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

	2009	2008	2007
		(In Thousands)	
Cash and cash equivalents (see Note 7)	**₱248,429**	₱89,373	₱6,014
Notes receivable (see Note 8)	**117,963**	–	28,479
Accretion on noncurrent financial assets	**99,489**	–	–
Investment in bonds	**13,004**	1,149	–
Receivable on financial guarantee (see Note 21)	**12,354**	1,344	–
Due from related parties (see Note 21)	**4,102**	182,079	–
Accretion of miscellaneous deposits	**–**	4,888	–
Others	**3,880**	–	–
	₱499,221	₱278,833	₱34,493

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

	2009	2008	2007
		(In Thousands)	
Long-term debts (see Note 19)	**₱3,261,773**	₱878,712	₱306,936
Accretion on service concession fee payable (see Note 18)	**529,447**	240,843	–
Accretion of financial liability (see Note 19)	**103,897**	12,598	3,211,468
Notes payable (see Note 19)	**49,351**	–	8,626
Debt issue costs (see Note 19)	**24,637**	14,030	–
Provision for heavy maintenance (see Note 17)	**16,469**	–	–
Lenders' fees and bank charges	**14,330**	–	215
Financial guarantee obligation (see Note 21)	**12,354**	1,344	–
Due to related parties	**–**	13,903	–
	₱4,012,258	₱1,161,430	₱3,527,245

29. Other Income and Other Expense

Other income consists of:

	2009	2008	2007
		(In Thousands)	
Other income from rate rebasing resolutions - net (see Note 20)	**₱1,404,059**	₱–	₱–
FCDA (see Note 20)	**1,243,286**	313,986	–
Management fee (see Note 21)	**68,551**	19,389	–
Reversal of provision for decline in value of assets[(a)]	**57,086**	262,461	3,261
Guarantee fees (see Note 21)	**18,453**	2,299	–
Income from toll service facilities	**10,120**	–	–
Rental income	**2,896**	3,332	3,560
Gain on sale of properties	**13**	409	–
Gain on dilution of minority interests (see Note 4)	**–**	757,591	–
Gain on debt settlement - net (see Note 19)	**–**	173,025	1,053,943
Mark-to-market gain on derivatives (see Note 19)	**–**	–	1,065,713
Reversal of accruals [(b)]	**–**	–	60,239
Gain on sale of investment in associate (see Notes 6 and 12)	**–**	51,333	–
Actuarial gain (see Note 27)	**–**	19,898	
Others	**24,959**	55,554	26,297
	₱2,829,423	₱1,659,277	₱2,213,013

Other expense consists of:

	2009	2008	2007
		(In Thousands)	
Provision for input VAT (Note 3)	**₱308,810**	₱–	₱–
Other provision [(c)]	**287,026**	–	–
Provision for ESOP [(d)]	**75,896**	183,440	–
Provision for decline in value of assets [(e)]	**68,618**	367,251	200,854
Provision for contingencies (see Note 17)	**54,847**	35,830	–
Write-off of deposits from restoration works and materials on site	**37,908**	–	–
Mark-to-market loss on derivatives (see Note 38)	**19,219**	12,832	–
Loss on extinguishment of loans (see Note 19)	**9,896**	–	–
Actuarial loss (see Note 27)	**11,860**	–	–
Commission expense	**–**	100,491	–
Provision for warranties and guarantees	**–**	–	102,688
Day 1 loss (see Note 19)	**–**	–	305,056
Others	**11,435**	89,542	9,100
	₱885,515	₱789,386	₱617,698

a. Represents reversal of previous impairment provisions on the investment in Nenaco, investment in AFS financial assets (BLC shares) and certain claims from Nenaco which was based on the expected recoverable value.

b. Represents reversal of excess accruals for certain obligations, recognized in prior years, over actual settlements during the year.

c. Represents provision for estimated tax liabilities of a subsidiary.

d. Provision for ESOP represents the excess of the carrying value of DMWC's investment in Maynilad over the expected amount to be paid by Maynilad when Maynilad will procure the shares to be issued to its employees (ESOP shares) from DMWC in compliance with the concession agreement.

e. Provision for decline in value was provided for the following assets:

	2009	2008	2007
		(In Thousands)	
Due from related parties [(i)]	**₱68,618**	₱–	₱982
Investments in associates (see Note 12) [(i)]	**–**	188,093	135,039
Property and equipment (see Note 14)	**–**	120,153	–
Receivables (see Note 8)	**–**	–	2,321
AFS financial assets (see Note 10)	**–**	55,760	–
Investment properties	**–**	3,245	–
Real estate for sale [(ii)]	**–**	–	62,512
	₱68,618	₱367,251	₱200,854

i. Impairment losses were provided for certain receivables from related parties and investments in associates to record the investments at their recoverable amounts (see Note 21).

ii. Provision for decline in value of real estate for sale represents the write-down of the asset to its NRV (see Note 9).

As discussed in Note 6, an impairment loss of ₱431.2 million was provided to recognize the assets of disposal group at their realizable values. The impairment loss was allocated on the following accounts based on their carrying values as of December 31, 2008:

	2008
	(In Thousands)
Investments in associates	₱188,093
Property and equipment	120,153
Receivables	63,940
AFS financial assets	55,760
Investment properties	3,245
	₱431,191

30. Other Comprehensive Income Reserve

	Cash flow hedge	Income tax related to cash flow hedge	Revaluation increment	Income tax related to revaluation increment	Available-for-sale financial assets	Total	Attributable to Parent Company owners	Minority Interests
				(In Thousands)				
Balance at January 1, 2009	(₱52,069)	₱15,621	(₱141,561)	₱42,468	₱–	(₱135,541)	(₱123,550)	(₱11,991)
Net movement in cash flow hedge	29,393	(8,818)	–	–	–	20,575	13,807	6,768
Balance at December 31, 2009	(22,676)	6,803	(141,561)	42,468	–	(114,966)	(109,743)	(5,223)
Balance at January 1, 2008	₱–	₱–	₱–	₱–	(₱14,060)	(₱14,060)	(₱14,060)	₱–
Net movement in cash flow hedge	(52,069)	15,621	–	–	–	(36,448)	(24,457)	(11,991)
Increase in revaluation increment	–	–	(141,561)	42,468	–	(99,093)	(99,093)	–
Change in fair value of AFS	–	–			14,060	14,060	14,060	–
Balance at December 31, 2008	(52,069)	15,621	(141,561)	42,468	–	(135,541)	(123,550)	(11,991)
Balance at January 1, 2007	–	–	–	–	(14,060)	(14,060)	(14,060)	–
Net movement in cash flow hedge	–	–	–	–	–	–	–	–
Balance at December 31, 2007	₱–	₱–	₱–	₱–	(₱14,060)	(₱14,060)	(₱14,060)	₱–

All items included in this account are previously classified and presented as "Other reserves" in equity. The reclassification of these items to other comprehensive income is a result of adoption of PAS 1 revised which requires items of income and expenses, including reclassification adjustments, that are not recognized in profit or loss to be presented and accounted for as other comprehensive income separately from owner changes in equity (see Note 2).

31. Income Tax

a. The components of the Company's deferred tax assets and deferred tax liabilities are as follows:

<u>Deferred Tax Assets</u>

	2009	2008 (As restated - see Note 4)
	(In Thousands)	
Provision for heavy maintenance	**₱111,912**	₱49,758
Accrued retirement costs and other accrued expenses	**54,168**	261,917
Excess of fair values over book values	**27,907**	255,457
Unamortized preoperating expenses	**13,769**	20,654
Cumulative translation adjustment	**4,426**	15,257
Unamortized past service cost	**2,810**	3,227
NOLCO	**–**	80,307
Difference in gross profit on sale of real estate between financial and tax reporting bases	**–**	139,071
MCIT	**–**	18,720
Accretion on noncurrent financial assets and liabilities	**–**	1,085
Provisions	**–**	2,182
Others	**–**	45,266
	214,992	892,901
Less discontinued operation	**–**	324,461
	₱214,992	₱568,440

Deferred Tax Liabilities

	2009	2008 (As restated - see Note 4)
	(In Thousands)	
Excess of fair values over book values	**₱2,247,328**	₱2,953,545
Difference in depreciation method	**318,309**	249,767
Unrealized foreign exchange gain - net	**68,954**	101,842
Unamortized forex losses capitalized as service concession assets	**24,046**	24,491
Fair value changes of derivative instruments charged to consolidated statement of income	**9,573**	–
Difference in gross profit on sale of real estate between financial and tax reporting bases	**–**	41,176
Capitalized interest	**–**	10,006
Others	**4,482**	11,071
	2,672,692	3,391,898
Less discontinued operation	**–**	269,150
	₱2,672,692	₱3,122,748

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

	2009	2008
	(In Thousands)	
NOLCO	**₱4,325,201**	₱3,435,349
Allowance for doubtful accounts	**3,727,068**	4,347,040
Provisions and other accruals	**525,358**	383,281
Accrued retirement costs and others	**127,475**	122,980
Allowance for decline in value of land and land development costs	**127,003**	211,459
Unrealized foreign exchange gain (losses)	**10,231**	15,907
MCIT	**6,363**	2,117
Unamortized preoperating expenses	**–**	95,961
Unearned toll revenue	**–**	19,344
	₱8,848,699	₱8,633,438

c. As of December 31, 2009 and 2008, NOLCO of the Parent Company and various subsidiaries amounting to ₱4,325.2 million and ₱3,435.4 million, respectively, can be carried forward and claimed as deduction from regular taxable income as follows:

Year Incurred	Amount	Applied	Expired	Balance	Expiry Year
		(In Thousands)			
2009	₱1,296,559	₱–	₱–	₱1,296,559	2012
2008	3,136,233	(14,508)	(330,412)	2,791,313	2011
2007	299,117	(61,788)	–	237,329	2010
	₱4,731,909	(₱76,296)	(₱330,412)	₱4,325,201	

NOLCO attributable to discontinued operations as of December 31, 2008 amounting to ₱274.2 million is excluded from the above table.

NOLCO incurred in 2008 includes balances of acquired subsidiaries as follows:

Year Incurred	MPTC	DMWC	Total	Expiry Date
		(In Thousands)		
2008	₱1,171	₱1,533,467	₱1,534,638	2011
2007	18,154	1,124,358	1,142,512	2010
2006	284,015	60,731	344,746	2009
	₱303,340	₱2,718,556	₱3,021,896	

d. The carryforward benefits of MCIT amounting to ₱6.4 million as of December 31, 2009 can be claimed as tax credits against future income taxes payable as follows:

Year Incurred	Amount	Applied	Expired	Balance	Expiry Year
		(In Thousands)			
2009	₱5,423	₱–	₱–	₱5,423	2012
2008	2,178	(245)	(993)	940	2011
	₱7,601	(₱245)	(₱993)	₱6,363	

MCIT of discontinued operations as of December 31, 2008 amounting to ₱18.9 million is excluded from the above table.

The carryforward benefits of MCIT in 2008 includes the balances of acquired subsidiaries as follows:

Year Incurred	MPTC	Expiry Date
	(In Thousands)	
2008	₱774	2011
2007	350	2010
2006	993	2009
	₱2,117	

e. The current provision for income tax in 2009, 2008 and 2007 represents the following:

	2009	2008	2007
		(In Thousands)	
RCIT	**₱11,475**	₱4,197	₱2,211
MCIT	**678**	1,124	–
Final tax	**23,652**	2,099	729
	₱35,805	₱7,420	₱2,940

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

	2009	2008 (As restated - see Note 4)	2007
		(In Thousands)	
Income (loss) from continuing operations before income tax	**₱4,331,888**	₱925,566	(₱157,107)
Income tax at statutory tax rate of 30% in 2009 and 35% in 2008 and 2007	**₱1,299,566**	₱323,948	(₱54,987)
Net income under ITH	**(1,448,317)**	(304,455)	–
Nondeductible (nontaxable) expenses (gain) - net	**228,870**	126,016	(302,774)
Equity in net losses (earnings) of associates	**(129,671)**	(50,262)	(532,306)
Changes in unrecognized deferred tax assets and others	**67,550**	(100,980)	182,042
Application of NOLCO against RCIT	**(76,296)**	–	–
Various income subjected to lower final tax rates - net	**(35,224)**	(23,349)	(1,847)
Final tax on interest income	**23,652**	2,099	729
Fair value adjustment on certain financial instruments	**–**	(35,180)	857,784
Expiration of MCIT	**–**	7,673	–
Effect of change in tax rates	**–**	(8,588)	–
Others	**–**	–	1,186
	(₱69,870)	(₱63,078)	₱149,827

On May 24, 2005, the Congress of the Philippines issued Republic Act 9337 (RA 9337) effective November 1, 2005. Pursuant to RA 9337, regular corporate income tax rate for domestic corporations and resident and non-resident foreign corporations is increased to 35% from 32% beginning November 1, 2005 and the rate will be reduced to 30% beginning January 1, 2009.

Registration with the Board of Investments (BOI)

Maynilad and MNTC are both registered with the BOI as as a new operator of water supply and sewerage system for the West Service Area on a pioneer status for Maynilad and as a preferred pioneer enterprise as a new operator of the NLE for MNTC under the Omnibus Investment Code of 1987, otherwise known as Executive Order No. 226.

Under the terms of the registration, Maynilad and MNTC are subject to certain requirements, principally that of maintaining at least 60% Filipino ownership or voting equity. As registered enterprises, Maynilad and MNTC are entitled to certain tax and nontax incentives, including ITH for six years beginning on Commencement Date or from actual start of commercial operations whichever comes first but not earlier than the date of registration subject to certain conditions.

On October 16, 2001, the BOI has granted MNTC's request for an extension of the ITH reckoning date from December 1999 to first quarter of 2004. On July 29, 2009, upon the request of MNTC and after filing the necessary application, the BOI has granted an extension of MNTC's ITH up to December 31, 2010.

On April 16, 2008, the BOI granted the request of Maynilad for the extension of the period for the ITH availment from August 2001 - July 2007 to January 2003 - December 2008. On October 20, 2008, Maynilad filed an application for an ITH bonus year. The application was for the extension of the availment of the ITH incentive by Maynilad for one (1) year or for the period January 1, 2009 to December 31, 2009. The BOI approved Maynilad's application on December 22, 2008.

On December 16, 2009, Maynilad was issued with BOI Registration Certificate Nos. 2009-188 and 2009-189 as a new operator of the 1500 MLD and 900 MLD Bulk Water Supply and Distribution Projects pertaining to the La Mesa Treatment Plants 1 and 2, respectively. The registrations entitle Maynilad to incentives which include an Income Tax Holiday (ITH) for six years from January 2010 or actual start of commercial operations, whichever is earlier but in no case earlier than the date of registration. Registration as new operator of 200 MLD Bulk Water Supply and Distribution Project (Putatan, Muntinlupa) was likewise approved by the BOI. The Certificates of Registration were issued in December 2009. This also entitles the Project to a six year income tax holiday commencing on January 2011 or actual start of commercial operations. The ITH incentives shall be limited to the sales/revenue generated from the operation of the three plants which substantially cover total capacity of Maynilad.

As one of the conditions of the BOI for the ITH bonus year, Maynilad and MNTC have to undertake Corporate Social Responsibilities (CSR) activities during the actual availment of the bonus year. There are other specific conditions that have to be complied also by Maynilad and MNTC.

The granting of ITH to Maynilad and MNTC significantly impacted the determination of income tax provisions especially on deferred taxes such that temporary differences that will reverse in the ITH period have not been recognized.

32. Earnings (Loss) per Share

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

		2009	2008 (As restated - see Notes 4 and 33)	2007
		(In Thousands, Except for Per Share Amounts)		
Net income (loss) attributable to owners of the Parent Company from:				
Continuing operations	(a)	**₱2,306,253**	₱532,633	(₱412,056)
Discontinued operations	(b)	**(6,601)**	(7,088)	301,684
Net income (loss) attributable to owners of the Parent Company	(c)	**2,299,652**	525,545	(110,372)
Effect of potentially dilutive instruments		**–**	8,188	–
	(d)	**₱2,299,652**	₱533,733	(₱110,372)
Outstanding common shares at the beginning of the year		**₱7,027,727**	₱1,342,919	₱1,198,952
Effect of issuance of common shares during the year		**4,869,725**	2,123,645	51,968
Weighted average number of common shares for basic earnings per share	(e)	**11,897,452**	3,466,564	1,250,920
Effects of potential dilution from:				
Convertible options (see Note 19)		**–**	1,260,460	1,522,368
Deposit for future stock subscription (see Note 22):				
MPHI		**385,591**	508,271	–
LAWL		**413,978**	26,009	–
ESOP		**31,279**	18,277	–
Weighted average number of common shares adjusted for the effects of potential dilution	(f)	**12,728,300**	5,279,581	2,773,288
Basic earnings (loss) per share:				
Income (loss) from continuing operations after income tax	(a/e)	**₱0.194**	₱0.154	(₱0.329)
Income (loss) from discontinued operations after income tax	(b/e)	**(0.001)**	(0.002)	0.241
	(c/e)	**₱0.193**	₱0.152	(₱0.088)
Diluted earnings (loss) per share:				
Income (loss) from continuing operations after income tax	(a/f)	**₱0.181**	₱0.102	(₱0.329)
Income (loss) from discontinued operations after income tax	(b/f)	**(0.001)**	(0.001)	0.109
	(c/f)	**₱0.180**	₱0.101	(₱0.220)

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

Basic earnings per share attributable to owners of the Parent Company amounts are calculated by dividing net income for the year attributable to owners of Parent Company by the weighted average number of common shares outstanding during the year.

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

In 2006, the stock warrants have a dilutive effect since the exercise price is lower than the average market price of the shares. In 2007, such warrants expired hence: the remaining unconverted portion of the warrants were not considered in determining the average number of ordinary shares for purposes of computing diluted earnings per share. In addition, the convertible option pursuant to the convertible loans discussed in Note 19 has a dilutive effect since the exercise price is lower than the average market price of the shares.

In 2008, deposits for future stock subscription from MPHI (see Note 22) and subscription receivable from LAWL (see Note 4) for purposes of identifying dilutive potential ordinary shares are deemed to have been converted into ordinary shares at the beginning of the period or if later, the date of the issue of the potential ordinary shares. These are considered dilutive since conversion to ordinary shares would decrease earnings per share. The convertible options that were converted into ordinary shares during the year are included in the calculation of diluted earnings per share from the beginning of the year to the date of conversion; the resulting ordinary shares are included in both basic and diluted earnings per share.

33. Share-based Payment

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

As amended, the overall limit on the number of shares which may be issued upon exercise of all options to be granted and yet to be exercised under the Plan must not exceed 5% of the shares in issue from time to time. The maximum number of shares in respect of which options may be granted under the Plan shall not exceed 5% of the issued shares of MPIC on June 14, 2007 or the date when an event of any change in the corporate structure or capitalization affecting the Company's shares occurred, as the case may be.

The exercise price in relation to each option shall be determined by the Company's Compensation Committee, but shall not be lower than the highest of: (i) the closing price of the shares for one or more board lots of such shares on the Philippine Stock Exchange (PSE) on the option offer date; (ii) the average closing price of the shares for one or more board lots of such shares on the PSE for the five (5) business days on which dealings in the shares are made immediately preceding the option offer date; and (iii) the par value of the shares.

The Company has granted on December 9, 2008 and March 10, 2009 options in respect of 123,925,245 common shares to its senior management. Details of the said tranches follow: (a) Tranche A for 61,000,000 shares, 50% of which vested immediately on January 2, 2009 with an exercise price of ₱2.12 per share and (b) Tranche B for 62,925,245 shares, 50% of which vested on March 10, 2009 with an exercise price of ₱2.73 per share. The remaining fifty percent (50%) of each said tranche will vest on the first (1st) anniversary of the initial vesting date. The share options automatically vest on their respective vesting schedules. The grantees of the said option may exercise in whole or in part their respective options at any time after vesting but prior to the expiration of three (3) years after all of the options shares for such tranche have vested.

ESOP expense included in "Personnel costs" under "General and administrative expenses" account in the consolidated income statements, amounted to ₱50.0 million in 2009 (see Note 26).

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

	Tranche A		Tranche B	
	Number of shares	Exercise price	Number of shares	Exercise price
Outstanding at January 1, 2009	61,000,000	₱2.12	–	₱–
Granted during the year	–	–	62,925,245	2.73
Exercised during the year*	7,365,000	2.12	6,580,000	2.73
Outstanding at December 31, 2009	53,635,000	₱2.12	56,345,245	₱2.73
Exercisable at December 31, 2009	23,135,000	₱2.12	24,882,623	₱2.73

** In 2009, ₱3.2 million of the total ESOP expense recognized under "Other reserves" in the consolidated balance sheet pertaining to the options exercises was transferred to additional paid-in capital.*

The weighted average remaining contractual life for the share options outstanding as of December 31, 2009 is 2.4 years.

The fair value of the options granted is estimated at the date of grant using Black-Scholes-Merton formula, taking into account the terms and conditions upon which the options were granted. The following tables list the inputs to the model used for the ESOP in 2009:

	Tranche A		Tranche B	
	50% vesting on January 2, 2009	50% vesting on January 2, 2010	50% vesting on March 10, 2009	50% vesting on March 10, 2010
Grant date	December 9, 2009		March 10, 2009	
Spot price	₱2.10	₱2.10	₱2.70	₱2.70
Exercise price	₱2.12	₱2.12	₱2.73	₱2.73
Risk-free rate	5.92%	6.60%	4.24%	4.82%
Expected volatility	94.07%	58.10%	61.25%	66.43%
Term to vesting	24	389	61	365

** The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the options is indicative of future trends, which may also not necessarily the actual outcome.*

Carrying value of the ESOP recognized under "Other reserves" in the equity section of the consolidated balance sheets amounted to ₱46.8 million as of December 31, 2009 (see Note 22).

34. Contingencies

Maynilad
The following are the contingencies involving Maynilad:

a. Additional Tranche B Concession Fees and interest penalty are being claimed by MWSS in excess of the amount recommended by the rehabilitation receiver (Receiver). Such additional charges being claimed by MWSS (in addition to other miscellaneous claims) amounts to ₱3.8 billion as of December 31, 2009 and ₱3.5 billion as of December 31, 2008. The Rehabilitation Court has resolved to deny and disallow the said disputed claims of MWSS in its December 19, 2007 Order, upholding the recommendations of the Receiver on the matter. Following the issuance of the Rehabilitation Court's Order on December 19, 2007 disallowing the MWSS' disputed claims and the termination of Maynilad's rehabilitation proceedings, MWSS has not yet indicated to Maynilad the amount of additional Tranche B Concession Fees that it is still claiming, which amount is therefore undeterminable as of this time. Maynilad and MWSS are seeking to resolve this matter in accordance with the dispute resolution requirements of the Transitional and Clarificatory Agreement.

b. In a decision dated September 7, 2007, the National Labor Relations Commission (NLRC) dismissed the complaint filed by the Maynilad Waters Supervisors Association (MWSA) for alleged non-payment of cost of living allowance (COLA) in NLRC NCR CN 00-03-03620-2003. In the said case, the Labor Arbiter had earlier issued a decision ordering the payment of COLA to the supervisor-employees "retroactive to the date when they were hired by the respondent company in 1997, with legal interest from the date of promulgation of [the] decision" until full payment of the award, which decision was reversed and set aside by the NLRC. On December 10, 2007, in pursuance of its efforts to effect an early exit from corporate rehabilitation, Maynilad executed a Compromise Agreement with the MWSA (Compromise Agreement) for the settlement of certain claims of the MWSA, wherein Maynilad agreed to pay to MWSA residual benefits equivalent to its claim for COLA for 23 months from August 1997 to June 1999. On January 15, 2008, Maynilad received a copy of the petition for certiorari filed by the MWSA with the Court of Appeals alleging grave abuse of discretion on the part of the NLRC and praying that the Labor Arbiter's decision dated November 10, 2006 be affirmed in toto, but only in relation to the MWSA's claim for COLA from July 1999 up to the present time. Maynilad filed its comment on the said petition on March 6, 2008. The case remains pending with the Court of Appeals as of March 3, 2010.

c. On October 13, 2005, Maynilad and Manila Water Company, Inc. (the East Concessionaire) 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. Accordingly, Maynilad and the East Concessionaire filed a joint appeal of the said assessment with the Local Board of Assessment Appeals (LBAA). An appeal-in-intervention was also filed by MWSS with the LBAA. MWSS maintains the position that these properties are owned by the Republic of the Philippines and that the same are exempt from taxation. On February 2, 2007, Maynilad and the East Concessionaire received an updated assessment of real property tax from the Municipality of Norzagaray, Bulacan, which included real property tax purportedly due for 2006 of ₱35.7 million and interest of 2% per month of ₱93.6 million.

   On May 2, 2007, the LBAA denied the joint appeal of Maynilad and the East Concessionaire. The LBAA also denied the appeal-in-intervention filed by MWSS. Subsequently, Maynilad and the East Concessionaire elevated the case to the Central Board of Assessment Appeals (CBAA) by filing separate appeals. The CBAA, through the board secretary, issued a "First Endorsement" addressed to Maynilad stating that the LBAA order was "not in accordance with Sec. 227 of the Local Government Code of 1991" as it was signed only by the chairman "without the concurrence of at least one member to constitute a majority." In an order dated July 9, 2007, the LBAA explained the lack of signatures of the other members of the LBAA in the May 2, 2006 order and reiterated the previous denial of the separate appeals filed by Maynilad and the East Concessionaire. Responding to a letter from Maynilad, Cristeta Esteban, the municipal treasurer of Norzagaray, insisted on the concessionaires' liability to pay the subject real property tax. According to her letter dated July 17, 2007, the supposed joint liability of Maynilad and the East Concessionaire for real property tax, including interest, as of June 30, 2007 amounts to ₱554.2 million. On August 21, 2007, Maynilad filed a second appeal from the LBAA order dated July 9, 2007. During the hearing on November 27, 2007, the presiding commissioner encouraged the parties to enter into an amicable settlement. At the subsequent hearing on February 12, 2008, the parties agreed to (i) set an ocular inspection of the area where the subject common purpose facilities are situated; and (ii) continue exploring the possibility of an amicable settlement. However, due to the parties' failure to report any development regarding the amicable settlement suggested by the commissioner, an order/notice of hearing dated June 27, 2008 was issued by the CBAA setting a hearing on July 30, 2008. During such hearing, an agreement was arrived at on the holding of a meeting on August 20, 2008 to be attended by officials of Maynilad and the East Concessionaire for the purpose of entering into a possible compromise agreement. It was also agreed that a formal hearing will then be set on a date to be agreed upon during the meeting. Eventually, a hearing with the CBAA was held on October 21, 2008. Pursuant to the Order dated October 23, 2008, the CBAA required the parties to file their respective Memoranda on whether or not CBAA should hear and proceed with the case or remand the same to the LBAA of the Province of Bulacan to be heard and proceeded on the merit. Maynilad filed its Memorandum dated November 5, 2008 stating that the CBAA has the authority to hear, proceed and decide the appeal on the merits without the need of remanding the matter to the LBAA. In such Memorandum, Maynilad likewise prayed that the LBAA Orders dated May 2, 2006 and July 9, 2007 be reversed and set aside and that the subject properties be declared as part of public dominion and therefore, tax-exempt. In an order dated May 12, 2009, the CBAA granted Maynilad's prayer in its Memorandum, in so far as the CBAA decided to: (1) set aside the assailed LBAA Resolutions dated May 2, 2006 and July 9, 2007; and (2) give due course to Maynilad's appeal and hear the same on merit.

d. A complaint with prayer for the issuance of a CDO against Maynilad, MWSS and the MWSS-RO was filed by certain civil society groups before the National Water Resources Board (NWRB) contesting the approval by the MWSS Board of Trustees of the MWSS-RO resolution approving the rebased tariff of ₱30.19 per cubic meter (average all-in tariff) effective January 1, 2005 for Maynilad. The complaint alleges, among others, that the increase in the water tariff rate was without adequate public consultation and sufficient basis and that the application filed by Maynilad for the said rate increase had no imprimatur from the Receiver. Claiming that the NWRB had no jurisdiction to hear and decide the aforesaid complaint, Maynilad and MWSS filed separate motions to dismiss, which were both denied. The NWRB has yet to rule on the said complaint. Following the denial of its motion to dismiss, Maynilad filed a petition for certiorari with the Court of Appeals. Alleging grave abuse of discretion on the part of the NWRB, Maynilad claims that there is no law conferring any power upon the NWRB to assume jurisdiction over disputes relating to water tariff rates for MWSS' concessionaires and that the powers of the Public Service Commission were not transferred to the NWRB. In a decision dated May 28, 2007, the Court of Appeals dismissed Maynilad's petition for certiorari and declared that the NWRB is empowered to review the subject average all-in tariff rate of ₱30.19 per cubic meter. Maynilad has sought a reconsideration of the said decision. In a subsequent development, MWSS filed a motion seeking to intervene in the certiorari proceedings. On February 20, 2008, the Court of Appeals issued an Omnibus Resolution denying Maynilad's motion for reconsideration and MWSS' motion for intervention. Maynilad has filed with the Supreme Court its petition for review on certiorari to assail the rulings of the Court of Appeals that found, among others, that the NWRB is empowered to review the subject average all-in tariff rate of ₱30.19 per cubic meter. Comments to the petition for review on certiorari were filed by the civil society groups concerned and the Office of the Solicitor General (on behalf of the NWRB). Maynilad filed its Reply to the Comments on October 20, 2009. MWSS also filed a motion for reconsideration of the denial of its motion for intervention before the Court of Appeals, which the appellate court denied on March 9, 2009. In view of the denial, MWSS filed a petition for review on certiorari before the Supreme Court. In its resolution dated July 1, 2009, the Supreme Court issued a resolution consolidating the cases filed by Maynilad and MWSS, considering that both petitions assailed the same Omnibus Resolution of the Court of Appeals dated February 20, 2008, in relation to CA-G. R. SP No. 92743. The consolidated case remains pending as of March 3, 2010. 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.

Maynilad and its legal counsel has assessed that the eventual liability from these lawsuits or claims, if any, will not have a material effect on the consolidated financial statements.

<u>MPTC, MPTDC and MNTC</u>

Value Added Tax. When RA 9337 took effect, the BIR issued Revenue Regulation No. 16-2005 on September 1, 2005, which, for the first time, expressly referred to toll road operations as being subject to VAT. This notwithstanding VAT Ruling 078-99 issued in August 9, 1999 where BIR categorically ruled that MNTC, as assignee of PNCC franchise, is entitled to the tax exemption privileges of PNCC and is exempt from VAT on its gross receipts from the operation of the NLE. However, the TRB, in its letter dated October 28, 2005, directed MNTC (and all Philippine toll expressway companies) to defer the imposition of VAT on toll fees, thus MNTC has deferred the imposition of VAT from motorists. Accordingly, MNTC does not collect VAT and no VAT liability was recognized.

Due to the possibility that MNTC may eventually be subjected to VAT, MNTC, in 2005, carved out the input tax from its purchases of goods and services (includes input tax in relation to the Project construction cost) in 2004 which were previously recorded as part of service concession assets and recorded such input tax, together with the input tax on 2005 purchases and onwards, as a separate "Input value added tax" account and accordingly reflected the input tax in the VAT returns. In September 2005, MNTC also requested for confirmation from the BIR that MNTC can claim input VAT for the passed-on VAT on its purchases of goods and services for 2003 and prior years. The request for confirmation is still pending as of March 3, 2010.

On December 21, 2009, BIR issued RMC No. 72-2009 as a reiteration of RMC No. 52-2005 imposing VAT on the tollway operators. However, on January 21, 2010, TAP issued a letter to tollway operators referring to a letter issued by TRB to TAP dated December 29, 2009 reiterating TRB's previous instruction to all toll operators to defer the imposition of VAT on toll fees until further orders from their office. The TRB directive resulted from the Cabinet meeting held last December 29, 2009 at Baguio City where the deferment of the implementation of RMC No. 72-2009 was discussed.

In view of the foregoing and in the light of the quick response of the Cabinet and the TRB on the BIR RMC No. 72-2009, MNTC continues to defer the imposition of VAT on toll fees from motorists and correspondingly, with VAT being a passed on tax, the Company did not recognize any VAT liability.

MNTC, together with other toll road operators, continues to discuss the issue of VAT with concerned government agencies.

At present, the BIR continuously upholds its position that MNTC is indeed subject to VAT on toll revenues, stating that inasmuch as there is no concrete ruling yet on the exemption from VAT on toll fees, MNTC's receipts from toll fees should be considered as subject to VAT. In relation thereto, the BIR has issued the following VAT assessments:

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

Notwithstanding the foregoing, management believes, in consultation with its legal counsel, that in any event, the STOA amongst MNTC, ROP, acting by and through the TRB, and PNCC, provides MNTC with legal recourse in order to protect its lawful interests in case there is a change in existing laws which makes the performance by MNTC of its obligations materially more expensive.

Local Business Tax and Real Property Tax. In 2009, MNTC has received a Final Demand from the municipality of Guiguinto, Bulacan to pay the local business tax assessments for the years 2005 to 2007 amounting to ₱67.4 million, inclusive of surcharges and penalties. MNTC, together, with its legal counsel protested claiming that its predecessor, PNCC has never been subjected to local business tax and as such MNTC continued the customary practice of obtaining the business permits solely from the local government unit where its principal office is located. The case is still pending before the Regional Trial Court of Malolos, Bulacan.

On November 19, 2009, TRB informed MNTC that TRB's Board of Directors has approved MNTC's request to intervene in the LBT case for the purposes of protecting the interests of the government and the motoring public, avoiding any disruption in the operation of the NLE as a limited access facility and resisting collateral attack in the validity of the STOA. TRB also advised MNTC that on November 12, 2009, the Omnibus Motion (i) for Intervention and (ii) to admit attached Manifestation and Motion in Intervention was filed by the Office of the Solicitor General on behalf of TRB praying for the issuance of a Temporary Restraining Order and a Writ of Preliminary Injunction to enjoin the municipality from closing MNTC's business particularly with respect to its operations of the Burol-Tabang and Burol-Sta.Rita toll exits and any facility that is indispensable in the operation of the tollway.

In 2008, MNTC also received real property tax assessments covering the toll roads located in the Municipality of Guiguinto amounting to ₱2.9 million for the years 2005 to 2008. MNTC appealed before the Local Board of Assessment Appeals (LBAA) of Bulacan and prayed for the cancellation of the assessment. The case is still pending before the LBAA of Bulacan.

In 2004, MPTDC has received real property tax assessments covering Segment 7 located in the province of Bataan for the period from 1997 to June 2005 amounting to ₱98.5 million for alleged delinquency property tax. MPTDC appealed before the LBAA of Bataan and prayed for the cancellation of the assessment. In the said appeal, MPTDC invoked that the property is owned by the Republic of the Philippines, hence, exempt from real property tax. The case is still pending before the LBAA of Bataan.

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

Others. MNTC is a co-respondent (together with TRB, PNCC, other tollways operators, TMC, MPTDC (then FPIDC) and BHC) in two Supreme Court cases, where, based on the following allegations, the petitioners' claims that the STOA is null and void:

- the negotiation and execution of the STOA failed to undergo public bidding in accordance with applicable laws and regulations of the Philippines;
- the STOA granted to MNTC a 30-year franchise for the construction, maintenance and operation of the NLE in violation of the Presidential Decrees under which the PNCC's franchise were granted and the Philippine Constitution; and
- the provisions of the STOA providing for the establishment and adjustment of toll rates violate the statutory requirement for the TRB to conduct public hearings on the level of authorized toll rates.

Management believes that the petitioners' claims are without merit and is vigorously contesting the case. As of March 3, 2010, the case is still pending.

MPTC is also a party 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 the MPTC's legal counsel, the eventual liability from these lawsuits or claims, if any, will not have a material adverse effect on MPTC's financial position and financial performance, as well as in the consolidated financial statements.

MPC

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

The security offered for the above obligations includes:

- Pledge of 5.0% interest of MPC in BLC;
- Additional pledge of 1.6% interest in BLC subject to the release of certain BLC shares from an existing pledgee which has a prior lien; and
- Second mortgage on the parent company's NCBD property, subject to the approval of the first mortgagee.

ALI and GDC have formally advised MPC in their letter dated September 19, 2003 that they are allocating the first two pledges above for possible payment of secured indemnity obligations enumerated in their letter. Total estimated indemnity is ₱1.1 billion.

MPC has already provided for ₱317.8 million in prior years, determined on the basis of certain possible taxes that will be claimed by ALI and GDC.

The above warranty has expired last April 17, 2007. However, due to pending taxes included in the warranties, the provision amounting to ₱402.8 million has remained in the books. In 2009, additional provision loss made amounting to ₱54.8 million, which represents the excess of the proceeds from sale of certain BLC over its carrying value, as this may still be subject for refund in connection with the pending taxes and warranties as herein discussed (see Note 17).

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

35. Significant Contracts, Agreements and Commitments

The significant contracts entered into by MPIC, Maynilad and MNTC are as follows:

MPIC
On November 20, 2009, MPIC entered into and became a party to the Amended, Consolidated and Restated Cooperation Agreement (the "Agreement") covering certain shares of voting common stock in Meralco by the Lopez Group and PLDT Group (collectively referred to as the "Parties"). MPIC and Piltel are considered part of the PLDT Group for purposes of the amended Agreement. The Agreement provides among others a standstill arrangement, voting arrangement, right of first refusal and tag-along rights and governance provisions with respect to their shareholdings in Meralco.

Also on November 20, 2009, MPIC granted FPUC, a subsidiary of First Philippine Holding Corporation, a short-term loan amounting to ₱11.2 billion. Such loan is interest bearing and will mature on June 30, 2010, and is included under "Receivables" in the consolidated balance sheet (see Note 8).

On November 5, 2009, FPHC has agreed to grant to MPIC a Call Option relating to approximately 74.6 million common shares of Meralco owned by FPHC (equivalent to 6.7% of the total outstanding common shares of Meralco) not later than January 15, 2010, and later extended to February 28, 2010. The Call Option shall be exercisable at any time from the date that the Call Option is granted until midnight of March 31, 2010. MPIC will pay to FPHC a distinct consideration for the Call Option which shall be determined and established using the Black-Scholes option pricing model in Bloomberg.

See also Note 12 for the Shareholder's Agreement between MPIC and Piltel

Maynilad
In relation to the Concession Agreement, Maynilad entered into the following contracts with the East Concessionaire:

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

b. Agreement that provides for the new price of the water transfers and for the application of the certain arrangements relating to the CPI adjustments in the price of the water transfers.

Significant commitments under the Concession Agreement follow:

a. Payment of Concession Fees (see Note 18)

b. Posting of performance bond (see Note 11)

Under Section 6.9 of the Concession Agreement, Maynilad is required to post a performance bond to secure the performance of its obligations under certain provisions of the Concession Agreement. The aggregate amount drawable in one or more installments under such performance bond during the Rate Rebasing Period to which it relates is set out below.

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

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

In connection with the implementation of the Selection Process by MWSS, Maynilad and MWSS executed the Agreement on the performance bond on December 15, 2006, incorporating the terms and conditions of MWSS BOT Resolution No. 2006-249 dated November 17, 2006 which approved certain adjustments to the obligation of Maynilad to post the performance bond under Section 6.9 of the Concession Agreement. These adjustments are summarized as follows:

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

   Based on the draft of the Letter of Consent and Undertaking to be signed by the DoF in connection with the extension of the Concession Agreement, the extension of the undertaking letter from May 7, 2022 to May 6, 2032 shall only be effective upon the increase in the present minimum level of the Performance Bond from the present level of US$30 million to US$90 million for the Third Rate Rebasing Period. The Performance Bond will be required to be posted within six (6) months from the date of the issuance of the letter. The amount of the Performance Bond for the period covering 2013 to 2037 shall be mutually agreed upon in writing by the MWSS and Maynilad consistent with the provisions of the Concession Agreement.

ii. Upon the completion of the Capital Restructuring, the Sponsor shall be required to post a performance bond of US$30.0 million as part of the requirement under the Selection Process and to maintain the same until Maynilad is already in a position to post the performance bond, subject to compliance by Maynilad with the DCRA and, as necessary, the recommendation of the Receiver and the approval of the Rehabilitation Court;

iii. While Maynilad is under corporate rehabilitation:

   - any capital expenditure (CAPEX) commitment of the Sponsor not exceeding US$18.0 million to be infused into Maynilad for a period of three (3) years shall be deemed to be in compliance with the obligation of the Sponsor or Maynilad to deliver the equivalent amount of the performance bond, subject to the terms and conditions set out in the relevant agreement between MWSS and the Sponsor; and
   - since the Concession Fees due to MWSS are protected under the DCRA and existing Philippine rehabilitation rules, the coverage of the performance bond shall exclude the obligation of Maynilad to pay Concession Fees under Section 6.4 of the Concession Agreement; and

iv. Once Maynilad exits from corporate rehabilitation:

   - any CAPEX commitment of the Sponsor shall no longer be deemed to be in compliance with Maynilad's obligation to deliver the equivalent amount of the performance bond; and accordingly, the amount of the performance bond shall be no less than US$30.0 million beginning on the first day of the Rate Rebasing Period immediately following the date Maynilad exits from rehabilitation and until the Expiration Date;
   - the performance bond shall again cover Maynilad's obligation to pay Concession Fees under Section 6.4 of the Concession Agreement; and
   - the obligation to deliver the performance bond reverts to Maynilad. Considering that the Agreement on the performance bond effectively amends Section 6.9 of the Concession Agreement, the Republic of the Philippines (through the Secretary of Finance) acknowledged the terms and conditions of the said agreement on January 4, 2007, as required under Section 16.2 of the Concession Agreement.

On January 24, 2007, DMCI-MPIC, as the Sponsor, delivered to MWSS an irrevocable standby letter of credit having a stated amount of US$18.0 million covering its CAPEX commitment and another irrevocable standby letter of credit having a stated amount of US$12.0 million as performance bond, in compliance with the above provisions.

Under the TCA, Maynilad is required to update the performance bond to US$30.0 million by January 1, 2009 (to coincide with the implementation of the new rebased rate) pursuant to the Agreement on the performance bond dated December 15, 2006.

c. Payment of half of MWSS and MWSS-RO's budgeted expenditures for the subsequent years, provided the aggregate annual budgeted expenditures do not exceed ₱200.0 million, subject to CPI adjustments (see Note 13).

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

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

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

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

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

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

i. Operating lease commitments

   Maynilad leases the branches, where service outlets are located for certain periods up to 2008, renewable under certain terms and conditions to be agreed upon by the parties. Total rent expense for the above operating leases amounted to ₱77.2 million in 2009, ₱66.7 million in 2008 and ₱90.1 million in 2007, respectively.

Future minimum operating lease payments are as follows:

Period Covered	Amount
	(In Millions)
Not later than one year	₱54.20
More than one year and not later than five years	129.87
More than 5 years	191.72

MNTC

a. On April 14, 2009, MNTC, under a competitive bidding, has awarded the Civil Works contract to Leighton Contractors (Asia) Limited (LCAL), a construction unit of Leighton International Limited. The Civil Works Construction Agreement was executed by MNTC and LCAL in relation to the construction of the 2.7 kilometer Segment 8.1 stretching from Mindanao Avenue to NLE. Total civil works construction contract was set at ₱1,458.7 million, as may be adjusted from time to time pursuant to the terms of the agreement.

   The Construction Notice to Proceed was issued by the Company to LCAL on April 14, 2009, and mobilization works commenced on April 22, 2009.

   Unapplied mobilization advances to LCAL, included as part of "Advances to contractors and consultants" in the balance sheet, amounted to ₱219.8 million as of December 31, 2009.

b. MNTC, under competitive bidding, has awarded a Construction Contract for Phase I of the Project to LCAL. The Construction Contract, executed on March 2, 2001 by and between MNTC and LCAL in relation to the construction of Segments 1, 2 and 3 of Phase I of the Project, is a firm fixed price contract and is not subject to indexation or exchange rate fluctuations except where expressly stated in the contract or otherwise agreed with LCAL.

   On January 25, 2008, MNTC issued a Performance Certificate to LCAL, being the date upon which the pavement defects and outstanding works were completed.

36. Assets Held in Trust

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

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

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

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

MWSS' corporate headquarters are made available to Maynilad and the East Concessionaire for a one-year period beginning on the Commencement Date, subject to yearly renewal with the consent of the parties concerned. As of December 31, 2009, the lease has been renewed for another year.

37. Financial Risk Management Objectives and Policies

The Company's principal financial instruments consist mainly of borrowings from a related party and third party investors and short-term deposits, proceeds of which were used for the acquisition of investments and in financing operations. The Company has other financial assets and financial liabilities such as cash and cash equivalents, short-term deposits, receivables, accounts payable and other current liabilities, concession fees payable and other related party transactions which arise directly from the Company's operations.

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

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

Interest Rate Risk
Interest rate risk is the risk that the fair value or future cashflows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to market risk for changes in interest rates relate primarily to its long-term debts. The Company manages interest rate exposure by using a mix of fixed and variable rate debt. As of December 31, 2009 and 2008, the Company is subject to interest rate risk (i.e. cashflow and fair value interest rate risk). Fixed rate financial instruments are subject to fair value interest rate risk while floating rate financial instruments are subject to cash flow interest rate risk.

In accordance with its interest rate management policy, MNTC converted certain of its outstanding loans into fixed-rate debt, effectively locking in the interest rate on majority of its loan obligations and reducing exposure to interest rate fluctuations. This was done through the exercise of various fixed-rate funding options that were provided under some of the loan facilities - EFIC, ADB Direct and COFACE.

To further reduce its interest rate risk exposure, MNTC entered into a series of derivative transactions, particularly, cross currency swaps, during 2008 and 2009 (see Note 38). Under these derivative transactions, the counterparty shall pay semi-annual interest in U.S. Dollar at floating rates equivalent to those of the long-term debt obligations every six months. In exchange, the Company shall pay its counterparty semi-annual interest in Philippine peso at an agreed-upon fixed rate every six months. These swaps are designated as cash flow hedges of the underlying debt obligations. The following table summarizes the changes in interest rates taking into account the result of the swap transactions:

Loan Facility	Notional Amount	Floating Interest Rate	Fixed Interest Rate
	(In Thousands)		
ADB-CFS A	$9,563	LIBOR + 2.75% Margin	8.30%
ADB-CFS B	1,688	LIBOR + 2.75% Margin	8.88%
USD Bank Facility	18,028	LIBOR + 3.00% Margin	9.10%
COFACE	8,409	6.13%	7.60%
EFIC	8,437	8.03%	11.50%
	$46,125		
ADB Direct	₱489,240	PHIREF + 4.66% Margin	9.40%

The floating rate loans were paid on scheduled repayment dates and the derivative transactions effectively converted the floating rates to fixed rates for two loan facilities in 2008 and another two loan facilities in 2009 resulting in lower percentage of floating rate debt of total outstanding debt.

The cross currency swap on the COFACE Covered Loan features a shift from a fixed interest rate to floating interest rate (see Note 38). In February 2009, MNTC entered into another interest rate swap transaction to fix the interest rate on the loan facility.

The following tables set out the carrying amount, classified by maturity, of the Company's interest-bearing financial assets and financial liabilities. Interest on financial instruments classified as floating rate is repriced semi-annually on each interest payment date. Interest on financial instruments classified as fixed rate is fixed until the maturity of the instrument. The other financial instruments of the Company that are not included in the table below are noninterest-bearing and are therefore not subject to interest rate risk.

U.S. Dollar-Denominated Financial assets and Financial liabilities

	December 31, 2009						
	Interest Rate	**On Demand**	**Within 1 Year**	**2–3 Years**	**4–5 Years**	**More than 5 Years**	**Total**
				(In Thousands)			
Cash and cash equivalents	**3.00%-4.50%**	**$24,285**	**$–**	**$–**	**$–**	**$–**	**$24,285**
Short-term investments	**3.00%-4.50%**	**–**	**52,671**	**–**	**–**	**–**	**52,671**
		24,285	**52,671**	**–**	**–**	**–**	**76,956**
Fixed rate loans:							
Service concession fees payable	**4.61%**	**–**	**45,802**	**–**	**–**	**–**	**45,802**
EFIC	**8.03%**	**–**	**1,875**	**3,750**	**2,813**	**–**	**8,438**
COFACE	**6.13%**	**–**	**1,869**	**3,738**	**2,803**	**–**	**8,410**
MPCL	**2.50%**	**310**	**–**	**–**	**–**	**–**	**310**
		310	**49,546**	**7,488**	**5,616**	**–**	**62,960**
Floating rate loans:							
Maynilad Omnibus Agreeement	**LIBOR+CDS+ 2% spread (3.65% November 10 to May 11, 2010)**	**–**	**–**	**–**	**–**	**121,829**	**121,829**
USD Bank	**LIBOR +3.00% Margin**	**–**	**4,006**	**8,012**	**6,009**	**–**	**18,027**
ADB-CFS	**LIBOR +2.75% Margin**	**–**	**2,500**	**5,000**	**3,750**	**–**	**11,250**
		$–	**$6,506**	**$13,012**	**$9,759**	**$121,829**	**$151,106**

	December 31, 2008						
	Interest Rate	On Demand	Within 1 Year	2–3 Years	4–5 Years	More than 5 Years	Total
				(In Thousands)			
Cash and cash equivalents	1.00%-6.75%	$143,032	$–	$–	$–	$–	$143,032
		143,032	-	-	-	–	$143,032
Fixed rate loans:							
Service concession fees payable	5.00%	–	57,716	–	–	–	57,716
ADB-Direct	8.25%	–	2,250	4,500	4,500	1,125	12,375
EFIC	8.03%	–	1,875	3,750	3,750	938	10,313
COFACE	6.13%	–	1,869	3,738	3,738	934	10,279
		–	63,710	11,988	11,988	2,997	90,683
Floating rate loans:							
Maynilad Omnibus Agreement	9.21%	–	–	–	–	121,753	121,753
ADB-CFS	LIBOR + 2.75% Margin	–	2,500	5,000	5,000	1,250	13,750
USD Bank	LIBOR + 3.00% Margin	–	4,006	8,012	8,012	2,003	22,033
		$–	$6,506	$13,012	$13,012	$125,006	$157,536

Peso-Denominated Financial assets and Financial liabilities

	December 31, 2009						
	Interest Rate	**On Demand**	**Within 1 Year**	**2–3 Years**	**4–5 Years**	**More than 5 Years**	**Total**
				(In Thousands)			
Cash and cash equivalents	**3.00%-4.50%**	**₱5,756,367**	**₱–**	**₱–**	**₱–**	**₱–**	**₱5,756,367**
Investment in bonds	**5.30%-9.00%**	**–**	**–**	**350,000**	**50,600**	**–**	**400,600**
Investment in treasury bills	**4.13%**	**–**	**4,000**	**–**	**–**	**–**	**4,000**
		5,756,367	**4,000**	**350,000**	**50,600**	**–**	**6,160,967**
Fixed rate loans:							
BDO 11B Loan	**10.24%**	**–**	**94,766**	**489,532**	**1,599,532**	**8,789,064**	**10,972,894**
Maynilad Ominbus Agreement	**Floating rate benchmark +2% spread (3.65% November 10 to May 11, 2010)**	**–**	**–**	**–**	**–**	**5,338,282**	**5,338,282**
Service concession fees payable	**4.61%**	**–**	**–**	**–**	**–**	**8,576,461**	**8,576,461**
BDO 6B Loan	**10.72%**	**–**	**59,159**	**115,928**	**585,059**	**5,879,625**	**6,639,771**
FXCN Noteholders	**9.75%**	**–**	**55,000**	**110,000**	**5,225,000**	**–**	**5,390,000**
PNB Loan	**9.61%**	**–**	**–**	**57,700**	**274,075**	**245,225**	**577,000**
ADB-Direct	**9.50%**	**–**	**108,720**	**217,440**	**163,080**	**–**	**489,240**
Landbank	**9.50%**	**37,231**	**–**	**–**	**–**	**–**	**37,231**
		37,231	**317,645**	**990,600**	**7,846,746**	**28,828,657**	**38,020,879**
Floating rate loans:							
Maynilad Ominbus Agreement	**Floating rate benchmark +2% spread (3.65% November 10 to May 11, 2010)**	**₱–**	**₱–**	**₱–**	**₱–**	**₱5,338,282**	**₱5,338,282**

	December 31, 2008						
	Interest Rate	On Demand	Within 1 Year	2–3 Years	4–5 Years	More than 5 Years	Total
				(In Thousands)			
Cash and cash equivalents	1.00%-6.75%	₱1,467,094	₱–	₱–	₱–	₱–	₱1,467,094
Short-term investments	1.00%-6.75%	–	182,888	–	–	–	182,888
Due to related party	10%	–	500,000	–	–	–	500,000
		1,467,094	682,888	–	–	–	2,149,982
Fixed rate loans:							
Maynilad Ominbus Agreement	Floating rate benchmark +2% spread (3.65% November 10 to May 11, 2010)	–	–	–	–	5,335,056	5,335,056
MPIC Omnibus Agreement	10.72%	–	46,781	67,500	67,500	6,568,219	6,750,000
FXCN Noteholders	9.75%	–	55,000	110,000	5,280,000	–	5,445,000
Concession fees payable	5.0%	–	–	–	–	7,595,219	7,595,219
		–	101,781	177,500	5,347,500	19,498,494	25,125,275
Floating rate loans:							
Maynilad Ominbus Agreement	Floating rate benchmark +2% spread (3.65% November 10 to May 11, 2010)	₱–	₱–	₱–	₱–	₱5,335,056	₱5,335,056

The following table demonstrates the sensitivity of cash flows due to changes in interest rates with all other variables held constant. The management expects that interest rates will move by ±50 basis points within the next reporting period. The estimates in the movement of interest rates were based on the management's annual financial forecast. There is no other effect on equity other than those affecting the consolidated statement of income:

	Increase/Decrease in Basis Points	Effect on Income Before Income Tax
2009	**+50**	**(₱56,262)**
	–50	**56,262**
2008	+50	(59,527)
	–50	59,527

With regard to the Company's derivatives transactions, the following table demonstrates the sensitivity of fair value changes due to simultaneous movements in Philippine peso and U.S. dollar interest rates with all other variables held constant. The management expects that interest rates will move by ±50 basis points within the next reporting period. The sensitivity to the consolidated statement of income pertains to derivatives at FVPL whereas the sensitivity to other comprehensive income pertains to those derivatives accounted for as cash flow hedges:

	Increase/Decrease in Basis Points	Effect on Income Before Income Tax	Effect on Other Comprehensive Income
2009	**+50**	**(₱598)**	**₱20,839**
	–50	**612**	**(21,189)**
2008	+50	(6,179)	19,110
	–50	6,328	(19,565)

Foreign Currency Risk
The Company's foreign currency risk results primarily from movements of the Philippine peso against the United States Dollar, European Euro and the Japanese Yen.

DMWC Foreign Currency Risk Policy. The servicing of foreign currency denominated loans of MWSS is among the requirements of the Concession Agreement. Majority of the revenues are generated in Philippine peso. However, there is a mechanism in place as part of the Concession Agreement wherein the Company (or the end consumers) can recover currency fluctuations through the FCDA that is approved by the Regulatory Office.

MPTC Foreign Currency Risk Policy. MPTC's foreign currency risk arises mainly from its exposure to U.S. dollar-denominated long-term loans which constitute 25% and 38% of its outstanding loans as of December 31, 2009 and 2008, respectively. These long-term loans were translated using US$1 = ₱46.36 and US$1 = ₱47.49 as of December 31, 2009 and 2008, respectively. Exposure to foreign currency risk was significantly reduced when MNTC undertook a major risk management initiative in 2006 by refinancing around 50% of its outstanding U.S. dollar loans with peso loans. The exposure was further reduced when the MNTC entered into derivative transactions in 2008 and 2009, and subsequently converted the ADB Direct Loan from U.S. dollar to peso in March 2009. This allowed MNTC to fully hedge its exposure on variability in cash flows due to foreign currency exchange fluctuations through cross currency interest rate swaps. The following table summarizes the features of these hedging transactions:

Loan Facility	Effective Date	Principal Amount Hedged	Swap Rate	Notional Amount
		(In Thousands)		
ADB-CFS A	September 23, 2008	$12,750	₱46.33	₱590,708
ADB-CFS B	October 3, 2008	2,250	47.05	105,863
COFACE	July 2, 2008	11,213	45.00	504,585
USD Bank Facility	October 3, 2008	24,038	47.05	1,130,988
EFIC	January 5, 2009	10,312	47.42	488,995
		$60,563		₱2,821,139

In connection with MNTC objective of reducing the exposure to foreign currency risk to zero, since revenues are 100% Philippine Peso-denominated, the authorized toll rate (ATR) adjustment formula was revised starting on the next periodic toll rate adjustment on January 1, 2011. The revised formula removes the foreign exchange component factor, which passes on 50% of the foreign currency exposure on bi-annual adjustments following the initial toll rate adjustment.

The Company's foreign currency denominated financial assets and liabilities as of December 31 are as follows:

	2009			2008
	U.S. Dollar	**Euro**	**SGD**	U.S. Dollar
Assets:				
Cash and cash equivalents	**$24,285**	**€–**	**–**	$143,032
Short-term investments	**52,671**	**–**	**–**	–
Due from related parties	**5,339**	**–**	**–**	5,000
Derivative assets	**688**	**–**	**–**	–
	82,983	**–**	**–**	148,032
Liabilities:				
Accounts payable	**(117)**	**(19)**	**(49)**	(427)
Derivative liabilities	**(959)**	**–**	**–**	
Service concession fees payable	**(45,802)**	**–**	**–**	(190,503)
Long-term debts	**(167,954)**	**–**	**–**	(57,716)
	(214,832)	**(19)**	**(49)**	(248,646)
Net foreign currency denominated liabilities	**($131,849)**	**(€19)**	**(49)**	($100,614)

The following table demonstrates sensitivity of cash flows due to changes in foreign exchange rates with all variables held constant. Management estimates that U.S. Dollar and Euro exchange rates will change by ±5% within the next reporting period. The estimates in the movement of the foreign exchange rates were based on the management's annual financial forecast. Changes in income before income tax pertain to those financial obligations which are unhedged.

	Increase/Decrease in Peso to U.S. Dollar, Euro and SGD Exchange Rates	Effect on Income Before Income Tax
2009:		
U.S. Dollar	**+5%**	**(₱229,220)**
Euro	**+5%**	**(63)**
Singapore Dollar	**+5%**	**(80)**
U.S. Dollar	**–5%**	**229,220**
Euro	**–5%**	**63**
Singapore Dollar	**–5%**	**80**

(Forward)

	Increase/Decrease in Peso to U.S. Dollar, Euro and SGD Exchange Rates	Effect on Income Before Income Tax
2008:		
U.S. Dollar	+5%	(36,381)
Euro	+5%	(145)
U.S. Dollar	–5%	36,381
Euro	–5%	145

With regard to the Company's derivatives activities, the following table demonstrates the sensitivity of fair value changes due to movements in foreign exchange rates with all variables held constant. Management estimates that U.S. Dollar exchange rates will change by ±5% within the next reporting period. The sensitivity on statement of income pertains to derivatives at FVPL whereas the sensitivity to other comprehensive income pertains to those derivatives accounted for as cash flow hedges.

	Increase/Decrease in Peso: U.S Dollar Exchange Rates	Effect on Income Before Income Tax	Effect on Other Comprehensive Income
2009	**+5%**	**₱21,372**	**₱94,061**
	–5%	**(21,372)**	**(94,061)**
2008			
	+5%	20,876	77,825
	–5%	(21,490)	(78,519)

Liquidity Risk

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

The Company monitors its cash position using a cash forecasting system. All expected collections, check disbursements and other payments are determined on a daily basis to arrive at the projected cash position to cover its obligations and to ensure that obligations are met as they fall due. The Company monitors its cash flow portion particularly the collections from receivables and the funding requirements of operations to ensure an adequate balance of inflows and outflows. The Company also has online facility with its depository banks wherein bank balances are monitored daily to determine the actual Company cash balances at any time. The Company has short-term credit lines amounting to ₱900.0 million and ₱200.0 million as of December 31, 2009 and 2008, respectively, and cash and cash equivalents and short-term deposits, which are short-term in nature, amounting to ₱8,813.1 million and ₱8,744.4 million as of December 31, 2009 and 2008, respectively, that are allocated to meet the Company's short-term liquidity needs.

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

- Managing the concentration and profile of debt maturities
- Maintaining debt financing plans
- Monitoring balance sheet liquidity ratios against internal and regulatory requirements

The table below summarizes the maturity profile of the Company's financial liabilities at December 31, 2009 and 2008 based on contractual undiscounted payments.

	2009						
	On Demand	**Within 1 Year**	**1–2 Years**	**2–3 Years**	**3–4 Years**	**More than 4 Years**	**Total**
				(In Thousands)			
Accrued expenses	**₱2,869,766**	**₱242,432**	**₱–**	**₱–**	**₱–**	**₱–**	**₱3,112,198**
Accrued construction costs	**1,726,337**	**–**	**–**	**–**	**–**	**–**	**1,726,337**
Trade payables	**1,517,818**	**–**	**–**	**–**	**–**	**–**	**1,517,818**
Accounts payable	**7,350**	**–**	**–**	**–**	**–**	**–**	**7,350**
Interest and other financing charges	**515,451**	**–**	**–**	**–**	**–**	**–**	**515,451**
Provision for ESOP	**259,336**	**–**	**–**	**–**	**–**	**–**	**259,336**
Dividends payable	**26,594**	**143,883**	**–**	**–**	**–**	**–**	**170,477**
Retention payable	**16,901**	**–**	**–**	**–**	**–**	**–**	**16,901**
Other current liabilities	**106,328**	**–**	**–**	**–**	**–**	**–**	**106,328**
Due to related parties	**102,133**	**327,585**	**–**	**–**	**–**	**–**	**429,718**
Provisions	**555,640**	**415,827**	**–**	**–**	**–**	**–**	**971,467**
Customers' guaranty deposits*	**–**	**–**	**–**	**–**	**–**	**494,453**	**494,453**
Financial guarantee obligation**	**–**	**11,055**	**11,055**	**11,055**	**11,055**	**265,320**	**309,540**
Concession fees payable	**–**	**1,208,467**	**1,462,278**	**722,244**	**619,947**	**6,267,203**	**10,280,139**
Long-term debts**	**–**	**3,419,454**	**3,546,083**	**8,307,910**	**2,621,236**	**40,904,255**	**58,798,938**
	₱7,703,654	**₱5,768,703**	**₱5,019,416**	**₱9,041,209**	**₱3,252,238**	**₱47,931,231**	**₱78,716,451**
Derivative liabilities:							
Derivative contracts - receipts	**–**	**(460,421)**	**–**	**(894,997)**	**–**	**(622,303)**	**(1,977,721)**
Derivative contracts - payments	**–**	**553,410**	**–**	**994,596**	**–**	**646,545**	**2,194,551**
	–	**92,989**	**–**	**99,599**	**–**	**24,242**	**216,830**
	₱7,703,654	**₱5,861,692**	**₱5,019,416**	**₱9,140,808**	**₱3,252,238**	**₱47,955,473**	**₱78,933,281**

(*) Included under "Other long-term liabilities" account in the consolidated balance sheet.

(**) Including contractual interest payments.

	2008						
	On Demand	Within 1 Year	1–2 Years	2–3 Years	3–4 Years	More than 4 Years	Total
				(In Thousands)			
Accrued expenses	₱2,213,846	₱–	₱–	₱–	₱–	₱–	₱2,213,846
Accrued construction costs	1,912,797	–	–	–	–	–	1,912,797
Trade payables	1,244,183	–	–	–	–	–	1,244,183
Accounts payable	33,005	–	–	–	–	–	33,005
Interest and other financing charges	149,558	632,755	–	–	–	–	782,313
Dividends payable	27,913	675	–	–	–	–	28,588
Retention payable	11,460	–	–	–	–	–	11,460
Other current liabilities	59,942	–	–	–	–	–	59,942
Due to related parties	2,323,555	500,000	–	–	–	–	2,823,555
Provisions	461,476	–	–	–	–	–	461,476
Customers' guaranty deposits*	–	–	–	–	–	417,091	417,091
Financial guarantee obligation**	–	11,050	11,050	11,050	11,050	199,010	243,210
Concession fees payable	–	974,521	876,088	847,354	732,642	4,164,614	7,595,219
Long-term debts**	–	2,326,590	2,136,762	3,139,537	2,027,540	32,249,804	41,880,233
	8,437,735	4,445,591	3,023,900	3,997,941	2,771,232	37,030,519	59,706,918
Derivative liabilities:							
Derivative contracts - receipts	(507,213)	(484,474)	(459,495)	(448,543)	(426,914)	204,933	(2,121,706)
Derivative contracts - payments	566,455	528,967	497,443	465,000	431,009	(202,865)	2,286,009
	59,242	44,493	37,948	16,457	4,095	2,068	164,303
	₱8,496,977	₱4,490,084	₱3,061,848	₱4,014,398	₱2,775,327	₱37,032,587	₱59,871,221

(*) Included under "Other long-term liabilities" account in the consolidated balance sheet.
(**) Including contractual interest payments.

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

DMWC Credit Risk Policy. In the Company's water utilities segment, a basic need service, historical collections of the Company are relatively high. Credit exposure is widely dispersed. Maynilad billings are payable on the due date, which is normally 14 days from the billing date. However, customers are given 60 days to settle any unpaid bills before disconnection.

MPTC Credit Risk Policy. The Company's exposure to credit risk on trade receivables is indirect since the responsibility for account management and collection is part of the subscription account management function of its operator, TMC. The Company, through TMC, offers a credit card payment option called automatic debit via credit card (Credit Card ADA) which, to a certain extent, operates like a post-payment account that can have some collection backlog if not managed properly. MPTC's policy is to provide TMC a 30-day window within which to collect declined Credit Card ADA transactions for the annual period. Any uncollected Credit Card ADA top-ups after the 30-day grace period will be considered as part of the toll collection variance of TMC (ADA variance). In 2008, the cut-off date for the determination of the ADA variance will be January 30, 2009 following the 30-day policy. As of January 31, 2009, the declined ADA reload transactions in 2008 amounted to only ₱0.1 million.

There is also a credit risk on receivables from the Company's hedging counterparty, Mizuho Corporate Bank (Mizuho). Under the hedge agreements, Mizuho shall pay the Company, in U.S. dollar and at specified dates, amounts equal to the semi-annual principal and interest payments for the Company's U.S. dollar-denominated loans, namely ADB-CFS, USD Bank and COFACE. In exchange, the Company pays Mizuho equivalent amounts in Philippine Peso at agreed-upon swap rates and fixed interest rates. The Company manages its counterparty risk by transacting with counterparties of good financial condition and credit rating. Although limiting aggregate exposure on all outstanding derivatives to any individual counterparty would effectively manage settlement risk on derivatives, the CTA stipulated that hedge counterparties would not have voting rights and may not declare an event of default which other counterparties find difficult to accept. To mitigate this exposure, the Company monitors and assesses on a regular basis the counterparty's credit rating in Moody's, S&P and Fitch to obtain reasonable assurance that the counterparty would be able to fulfill its financial obligations under the hedge agreements.

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

	Maximum Exposure		**Net Maximum Exposure**	
	2009	2008	**2009**	2008
		(In Thousands)		
Financial assets at FVPL - Derivative assets	**₱31,911**	₱50,059	**₱31,911**	₱50,059
Derivative assets designated as accounting hedges	**7,301**	7,301	**7,301**	7,301
Loans and receivables:				
Cash and cash equivalents*	**6,370,480**	2,028,813	**6,370,480**	2,028,813
Short-term deposits	**2,433,418**	6,715,588	**2,433,418**	6,715,588
Receivables - net	**13,475,300**	1,608,882	**13,475,300**	1,608,882
Due from related parties (current and noncurrent)	**566,649**	354,754	**566,649**	354,754
Sinking fund**	**796,302**	572,974	**796,302**	572,974
Cash deposits**	**554,400**	–	**554,400**	–
Miscellaneous deposits***	**71,734**	66,807	**71,734**	66,807
Available-for-sale financial assets	**282,787**	402,964	**282,787**	402,964

(Forward)

	Maximum Exposure		Net Maximum Exposure	
	2009	2008	**2009**	2008
		(In Thousands)		
HTM investments:				
Investment in bonds	**400,600**	100,600	**400,600**	100,600
Investment in treasury bills***	**4,000**	4,000	**4,000**	4,000
	₱24,994,882	₱11,912,742	**₱24,994,882**	₱11,912,742

* *Excludes cash on hand amounting to ₱9.2 million and ₱0.02 million as of December 31, 2009 and 2008, respectively.*
** *Included under "Other current assets" account in the consolidated balance sheets.*
*** *Included under "Other noncurrent assets" account in the consolidated balance sheets.*

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

	2009			
	High Grade	**Standard Grade**	**Sub-standard Grade**	**Total**
		(In Thousands)		
Financial Assets at FVPL -				
Derivative assets	**₱31,911**	**₱–**	**₱–**	**₱31,911**
Derivative assets designated as accounting hedges	**7,301**	**–**	**–**	**7,301**
Loans and Receivables:				
Cash and cash equivalents	**6,370,480**	**–**	**–**	**₱6,370,480**
Short-term deposits	**2,433,418**	**–**	**–**	**2,433,418**
Receivables:				
Notes receivable	**–**	**–**	**–**	**–**
Trade receivables	**468,343**	**–**	**–**	**468,343**
Accrued interests receivable	**4,170**	**58,616**	**–**	**62,786**
Advances to officers and employees	**21,740**	**696**	**–**	**22,436**
Advances to other affiliates	**2,498**	**–**	**–**	**2,498**
Others	**115,337**	**55,350**	**46,713**	**217,400**
Sinking fund*	**796,302**	**–**	**–**	**796,302**
Cash deposits*	**554,400**	**–**	**–**	**554,400**
Due from related parties	**526,027**	**–**	**–**	**526,027**
Miscellaneous deposits**	**71,734**	**–**	**–**	**71,734**
Available-for-sale financial assets	**282,787**	**–**	**–**	**282,787**
HTM Investments -				
Investment in bonds	**400,600**	**–**	**–**	**400,600**
	₱12,087,048	**₱114,662**	**₱46,713**	**₱12,248,423**

* *Included under "Other current assets" account in the consolidated balance sheets.*
** *Included under "Other noncurrent assets" account in the consolidated balance sheets.*

	2008			
	High Grade	Standard Grade	Sub-standard Grade	Total
		(In Thousands)		
Financial Assets at FVPL -				
Derivative assets	₱50,059	₱–	₱–	₱50,059
Derivative assets designated as accounting hedges	2,983	–	–	2,983
Loans and Receivables:				
Cash and cash equivalents	2,028,813	–	–	2,028,813
Short-term deposits	6,715,588	–	–	6,715,588
Receivables:				
Trade receivables	286,753	–	–	286,753
Notes receivable	45,000	–	–	45,000
Advances to officers and employees	3,105	–	–	3,105
Accrued interests receivable	195	–	–	195
Others	62,323	1,923	90,224	154,470
Sinking fund*	572,974	–	–	572,974
Due from related parties	₱346,926	₱196	₱–	₱347,122
Miscellaneous deposits**	66,807	–	–	66,807
Available-for-sale financial assets	402,964	–	–	402,964
HTM Investments -				
Investment in bonds	100,600	–	–	100,600
	₱10,685,090	₱2,119	₱90,224	₱10,777,433

* *Included under "Other current assets" account in the consolidated balance sheets.*
** *Included under "Other noncurrent assets" account in the consolidated balance sheets.*

Cash and cash equivalents and sinking fund are classified as high grade since these are placed with reputable local and international banks which meet the credit rating criteria set under the loan agreements. Qualified banks in the Philippines are those with a bank deposit rating of at least equal to the sovereign rating, or if there is no bank deposit rating, bank financial strength rating of at least 'B' by Moody's, or whose credit rating given by Moody's, Standard & Poor's (S&P), or Fitch is equal to the Philippine government, or whose issuer or issue credit rating by Philratings is at least 'Aa.' Qualified banks outside the Philippines are those whose senior unsecured obligations are rated at least 'BBB' by S&P. In addition to this, the Company has investment in bonds issued by the Philippine government, rated as 'Aa' by Philratings.

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

As at December 31, 2009, the aging analysis of past due but not impaired financial assets is as follows:

	Neither Past Due nor	Past Due but not Impaired								
	Impaired	<30 Days	30–60 Days	60–90 Days	90–120 Days	>120 Days	Total	Total	Impaired	Total
Cash and cash equivalents	₱6,370,480	₱–	₱–	₱–	₱–	₱–	₱–	₱6,370,480	₱–	₱6,370,480
Short-term deposits	2,433,418	–	–	–	–	–	–	2,433,418	–	2,433,418
Receivables:										
Notes receivable	–	11,205,000	–	–	–	523,480	11,728,480	11,728,480	150,000	11,878,480
Trade receivables	468,343	143,984	224,739	158,056	115,772	307,756	950,307	1,418,650	278,004	1,696,654
Accrued interests receivable	62,786	15,649	310	300	310	2,145	18,714	81,500	–	81,500
Advances to other affiliates	–	–	–	–	–	–	–	–	69,917	69,917
Advances to officers and employees	22,436	–	–	–	–	6,561	6,561	28,997	9,894	38,891
Others	217,400	–	–	–	273	–	273	217,673	3,484	221,157
Sinking fund*	796,302	–	–	–	–	–	–	796,302	–	796,302
Cash deposits*	554,400	–	–	–	–	–	–	554,400	–	554,400
Due from related parties	526,027	404	1,963	259	–	37,996	40,622	566,649	–	566,649
Investment in bonds	400,600	–	–	–	–	–	–	400,600	–	400,600
Available-for-sale financial assets	282,787	–	–	–	–	–	–	282,787		282,787
Miscellaneous deposits**	71,734	–	–	–	–	–	–	71,734	–	71,734
Derivative assets	39,212	–	–	–	–	–	–	39,212	–	39,212
	₱12,245,925	₱11,365,037	₱227,012	₱158,615	₱116,355	₱877,938	₱12,744,957	₱24,990,882	₱511,299	₱25,502,181

* *Included under "Other current assets" account in the consolidated balance sheets.*
** *Included under Other noncurrent assets account in the consolidated balance sheets.*

As at December 31, 2008, the aging analysis of past due but not impaired financial assets is as follows:

	Neither Past Due nor	Past Due but not Impaired								
	Impaired	<30 Days	30–60 Days	60–90 Days	90–120 Days	>120 Days	Total	Total	Impaired	Total
Cash and cash equivalents	₱2,028,813	₱–	₱–	₱–	₱–	₱–	₱–	₱2,028,813	₱–	₱2,028,813
Short-term deposits	6,715,588	–	–	–	–	–	–	6,715,588	–	6,715,588
Receivables:										
Trade receivables	286,753	186,249	219,551	144,822	97,456	393,013	1,041,091	1,327,844	52,443	1,380,287
Notes receivable	45,000	–	–	–	–	–	–	45,000	150,000	195,000
Advances to officers and employees	3,105	512	–	–	–	19,370	19,882	22,987	9,894	32,881
Advances to other affiliates	–	–	–	–	–	–		–	72,695	72,695
Accrued interests receivable	195	–	–	–	–	–	–	195	–	195
Others	154,470	–	–	–	–	55,608	55,608	210,078	3,484	213,562
Sinking fund*	572,974	–	–	–	–	–	–	572,974	–	572,974
Available-for-sale financial assets	402,964	–	–	–	–	–	–	402,964	–	402,964
Due from related parties	347,122	1,126	1,745	–	371	4,390	7,632	354,754	–	354,754
Investment in bonds	100,600	–	–	–	–	–	–	100,600	–	100,600
Miscellaneous deposits**	66,807	–	–	–	–	–	–	66,807	–	66,807
Derivative assets	53,042	–	–	–	–	–	–	53,042	–	53,042
	₱10,777,433	₱187,887	₱221,296	₱144,822	₱97,827	₱472,381	₱1,124,213	₱11,901,646	₱288,516	₱12,190,162

* *Included under "Other current assets" account in the consolidated balance sheets.*
** *Included under Other noncurrent assets account in the consolidated balance sheets.*

<u>Equity Price Risk</u>
Equity price risk is the risk to earnings or capital arising from changes in market prices relating to its quoted equity securities. The Company's exposure to equity price risk relates primarily to its quoted AFS financial assets in 2007. As of December 31, 2008, these quoted AFS financial assets are presented under "Assets of disposal group classified as held for sale" account in the consolidated balance sheet.

The Company's policy is to maintain the risk at an acceptable level. Movement in share price is monitored regularly to determine the impact on the Company's financial position. The Company believes that any possible change in equity price has no significant impact on the consolidated financial statements.

As of December 31, 2009, the Company is no longer exposed to equity price risks.

<u>Capital Management</u>
The primary objective of the Company's capital management policies is to ensure that the Company maintains a strong balance sheet and healthy capital ratios in order to support its business and maximize shareholder value.

The following debt covenants are being complied by the Company as part of maintaining a strong credit rating with its creditors:

MPIC. MPIC Omnibus Agreement provides that MPIC shall ensure during the terms of the Notes that its Debt-to-equity ratio does not exceed 70:30, and its debt service coverage ratio is at a minimum of 1.3x. As of December 31, 2009, MPIC is in compliance with the required financial ratios and other loan covenants.

MPTC. Under the loan agreement, there is a limit to the amount of additional senior debt that it can incur, US$50 million (or its Peso equivalent, as escalated) for Phase II expansion and US$10 million (or its Peso equivalent, as escalated) for general corporate purposes within three years after November 8, 2006. After this three-year period, incurrence of additional senior debt is governed by certain cash flow tests such as forward debt-service coverage ratios (minimum of 1.3x) and Debt:EBITDA ratio (maximum of 3:1).

MPTC also ensures that its debt to equity ratio is in line with the requirements of the Bangko Sentral ng Pilipinas (BSP) and the BOI. BSP requires MPTC to maintain a long-term debt to equity ratio of at most 75:25 during the term of the foreign loans while BOI requires MPTC to comply with a 75:25 debt-equity ratio as proof of capital build-up. MPTC's long-term debt to equity ratio stood at only 58:42 as of December 31, 2009 and 2008, respectively, indicating that MPTC has the capacity to incur additional long-term debt to build up its capital.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may obtain additional advances from shareholders, return capital to shareholders, issue new shares or issue new debt or redemption of existing debt. No changes were made in the objectives, policies or processes during the years ended December 31, 2009 and 2008.

The Company monitors capital on the basis of debt-to-equity ratio. Debt-to-equity ratio is calculated as long-term debts over equity.

During 2009, the Company's strategy, which was unchanged from 2008, was to maintain a sustainable debt-to-equity ratio. The debt-to-equity ratio on December 31, 2009 and 2008 are as follows:

	2009	2008
	(In Thousands)	
Long-term debts	**₱42,786,400**	₱32,267,740
Equity	**60,275,638**	26,705,886
Debt-to-equity ratio	**71.0%**	120.8%

38. Financial Assets and Financial Liabilities

Fair Values

The classification and comparison by category of the carrying values and fair values of all of the Company's financial instruments as of December 31, 2009 and 2008 are as follows:

	2009		2008	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Financial Assets				
Financial Assets at FVPL -				
Derivative assets	**₱31,911**	**₱31,911**	₱50,059	₱50,059
Designated as accounting hedges -				
Derivative assets	**7,301**	**7,301**	2,983	2,983
	39,212	**39,212**	53,042	53,042
Loans and Receivables:				
Cash and cash equivalents	**6,370,480**	**6,370,480**	2,028,813	2,028,813
Short-term deposits	**2,433,418**	**2,433,418**	6,715,588	6,715,588
Receivables (current and noncurrent):				
Notes receivable	**11,728,480**	**11,728,480**	45,000	45,000
Trade receivables	**1,418,650**	**1,418,650**	1,327,844	1,327,844
Accrued interests receivable	**81,500**	**81,500**	195	195
Advances to officers and employees	**28,997**	**28,997**	22,987	22,987
Dividend receivable	**7,841**	**7,841**	–	–
Others	**209,832**	**209,832**	210,078	210,078
Due from related parties	**566,649**	**609,242**	354,754	391,172
Sinking fund*	**796,302**	**796,302**	572,974	572,974
Cash deposits	**554,400**	**554,400**	–	–
Miscellaneous deposits*	**71,734**	**74,843**	66,807	80,288
Rental deposits and other financial assets*	**–**	**–**	2,403	3,441
	24,268,283	**24,313,985**	11,347,443	11,398,380
AFS Financial assets:				
BLC	**46,525**	**46,525**	402,964	402,964
NEPSCC	**236,262**	**236,262**	–	–
	282,787	**282,787**	402,964	402,964
HTM Investments -				
Investment in bonds	**400,600**	**405,948**	100,600	107,262
Investment in treasury bills*	**4,000**	**3,929**	–	–
Total financial assets	**₱24,994,882**	**₱25,045,861**	₱11,904,049	₱11,961,648

(Forward)

	2009		2008	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Financial Liabilities				
Designated as accounting hedges -				
Derivative liabilities	**₱44,467**	**₱44,467**	₱29,861	₱29,861
Other Financial Liabilities:				
Accounts payable and other current liabilities:				
Accrued expenses	**3,112,198**	**3,112,198**	2,213,846	2,213,846
Accrued construction costs	**1,726,337**	**1,726,337**	1,912,797	1,912,797
Trade payables	**1,517,808**	**1,517,808**	1,244,183	1,244,183
Interest and other financing charges	**515,451**	**515,451**	782,313	782,313
Provision for ESOP	**259,336**	**259,336**	183,440	183,440
Dividends payable	**170,477**	**170,477**	28,588	28,588
Retention payable	**16,901**	**16,901**	11,460	11,460
Accounts payable	**7,350**	**7,350**	33,005	33,005
Others	**103,887**	**103,887**	56,082	56,082
Due to related parties	**429,718**	**429,718**	2,823,555	2,823,555
Service concession fees payable (current and noncurrent)	**10,280,140**	**10,692,524**	7,595,219	9,011,528
Long-term debts (current and noncurrent)	**42,786,400**	**44,698,741**	32,267,740	32,606,746
Customers' guaranty deposits**	**494,453**	**408,110**	417,091	443,573
Financial guarantee obligation***	**65,569**	**108,162**	64,270	100,688
	61,486,025	**63,767,000**	49,633,589	51,451,804
Total financial liabilities	**₱61,530,492**	**₱63,811,467**	₱49,663,450	₱51,481,665

* *Included in "Other current assets" and "Other noncurrent assets" accounts in the consolidated balance sheets.*
** *Included in "Other long-term liabilities" account in the consolidated balance sheet.*
*** *Included in "Others" under "Other long-term liabilities" account in the consolidated balance sheets.*

The following methods and assumptions were used to estimate the fair value of each class of financial instrument 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 end of reporting period.

Receivables, Sinking fund, Cash Deposits, and Accounts Payable and Other Current Liabilities. Carrying values approximate the fair values at balance sheet date due to the short-term nature of the transactions.

Due to/from Related Parties. Estimated fair value approximates the carrying values of these instruments due to the quarterly repricing of interest based on 90-day LIBOR rate.

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

Financial Guarantee Obligation. Estimated fair value is based on the discounted value of future cash flows using the prevailing peso interest rates that are specific to the tenor of the instruments' cash flows ranging from 4.1% to 11.3% in 2009 and 4.2% to 10.2% in 2008.

AFS Financial Assets. AFS financial assets are carried at cost as these are unquoted shares.

Investment in Bonds. These pertain to quoted ROP treasury bonds which bear fixed interest rates ranging from 5.3% to 9.0%, payable quarterly, and with the following maturities:

Maturity Date	**2009**	2008
July 31, 2011	**₱50,000**	₱50,000
September 24, 2012	**300,000**	–
July 31, 2013	**50,600**	50,600
	₱400,600	₱100,600

Investment in treasury bills amounting to ₱4.0 million pertain to quoted zero-coupon ROP short-term securities with a yield of 4.13% per annum maturing on June 2, 2010.

The fair values are based on the quoted market price of the financial instruments as of December 31, 2009 and 2008.

Rental Deposits and Other Financial Assets. Estimated fair value is based on the discounted value of future cash flows using the prevailing peso interest rates that are specific to the tenor of the instruments' cash flows at end of each reporting period.

Long-term Debt. For both fixed rate and floating rate (repriceable every six months) U.S. Dollar-denominated debts and 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 prevailing peso interest rates ranging from 0.61% to 6.1% and 1.51% to 5.72% in 2009 and 2008, respectively.

Derivative Assets and Liabilities. The fair values of interest rate swaps and cross currency swaps are estimated based on the net present value of estimated future cash flows using US and Philippine risk free rates ranging from 1.7% to 2.2% in 2009 and 4.3% to 5.1% in 2008, respectively.

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

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

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

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

Below are the set of financial instruments carried at fair value that are classified using fair value hierarchy as of December 31, 2009:

	December 31, 2009	Level 1	Level 2	Level 3
Financial Assets				
Financial Assets at FVPL - Derivative assets	**₱31,911**	₱–	₱31,911	₱–
Derivative assets designated as accounting hedges	**7,301**	–	7,301	–
	39,212	–	39,212	–
Financial Liabilities				
Derivative liabilities accounted as accounting hedges	**₱44,467**	₱–	₱44,467	₱–

During the year ended December 31, 2009, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

Derivative Instruments. In 2009 and 2008, MNTC entered into cross currency swap and interest rate swap transactions to hedge its foreign exchange and interest rate exposures on the following loans:

		Outstanding Balance as of	
Loan Facility	Interest Rate	**December 31, 2009**	December 31, 2008
ADB-CFS A	LIBOR + 2.75%	**$9,563**	$11,688
ADB-CFS B	LIBOR + 2.75%	**1,687**	2,062
COFACE	6.13%	**8,409**	10,278
USD Bank Facility	LIBOR + 3.00%	**18,028**	22,034
EFIC	8.03%	**8,438**	–
		$46,125	$46,062
ADB Direct	PHIREF + 4.66%	**₱489,240**	₱–

The following table provides information about MNTC's outstanding derivative financial instruments as of December 31, 2009 and 2008 and their related fair values:

	2009		2008	
	Asset	**Liability**	Asset	Liability
Cross currency swaps to hedge				
ADB-CFS A	**₱–**	**(₱3,493)**	₱2,983	₱–
ADB-CFS B	**–**	**(2,968)**	–	(2,671)
COFACE	**27,223**	**–**	50,059	–
EFIC	**–**	**(7,109)**	–	–
USD Bank Facility	**–**	**(30,897)**	–	(27,190)
	27,223	**(44,467)**	53,042	(29,861)
Interest rate swaps to hedge				
ADB Direct	**7,301**	**–**	–	–
COFACE	**4,688**	**–**	–	–
	11,989	**–**	–	–
	₱39,212	**(₱44,467)**	₱53,042	(₱29,861)

Derivatives Accounted for as Non-hedge Transactions. On July 1, 2008, MNTC entered into a cross currency swap to hedge its fair value exposure on the COFACE covered loan due to movements in foreign exchange and interest rates. Under the cross currency swap, MNTC will receive US$11.2 million in installments of US$0.9 million every six months starting December 15, 2008 until June 16, 2014 plus semi-annual interest at a fixed rate of 6.13% per annum on the outstanding US dollar balance, and pay ₱504.6 million, payable in equal semi-annual installments of ₱42.0 million every six months starting December 15, 2008 until June 16, 2014, and semi-annual interest at 6-month PHIREF plus 2.75% per annum on the outstanding peso balance. As of December 31, 2009 and 2008, the outstanding notional amount of the swap amounted to $8.4 million and $10.3 million, respectively.

On February 26, 2009, MNTC entered into an interest rate swap where MNTC receives semi-annual interest based on six-months PHIREF plus 2.75% per annum spread and pays semi-annual fixed interest at 7.6% per annum, calculated based on an amortizing peso notional amount, starting June 15, 2009 until June 16, 2014. The outstanding notional amount of the swap as of December 31, 2009 amounted to 378.4 million.

The interest rate swap, together with the existing cross currency swap entered in 2008 for the COFACE loan, effectively transformed the dollar denominated floating rate loan into a fixed rate peso loan.

For the period ended December 31, 2009 and December 31, 2008, the fair value changes of the interest rate swap and cross currency swap (both hedging the COFACE loan) amounted to ₱19.2 million loss and ₱12.8 million loss, respectively. The loss and gain amounts were recognized as part of "Other expense" account and "Other income" account, respectively, in the consolidated statements of income (see Note 29).

Derivatives Accounted for Under Cash Flow Hedge Accounting. On September 23, 2008 and October 3, 2008, MNTC entered into cross currency swap transactions with Mizuho to hedge the cash flow variability on the ADB loans and USD Bank facility due to movements in foreign exchange and interest rates. In 2009, additional derivative transactions were entered to hedge the cash flow variability on the EFIC due to movements in foreign exchange rates and ADB Direct Loans due to movement in interest rates.

ADB-CFS A
Under the cross currency swap, MNTC will receive US$12.8 million in installments of US$1.1 million every six months starting December 15, 2008 until June 16, 2014 plus semi-annual interest at a rate of 6-months LIBOR plus 2.75% per annum spread on the outstanding U.S. Dollar balance, and pay ₱590.7 million, payable in equal semi-annual installments of ₱49.2 million every six months starting December 15, 2008 until June 16, 2014, and semi-annual interest at fixed rate of 8.3% per annum on the outstanding peso balance. As of December 31, 2009 and 2008, the outstanding notional amount of the swap amounted to $9.6 million and $11.7 million, respectively.

ADB-CFS B
Under the cross currency swap, MNTC will receive US$2.2 million in installments of US$0.2 million every six months starting December 15, 2008 until June 16, 2014 plus semi-annual interest at a rate of 6-months LIBOR plus 2.75% per annum spread on the outstanding U.S. Dollar balance, and pay ₱105.9 million, payable in equal semi-annual installments of ₱8.8 million every six months starting December 15, 2008 until June 16, 2014, and semi-annual interest at fixed rate of 8.9% per annum on the outstanding peso balance. As of December 31, 2009 and 2008, the outstanding notional amount of the swap amounted to $1.7 million and $2.1 million, respectively.

USD Bank Facility
Under the cross currency swap, MNTC will receive US$24.0 million in installments of US$2.0 million every six months starting December 15, 2008 until June 16, 2014 plus semi-annual interest at a rate of 6-months LIBOR plus 3.0% per annum spread on the outstanding U.S. Dollar balance, and pay ₱1,131.0 million, payable in equal semi-annual installments of ₱94.2 million every six months starting December 15, 2008 until June 16, 2014, and semi-annual interest at fixed rate of 9.1% per annum on the outstanding peso balance. As of December 31, 2009 and 2008, the outstanding notional amount of the swap amounted to $18.0 million and $22.0 million, respectively.

EFIC
MNTC entered into a cross currency swap to hedge its cash flow variability on the EFIC loan due to movements in foreign exchange rates effective January 5, 2009. Under the cross currency swap, MNTC will receive US$10.3 million in installments of US$0.9 million every six months starting June 15, 2009 until June 16, 2014, plus semi-annual fixed interest of 8.03% per annum based on the amortizing US dollar notional amount, and pay ₱498.0 million, payable in equal semi-annual installments of ₱44.5 million every six months starting June 15, 2009 until June 16, 2014, plus semi-annual fixed interest at 11.5% per annum on the amortizing peso notional amount. The cross currency swap effectively transformed the fixed rate US dollar loan into a fixed rate peso denominated loan. As of December 31, 2009, the outstanding notional amount of the swap amounted to $8.4 million.

ADB Direct
On April 1, 2009, MNTC entered into a pay-fixed, receive-floating interest rate swap contract to hedge the variability of cash flows pertaining to the floating rate ADB Direct Loan. Under the swap, MNTC will receive semi-annual interest equal to 6-months PHIREF plus 4.66% per annum spread and pay semi-annual fixed interest of 9.4% per annum, based on the amortizing principal balance of the ADB Direct Loan, starting from June 15, 2009 until June 16, 2014. The interest rate swap effectively fixed the floating rate of the said loan over the duration of the agreement at 9.4% per annum. The notional amount of the interest rate swap as of December 31, 2009 amounted to ₱489.2 million.

Under the cash flow hedge, the effective portion of the change in fair values of the designated hedges are recognized directly in equity and recycled in earnings in the same periods during which the hedged transaction affects earnings.

Hedge Effectiveness of Cash Flow Hedges. Movements of the Company's cumulative translation adjustments on cash flow hedges for the years ended December 31, 2009 and 2008 are as follows:

	2009	2008
Balance at beginning of year/November 13, 2008	**(₱52,069)**	₱–
Changes in fair value of cash flow hedges	**(92,696)**	(116,101)
Transferred to consolidated statement of income*	**122,089**	64,032
	(22,676)	(52,069)
Tax effects of items taken directly to equity	**6,803**	15,621
	(15,873)	(36,448)
Less share of minority interests	**5,223**	11,991
Balance at end of year	**(₱10,650)**	(₱24,457)

**(₱39.7) million and (₱54.3) million are included in "Foreign exchange gain (loss)" account and (₱82.4) million and (₱9.7) million are included in "Interest expense" account in 2009 and 2008, respectively.*

As of December 31, 2009 and 2008, the ineffective portion of the hedge is not material.

Fair Value Changes on Derivatives. The net changes in the fair values of all derivative instruments for the years ended December 31, 2009 and 2008 follow:

	2009	2008
Balance at beginning of year/November 13, 2008	**₱23,181**	₱145,997
Net changes in fair values of derivatives:		
Designated as accounting hedges	**(92,696)**	(116,101)
Not designated as accounting hedges (see Note 29)	**(19,219)**	(12,832)
	(88,734)	17,064
Fair value of settled instruments	**83,479**	6,117
Balance at end of year	**(₱5,255)**	₱23,181

39. Events after the Reporting Period

On March 1, 2010, Pilipino Telephone Corporation (Piltel), MPIC and Rightlight Holdings, Inc. ("Rightlight") entered into an Omnibus Agreement (OA). Rightlight, which will be renamed Beacon Electric Asset Holdings, Inc. ("Beacon Electric"), is a newly organized special purpose company with the sole purpose of consolidating the respective ownership interests in Meralco of Piltel and MPIC. Piltel and MPIC are Philippine affiliates of the FPC and both hold equity shares in Meralco (see Note 12). Under the OA, Piltel and MPIC have agreed to set out their mutual agreement in respect of the capitalization, organization, conduct of business and the extent of their participation in the management of the affairs of Rightlight.

Investment in Rightlight

Upon the approval of the SEC of its increase in authorized capital stock, Rightlight will have an authorized capital stock of 5 billion shares (₱5 billion) divided into 3 billion common shares with par value of ₱1 per share and 2 billion preferred shares with par value of ₱1 per share. The preferred shares of Rightlight are non-voting, redeemable by Rightlight and have no pre-emptive rights to any share or convertible debt securities or warrants issued by Rightlight. The preference shareholder is entitled to liquidation preference and yearly cumulative dividends at the rate of seven percent (7%) of the issue value subject to (a) availability of unrestricted retained earnings; and (b) no violation of dividend restrictions imposed by Rightlight's bank creditors.

MPIC presently beneficially owns 25,000 common shares of Rightlight, with a total par value of ₱25,000.

Each of Piltel and MPIC has agreed to subscribe to 1,156,500,000 common shares of Rightlight, for a subscription price of ₱20 per share or a total of ₱23.13 billion, out of the proposed increase in authorized capital stock of Rightlight. Piltel and MPIC have also agreed that their resulting equity after such subscription will be 50% each of the outstanding common shares of Rightlight.

MPIC has also agreed to subscribe to 801,044,415 shares of Rightlight's preferred stock for a subscription price of ₱10 per share or a total of ₱8.01 billion.

The completion of the subscription of MPIC to 1,156,500,000 common shares and 801,044,415 preferred shares of Rightlight is subject to (a) MPIC Board of Directors approval, which was obtained on March 1, 2010; (b) the approval of the shareholders of FPC, which is expected to be obtained on March 30, 2010; and (c) full payment of the subscription price, which is expected to made on March 30, 2010.

The completion of the subscription of Piltel to 1,156,500,000 common shares of Rightlight is subject to (a) Piltel Board of Directors approval, which was obtained on March 1, 2010; (b) the approval of the shareholders of Piltel, which is expected to be obtained on May 7, 2010; (c) the approval of the shareholders of FPC, which is expected to be obtained on March 30, 2010; and (d) full payment of the subscription price, which is expected to be made in May 2010 immediately after the Piltel shareholders' approval.

The foregoing subscriptions will be offset against the amounts receivable from Rightlight arising from the transaction described in the following section. In addition, MPIC will settle its remaining balance in cash.

Transfer of Meralco Shares to Rightlight

Rightlight has agreed to purchase 154,200,000 and 163,602,961 Meralco shares ("Transferred Shares") from Piltel and MPIC, respectively, for a consideration of ₱150 per share, or a total of ₱23.13 billion for the Piltel Meralco Shares and ₱24.54 billion for the MPIC Meralco Shares.

The completion of the sale of the MPIC Meralco Shares to Rightlight is subject to (a) MPIC Board of Directors approval, which was obtained on March 1, 2010; (b) the approval of the Board of Directors of FPC, which was obtained on March 1, 2010; (c) approval of the shareholders of FPC, which is expected to be obtained on March 30, 2010; and (c) release of the pledge over the MPIC Meralco Shares which is expected to be obtained by March 30, 2010.

The completion of the sale of the Piltel Meralco Shares to Rightlight is subject to (a) Piltel Board of Directors approval, which was obtained on March 1, 2010; (b) the approval of the Board of Directors of FPC, which was obtained on March 1, 2010; (c) the approval of the shareholders of Piltel, which is expected to be obtained on May 7, 2010; and (d) the approval of the shareholders of FPC, which is expected to be obtained on March 30, 2010.

The transfer of legal title to the Meralco shares will be effected through a special block sale in the Philippine Stock Exchange (PSE) after the release of the existing pledge over the shares being transferred by MPIC, for the MPIC Meralco Shares, and after the approval of the transaction by Piltel's shareholders for the Piltel Meralco Shares.

Subject to rights over certain property dividends that may be declared or payable in respect of the 317,802,961 Transferred Shares, which will be assigned to FPHC if the Call Option, (discussed below) is exercised, the rights, title and interest that will be transferred to Rightlight by MPIC and Piltel in respect of the foregoing 317,802,961 Transferred Shares shall include: (a) all shares issued by Meralco by way of stock dividends on the Transferred Shares from March 1, 2010; (b) all property or cash dividends declared or paid on the Transferred Shares from March 1, 2010; (c) all other rights hereafter accruing on the Transferred Shares from March 1, 2010; and d) the proceeds of all of the foregoing.

Piltel may, at some future time and under such terms and conditions as may be agreed by Piltel and Rightlight, transfer to Rightlight its remaining 68,800,000 Meralco common shares.

Call Option. Under the OA, MPIC has assigned its right to acquire the call option (the "Call Option") over 74,700,000 shares of Meralco common shares currently held by FPHC (the "Option Shares"), to Rightlight. As a result of this assignment, Rightlight and FPHC have executed an Option Agreement dated March 1, 2010 pursuant to which FPHC granted the Call Option over the Option Shares to Rightlight.

The Call Option is exercisable at the option of Rightlight during the period from March 15, 2010 to May 15, 2010. The exercise price for the Option Shares shall be ₱300 per Option Share or an aggregate exercise price of ₱22.41 billion.

Subject to rights over certain property dividends that may be declared or payable in respect of the 74,700,000 shares of Meralco common stock, which will be retained by FPHC if the Call Option is exercised, the rights, title and interest that will be transferred to Rightlight by FPHC in respect of the Option Shares if Rightlight exercises the Call Option shall include: (a) all shares issued by Meralco by way of stock dividends on the Option Shares from March 1, 2010; (b) all property or cash dividends declared or paid on the Transferred Shares from March 1, 2010; (c) all other rights hereafter accruing on the Transferred Shares from March 1, 2010; and (d) the proceeds of any sale or disposition of any of the foregoing.

Property Dividends. With respect to the 317,802,961 Transferred Shares and the remaining 68,800,000 Meralco common shares held by Piltel, FPHC will have the benefit of being assigned certain property dividends that may be declared on such shares subject to Rightlight exercising the Call Option.

With respect to the 74,700,000 common shares of Meralco that may be acquired by Rightlight in the event that the Call Option is exercised, FPHC will have the benefit of retaining certain property dividends that may be declared on such shares.

For Rightlight, the estimated value attributable to FPHC's potential property dividend retention is approximately ₱2.94 per Subject Share. For MPIC and Piltel, the estimated value attributable to FPHC's potential property dividend assignment is approximately ₱2.94 per Meralco share.

Governance Arrangements
Rightlight, Piltel and MPIC have also agreed on certain corporate governance matters, including Board composition, election of officers, shareholders' action, representation to the Meralco Board, nomination of the Meralco Board Committees, and nomination of Meralco officers. The corporate governance agreements and Rightlight equity structure will result to a jointly-controlled entity.

Issuance of Convertible Bonds
On March 1, 2010, the BOD approved the issuance to Metro Pacific Holdings, Inc. of convertible bonds in the total principal amount of up to ₱6,600.0 million which shall be convertible to common shares of the Company, subject to certain terms and conditions. Further, MPIC will allocate and reserve up to 2,050,000,000 common shares out of its authorized and unissued capital stock to allow for the exercise of the conversion right attaching to the Convertible Bonds (the 'CB Common Shares'). MPIC will apply for the additional listing of the CB Common Shares on the Philippine Stock Exchange at the appropriate time.

40. Supplemental Cash Flow Information

	2009	2008	2007
		(In Thousands)	
Noncash investing and financing activities:			
Acquision of Meralco shares through issuance of MPIC shares (see Notes 12, 21 and 22)	**₱14,285,449**	₱–	₱–
Additions to service concession assets and concession fees payable resulting from extension of the concession term for Maynilad (see Notes 13 and 18)	**3,772,109**	–	–
Conversion of advances from MPHI to equity (see Notes 21 and 22)	**2,066,389**	–	–
Increase in available-for-sale from an exchange of note receivable (see Notes 6 and 10)	**236,262**	–	–
Acquisition of additional interest in DMWC through conversion of a convertible Note (see Note 4)	**–**	7,575,700	–
Conversion of MPHI loan to equity (see Notes 19 and 22)	**–**	2,029,853	–
Acquisition of additional interest in Maynilad through issuance of shares (see Notes 4 and 22)	**–**	2,029,200	–

ISSUER

FPMH Finance Limited
P.O. Box 957
Offshore Incorporations Centre
Road Town, Tortola
British Virgin Islands

GUARANTOR

First Pacific Company Limited
Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

AUDITORS OF MPIC

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

AUDITORS OF THE GUARANTOR

Ernst & Young
18/F Two International Finance Centre
8 Finance Street
Central
Hong Kong

PRINCIPAL PAYING AGENT AND TRANSFER AGENT

Deutsche Bank AG, Hong Kong Branch
48th Floor
Cheung Kong Center
2 Queen's Road Central
Hong Kong

TRUSTEE

DB Trustees (Hong Kong) Limited
48th Floor
Cheung Kong Center
2 Queen's Road Central
Hong Kong

REGISTRAR

Deutsche Bank Luxembourg S.A.
2, Boulevard Konrad Adenauer
L-1115 Luxembourg

SECURITY TRUSTEE

DB Trustees (Hong Kong) Limited
48th Floor
Cheung Kong Center
2 Queen's Road Central
Hong Kong

LEGAL ADVISERS

To the Issuer and the Guarantor as to British Virgin Islands law and Bermuda law

Conyers Dill & Pearman
2901 One Exchange Square
8 Connaught Place
Central
Hong Kong

To the Issuer and the Guarantor as to Philippine law

Sycip Salazar Hernandez & Gatmaitan
SSHG Law Centre
105 Paseo de Roxas
Makati City 1226
Metro Manila
Philippines

To the Issuer and the Guarantor as to English law and Hong Kong law

Linklaters
10th Floor
Alexandra House
Chater Road
Central
Hong Kong

To the Lead Manager as to Philippine law

Picazo Buyco Tan Fider and Santos
Liberty Center
104 H.V.dela Costa Street
Salcedo Village
Makati City
Philippines

To the Lead Manager and the Trustee as to English law and Hong Kong law

Allen & Overy
9th Floor Three Exchange Square
Central
Hong Kong