

**Metro Pacific Tollways Corporation  
and Subsidiaries**

*(A Subsidiary of Metro Pacific Investments  
Corporation)*

Consolidated Financial Statements  
December 31, 2016 and 2015

and

Independent Auditor's Report



## INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders  
Metro Pacific Tollways Corporation

### Opinion

We have audited the consolidated financial statements of Metro Pacific Tollways Corporation (a subsidiary of Metro Pacific Investments Corporation) and its subsidiaries (the Company), which comprise the consolidated balance sheets as at December 31, 2016 and 2015, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2016 and 2015, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

### Basis for Opinion

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

### Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement) and SEC Form 17-A for the year ended December 31, 2016, but does not include the consolidated financial statements and our auditor's report thereon. The SEC Form 20-IS (Definitive Information Statement) and SEC Form 17-A for the year ended December 31, 2016 are expected to be made available to us after the date of this auditor's report.



Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits, or otherwise appears to be materially misstated.

### **Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements**

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

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

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

### **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

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

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

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



- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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

SYCIP GORRES VELAYO & CO.



Belinda T. Beng Hui

Partner

CPA Certificate No. 88823

SEC Accreditation No. 0923-AR-2 (Group A),

May 1, 2016, valid until May 1, 2019

Tax Identification No. 153-978-243

BIR Accreditation No. 08-001998-78-2015,

June 26, 2015, valid until June 25, 2018

PTR No. 5908672, January 3, 2017, Makati City

February 20, 2017



**METRO PACIFIC TOLLWAYS CORPORATION**  
**(A Subsidiary of Metro Pacific Investments Corporation)**  
**AND SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEETS**

	<b>December 31</b>	
	<b>2016</b>	<b>2015</b>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents (Note 7)	<b>₱1,491,117,811</b>	₱3,989,193,032
Restricted cash (Note 7)	<b>471,568,380</b>	391,001,929
Short-term deposits (Notes 15 and 34)	<b>770,415,867</b>	1,225,420,748
Receivables (Notes 8 and 21)	<b>688,831,532</b>	767,649,994
Inventories - at cost	<b>91,219,084</b>	75,451,888
Due from related parties (Note 21)	<b>40,041,201</b>	112,439,577
Available-for-sale financial assets (Notes 15 and 34)	–	200,645,000
Other current assets (Note 9)	<b>1,169,321,546</b>	888,417,968
Total Current Assets	<b>4,722,515,421</b>	7,650,220,136
<b>Noncurrent Assets</b>		
Investments in associates and a joint venture (Note 10)	<b>11,318,024,503</b>	4,381,482,491
Service concession assets (Note 11)	<b>61,827,839,757</b>	52,987,320,615
Property and equipment (Note 12)	<b>250,547,905</b>	178,432,121
Goodwill and other intangible assets (Note 13)	<b>5,102,695,835</b>	5,099,761,716
Investment properties (Note 14)	<b>41,443,880</b>	–
Available-for-sale financial assets (Notes 15 and 34)	<b>1,682,654,221</b>	1,843,469,772
Pension asset (Note 27)	<b>904,680</b>	12,055,764
Deferred tax assets - net (Note 31)	<b>645,103</b>	–
Other noncurrent assets (Note 16)	<b>1,168,501,482</b>	1,309,061,197
Total Noncurrent Assets	<b>81,393,257,366</b>	65,811,583,676
	<b>₱86,115,772,787</b>	₱73,461,803,812

**LIABILITIES AND EQUITY**

**Current Liabilities**

Accounts payable and other current liabilities (Notes 17 and 21)	<b>₱3,800,742,264</b>	₱2,941,270,440
Due to related parties (Note 21)	<b>5,079,996</b>	5,080,497
Dividends payable (Note 22)	<b>11,065,871</b>	1,276,599,879
Income tax payable	<b>331,024,051</b>	271,035,295
Provisions (Note 18)	<b>534,722,960</b>	189,818,146
Current portion of long-term debt (Notes 19 and 34)	<b>1,047,265,879</b>	1,332,218,999
Total Current Liabilities	<b>5,729,901,021</b>	6,016,023,256

(Forward)



	<b>December 31</b>	
	<b>2016</b>	<b>2015</b>
<b>Noncurrent Liabilities</b>		
Long-term debt - net of current portion (Notes 19 and 34)	<b>₱31,308,998,500</b>	₱28,242,036,801
Service concession fees payable (Notes 20 and 34)	<b>18,550,601,361</b>	15,354,219,727
Accrued retirement costs (Note 27)	<b>3,160,542</b>	1,542,153
Long-term incentive plan payable (Note 27)	<b>261,268,267</b>	139,799,734
Provisions (Note 18)	<b>218,386,158</b>	495,664,409
Deferred tax liabilities - net (Note 31)	<b>1,071,869,716</b>	977,597,311
Other noncurrent liabilities (Note 32)	<b>256,953,291</b>	256,700,000
Total Noncurrent Liabilities	<b>51,671,237,835</b>	45,467,560,135
Total Liabilities	<b>57,401,138,856</b>	51,483,583,391
<b>Equity (Note 22)</b>		
Capital stock	<b>12,717,874,859</b>	12,684,255,959
Additional paid-in capital	<b>17,583,309,088</b>	13,719,905,514
Equity adjustment on reverse acquisition	<b>(581,085,463)</b>	(581,085,463)
Retained earnings	<b>5,859,172,385</b>	3,451,804,348
Treasury shares	<b>(6,965,197,437)</b>	(6,965,197,437)
Other comprehensive income (loss) reserve (Notes 15, 27 and 34)	<b>122,486,698</b>	(15,841,622)
Other reserves (Notes 5, 26 and 27)	<b>(2,398,833,257)</b>	(2,434,280,071)
Total Equity Attributable to Equity Holders of the Parent	<b>26,337,726,873</b>	19,859,561,228
Non-controlling interests	<b>2,376,907,058</b>	2,118,659,193
Total Equity	<b>28,714,633,931</b>	21,978,220,421
	<b>₱86,115,772,787</b>	₱73,461,803,812

See accompanying Notes to Consolidated Financial Statements.



**METRO PACIFIC TOLLWAYS CORPORATION**  
**(A Subsidiary of Metro Pacific Investments Corporation)**  
**AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF INCOME**

	<b>Years Ended December 31</b>	
	<b>2016</b>	<b>2015</b>
<b>OPERATING REVENUES</b>		
Toll fees (net of discounts amounting to ₱136,344,787 in 2016 and ₱111,967,528 in 2015)	<b>₱11,902,491,252</b>	₱9,691,117,981
Sales of magnetic cards	<b>5,000</b>	13,482
	<b>11,902,496,252</b>	9,691,131,463
Non-toll revenues (Note 23)	<b>172,989,885</b>	158,113,606
<b>TOTAL REVENUES</b>	<b>12,075,486,137</b>	9,849,245,069
<b>COST OF SERVICES</b> (Note 24)	<b>(4,815,536,128)</b>	(3,829,609,928)
<b>GROSS PROFIT</b>	<b>7,259,950,009</b>	6,019,635,141
<b>CONSTRUCTION REVENUE</b> (Note 11)	<b>7,277,405,906</b>	3,434,261,102
<b>CONSTRUCTION COSTS</b> (Note 11)	<b>(7,277,405,906)</b>	(3,434,261,102)
<b>GENERAL AND ADMINISTRATIVE EXPENSES</b> (Note 25)	<b>(1,506,465,805)</b>	(1,302,646,383)
<b>INTEREST EXPENSE AND OTHER FINANCE COSTS</b> (Note 29)	<b>(1,200,169,062)</b>	(1,371,907,068)
<b>EQUITY IN NET EARNINGS OF ASSOCIATES AND A JOINT VENTURE</b> (Note 10)	<b>459,614,748</b>	476,040,134
<b>INTEREST INCOME</b> (Note 28)	<b>93,902,077</b>	100,319,557
<b>FOREIGN EXCHANGE LOSS – Net</b>	<b>(18,977,268)</b>	(31,042,117)
<b>OTHER INCOME</b> (Note 30)	<b>384,126,617</b>	1,012,715,252
<b>OTHER EXPENSES</b> (Note 16)	<b>(69,249,057)</b>	(555,351,622)
<b>INCOME BEFORE INCOME TAX</b>	<b>5,402,732,259</b>	4,347,762,894
<b>PROVISION FOR INCOME TAX</b> (Note 31)		
Current	<b>1,246,040,246</b>	998,463,274
Deferred	<b>68,700,122</b>	276,251,797
	<b>1,314,740,368</b>	1,274,715,071
<b>NET INCOME</b>	<b>₱4,087,991,891</b>	₱3,073,047,823
<b>Attributable to</b>		
Equity holders of the Parent	<b>₱3,103,071,489</b>	₱2,279,663,153
Non-controlling interests	<b>984,920,402</b>	793,384,670
	<b>₱4,087,991,891</b>	₱3,073,047,823

*See accompanying Notes to Consolidated Financial Statements.*



**METRO PACIFIC TOLLWAYS CORPORATION**  
**(A Subsidiary of Metro Pacific Investments Corporation)**  
**AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

	<b>Years Ended December 31</b>	
	<b>2016</b>	<b>2015</b>
<b>NET INCOME</b>	<b>₱4,087,991,891</b>	<b>₱3,073,047,823</b>
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>		
<i>Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:</i>		
Net gain on cash flow hedges (Note 34)	–	3,775,752
Income tax effect (Note 31)	–	(1,132,726)
	–	2,643,026
Gain (loss) on fair value change in available-for-sale financial assets (Note 15)	<b>2,641,871</b>	(78,828,116)
Income tax effect (Note 31)	<b>(1,192,622)</b>	5,483,894
	<b>1,449,249</b>	(73,344,222)
Exchange differences on translation of foreign operations (Note 5)	<b>80,885,033</b>	–
	<b>82,334,282</b>	(70,701,196)
<i>Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods:</i>		
Share in other comprehensive income (loss) of an associate (Note 10)	<b>(1,635,506)</b>	2,984,028
Remeasurement gains (losses) on defined benefit retirement plan (Note 27)	<b>(11,173,989)</b>	7,482,179
Income tax effect (Note 31)	<b>3,352,197</b>	(2,244,662)
	<b>(7,821,792)</b>	5,237,517
	<b>(9,457,298)</b>	8,221,545
<b>TOTAL OTHER COMPREHENSIVE INCOME (LOSS)</b>	<b>72,876,984</b>	<b>(62,479,651)</b>
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>₱4,160,868,875</b>	<b>₱3,010,568,172</b>
<b>Attributable to:</b>		
Equity holders of the Parent	<b>₱3,178,472,143</b>	₱2,233,291,583
Non-controlling interests	<b>982,396,732</b>	777,276,589
	<b>₱4,160,868,875</b>	<b>₱3,010,568,172</b>

See accompanying Notes to Consolidated Financial Statements.





**METRO PACIFIC TOLLWAYS CORPORATION**  
**(A Subsidiary of Metro Pacific Investments Corporation)**  
**AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

	Attributable to Equity Holders of the Parent								Non-controlling Interests	Total Equity
	Capital Stock (Note 22)	Additional Paid- in Capital (Note 22)	Equity Adjustment on Reverse Acquisition (Note 22)	Retained Earnings (Note 22)	Treasury Shares (Note 22)	Other Comprehensive Income (Loss) Reserve (Note 22)	Other Reserves (Note 22)	Total		
At January 1, 2016	₱12,684,255,959	₱13,719,905,514	(₱581,085,463)	₱3,451,804,348	(₱6,965,197,437)	(₱15,841,622)	(₱2,434,280,071)	₱19,859,561,228	₱2,118,659,193	₱21,978,220,421
Issuance of new shares (Note 22)	33,618,900	672,377,104	–	–	–	–	–	705,996,004	–	705,996,004
Transaction costs (Note 22)	–	(114,730)	–	–	–	–	–	(114,730)	–	(114,730)
Reclassification of transaction costs (Note 22)	–	(33,858,000)	–	–	–	–	33,858,000	–	–	–
Cash dividends	–	–	–	(1,426,123,872)	–	–	–	(1,426,123,872)	–	(1,426,123,872)
Cash dividends of a subsidiary - ₱146.39 per share (Note 22)	–	–	–	–	–	–	–	–	(637,458,763)	(637,458,763)
Cost of share-based payment (Note 26)	–	–	–	–	–	–	1,244,843	1,244,843	–	1,244,843
Collection of subscription receivable (Note 22)	–	3,224,999,200	–	–	–	–	–	3,224,999,200	–	3,224,999,200
Business combination - pooling of interest	–	–	–	730,420,420	–	–	–	730,420,420	–	730,420,420
Acquisition of non-controlling interest (Note 5)	–	–	–	–	–	62,927,666	343,971	63,271,637	(86,690,104)	(23,418,467)
	<b>12,717,874,859</b>	<b>17,583,309,088</b>	<b>(581,085,463)</b>	<b>2,756,100,896</b>	<b>(6,965,197,437)</b>	<b>47,086,044</b>	<b>(2,398,833,257)</b>	<b>23,159,254,730</b>	<b>1,394,510,326</b>	<b>24,553,765,056</b>
Net income	–	–	–	3,103,071,489	–	–	–	3,103,071,489	984,920,402	4,087,991,891
Other comprehensive loss (Note 22)	–	–	–	–	–	75,400,654	–	75,400,654	(2,523,670)	72,876,984
Total comprehensive income for the year	–	–	–	3,103,071,489	–	75,400,654	–	3,178,472,143	982,396,732	4,160,868,875
At December 31, 2016	<b>₱12,717,874,859</b>	<b>₱17,583,309,088</b>	<b>(₱581,085,463)</b>	<b>₱5,859,172,385</b>	<b>(₱6,965,197,437)</b>	<b>₱122,486,698</b>	<b>(₱2,398,833,257)</b>	<b>₱26,337,726,873</b>	<b>₱2,376,907,058</b>	<b>₱28,714,633,931</b>
At January 1, 2015	₱11,836,798,859	₱–	(₱581,085,463)	₱3,190,241,790	(₱193,597,437)	₱30,529,948	(₱2,437,982,510)	₱11,844,905,187	₱1,996,991,148	₱13,841,896,335
Issuance of new shares (Note 22)	847,457,100	13,724,142,800	–	–	–	–	–	14,571,599,900	–	14,571,599,900
Transaction costs (Note 22)	–	(4,237,286)	–	–	–	–	–	(4,237,286)	–	(4,237,286)
Redemption of preferred shares (Note 22)	–	–	–	–	(6,771,600,000)	–	–	(6,771,600,000)	–	(6,771,600,000)
Cash dividends	–	–	–	(2,018,100,595)	–	–	–	(2,018,100,595)	–	(2,018,100,595)
Cash dividends of a subsidiary - ₱136.41 per share (Note 22)	–	–	–	–	–	–	–	–	(655,608,544)	(655,608,544)
Cost of share-based payment (Note 26)	–	–	–	–	–	–	3,702,439	3,702,439	–	3,702,439
	<b>12,684,255,959</b>	<b>13,719,905,514</b>	<b>(581,085,463)</b>	<b>1,172,141,195</b>	<b>(6,965,197,437)</b>	<b>30,529,948</b>	<b>(2,434,280,071)</b>	<b>17,626,269,645</b>	<b>1,341,382,604</b>	<b>18,967,652,249</b>
Net income	–	–	–	2,279,663,153	–	–	–	2,279,663,153	793,384,670	3,073,047,823
Other comprehensive income (Note 22)	–	–	–	–	–	(46,371,570)	–	(46,371,570)	(16,108,081)	(62,479,651)
Total comprehensive income for the year	–	–	–	2,279,663,153	–	(46,371,570)	–	2,233,291,583	777,276,589	3,010,568,172
At December 31, 2015	<b>₱12,684,255,959</b>	<b>₱13,719,905,514</b>	<b>(₱581,085,463)</b>	<b>₱3,451,804,348</b>	<b>(₱6,965,197,437)</b>	<b>(₱15,841,622)</b>	<b>(₱2,434,280,071)</b>	<b>₱19,859,561,228</b>	<b>₱2,118,659,193</b>	<b>₱21,978,220,421</b>

See accompanying Notes to Consolidated Financial Statements.



**METRO PACIFIC TOLLWAYS CORPORATION**  
**(A Subsidiary of Metro Pacific Investments Corporation)**  
**AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	<b>Years Ended December 31</b>	
	<b>2016</b>	<b>2015</b>
<b>OPERATING ACTIVITIES</b>		
Income before income tax	<b>₱5,402,732,259</b>	₱4,347,762,894
Adjustments to reconcile income before tax to net cash flows:		
Interest expense and other finance costs (Note 29)	<b>1,200,169,062</b>	1,371,907,068
Amortization of service concession assets (Notes 11 and 24)	<b>788,547,792</b>	747,970,935
Reversal of indemnification asset (Note 16)	–	555,351,622
Equity in net earnings of associates and a joint venture (Note 10)	<b>(459,614,748)</b>	(476,040,134)
Dividend income (Note 30)	<b>(137,967,501)</b>	(144,642,687)
Long-term incentive plan expense (Note 27)	<b>121,468,533</b>	117,434,785
Interest income (Note 28)	<b>(93,902,077)</b>	(100,319,557)
Depreciation of property and equipment (Notes 12, 24 and 25)	<b>53,020,227</b>	57,435,213
Unrealized foreign exchange loss – net	<b>28,499,581</b>	35,194,285
Movements in:		
Provisions	<b>17,163,125</b>	(900,516,433)
Pension asset/Accrued retirement costs	<b>1,595,484</b>	(2,457,659)
Deferred toll revenue realized	<b>(9,960,219)</b>	(10,237,339)
Amortization of other intangible assets (Notes 13, 24 and 25)	<b>7,968,664</b>	13,844,244
Gain on disposals of available-for-sale financial assets (Notes 15 and 30)	<b>(7,321,928)</b>	(2,032,346)
Executive stock option plan expense (Notes 26 and 27)	<b>1,244,843</b>	3,702,439
Gain on disposals of property and equipment (Note 12)	<b>(861,343)</b>	(506,685)
Working capital changes:		
Decrease (increase) in:		
Restricted cash	<b>(36,324,058)</b>	43,094,831
Receivables	<b>(49,759,937)</b>	115,899,245
Inventories	<b>(15,767,196)</b>	(25,258,237)
Due from related parties	<b>72,398,376</b>	(3,786,037)
Other current assets	<b>(288,378,636)</b>	(468,932,372)
Increase (decrease) in:		
Accounts payable and other current liabilities	<b>963,021,866</b>	341,904,484
Due to related parties	<b>(501)</b>	(1,844,254)
Long-term incentive plan payable (Note 27)	–	(205,772,470)
Unearned toll revenue	<b>11,439,533</b>	9,960,218
Income tax paid	<b>(1,152,561,962)</b>	(894,259,275)
<b>Net cash flows from operating activities</b>	<b>6,416,849,239</b>	4,524,856,778

(Forward)



	<b>Years Ended December 31</b>	
	<b>2016</b>	<b>2015</b>
<b>INVESTING ACTIVITIES</b>		
Increase in other noncurrent assets	<b>₱8,369,332</b>	(₱77,106,344)
Dividends received (Notes 10 and 15)	<b>1,008,494,365</b>	454,426,802
Interest received	<b>95,539,523</b>	91,151,614
Acquisition of:		
Available-for-sale financial assets (Note 15)	<b>(9,386,899,757)</b>	(5,407,332,256)
Subsidiary (Note 5)	<b>(2,951,423,747)</b>	-
Associates (Note 10)	<b>(884,660,000)</b>	(4,121,264,081)
Assigned promissory notes of a subsidiary (Note 5)	<b>(405,332,340)</b>	-
Additions to:		
Service concession assets (Note 11)	<b>(6,314,910,254)</b>	(12,116,046,298)
Property and equipment (Note 12)	<b>(128,368,181)</b>	(56,717,975)
Other intangible assets (Note 13)	<b>(10,902,783)</b>	(5,578,652)
Investment properties (Note 14)	<b>(40,341,499)</b>	-
Proceeds from:		
Sale of property and equipment (Note 12)	<b>4,093,513</b>	3,028,557
Sale of available-for-sale financial assets (Note 15)	<b>10,039,918,208</b>	8,955,539,952
Maturity of investment in bonds (Note 15)	<b>200,000,000</b>	250,000,000
<b>Net cash flows used in investing activities</b>	<b>(8,766,423,620)</b>	(12,029,898,681)
<b>FINANCING ACTIVITIES</b>		
Proceeds from:		
Long-term debt (Note 19)	<b>2,000,000,000</b>	7,200,000,000
Collection of subscription receivable (Note 22)	<b>3,224,999,200</b>	-
Issuance of new shares (Note 22)	<b>705,881,274</b>	7,798,388,514
Payments of:		
Dividends to stockholders (Note 22)	<b>(2,287,608,099)</b>	(1,156,025,802)
Dividends to non-controlling stockholders (Note 22)	<b>(1,041,508,544)</b>	(535,207,168)
Long-term debt	<b>(1,467,884,295)</b>	(4,306,419,042)
Interest	<b>(1,232,195,681)</b>	(1,312,311,766)
Debt issue costs (Note 19)	<b>(26,888,808)</b>	(11,255,976)
Acquisition of non-controlling interests (Note 5)	<b>(23,418,467)</b>	-
<b>Net cash flows from (used in) financing activities</b>	<b>(148,623,420)</b>	7,677,168,760
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(2,498,197,801)</b>	172,126,857
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>	<b>122,580</b>	(6,605,482)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>3,989,193,032</b>	3,823,671,657
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 7)</b>	<b>₱1,491,117,811</b>	₱3,989,193,032

*See accompanying Notes to Consolidated Financial Statements.*



**METRO PACIFIC TOLLWAYS CORPORATION**  
**(A Subsidiary of Metro Pacific Investments Corporation)**  
**AND SUBSIDIARIES**

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**1. Corporate Information**

General

Metro Pacific Tollways Corporation (MPTC or the Parent Company) was incorporated in the Philippines and registered with the Philippine Securities and Exchange Commission (SEC) on February 24, 1970. The primary purpose of MPTC is that of investment holding.

MPTC is 99.9% owned by Metro Pacific Investments Corporation (MPIC). MPIC is a publicly listed Philippine corporation and is 42.0% and 52.1% owned by Metro Pacific Holdings, Inc. (MPHI) as at December 31, 2016 and 2015, respectively. The reduction in the ownership interest resulted from GT Capital Holdings, Inc.'s (GTCHI) acquisition of 1.3 billion MPIC common shares from MPHI on May 27, 2016. On the same date, MPIC entered into a Share Subscription Agreement with GTCHI for the subscription by GTCHI of 3.6 billion common shares in MPIC. As sole holder of the voting Class A Preferred Shares, MPHI's combined voting interest as a result of all of its shareholdings is estimated at 55.0% as at December 31, 2016. 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 (FPIL) (13.3%). First Pacific Company Limited (FPC), a company incorporated in Bermuda and listed in Hong Kong, through its subsidiaries, Intalink B.V. and FPIL, holds 40.0% equity interest in EIH and an investment financing which under Hong Kong Generally Accepted Accounting Principles, require FPC to account for the results and assets and liabilities of EIH and its subsidiaries as part of FPC group of companies in Hong Kong.

In December 2012, the Philippine Stock Exchange (PSE) approved the Company's petition of voluntary delisting and accordingly ordered the delisting of the Company's shares effective December 21, 2012.

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

The consolidated financial statements were approved and authorized for issuance by the Parent Company's Board of Directors (BOD) on February 20, 2017, as reviewed and recommended for approval by the Audit Committee.

Tollway Operations

MPTC and its subsidiaries (collectively referred to as "the Company") entered into various concession agreements for the design, funding, management, operation and maintenance (O&M) of toll roads and related facilities in the Philippines.

*North Luzon Expressway (NLEX).* In April 1998, NLEX Corporation (NLEX Corp., formerly Manila North Tollways Corporation or MNTC), a subsidiary through its wholly owned subsidiary, Metro Pacific Tollways Development Corporation (MPTDC), then First Philippine Infrastructure Development Corporation (FPIDC), was granted the concession for the rehabilitation, modernization, expansion and operation of the NLEX, including the installation of appropriate collection system therein.



The NLEX consists of three phases as follows:

- |           |   |
|-----------|---|
| Phase I   | Rehabilitation and expansion of approximately 84 kilometers (km) of the existing NLEX and an 8.5-km stretch of a Greenfield expressway that connects Tipo in Hermosa, Bataan to Subic (Segment 7) |
| Phase II  | Construction of the northern parts of the 17-km circumferential road C-5 which connects the current C-5 expressway to the NLEX and the 5.85-km road from McArthur Highway to Letre                |
| Phase III | Construction of the 57-km Subic arm of the NLEX to Subic Expressway   |

The construction of Phase I was substantially completed in January 2005. On January 27, 2005, the Toll Regulatory Board (TRB) issued the Toll Operation Permit (TOP) for the O&M of Phase I consisting of Segments 1, 2, 3 and including Segment 7 in favor of NLEX Corp. Thereafter, NLEX Corp. took over the NLEX from Philippine National Construction Corporation (PNCC) and commenced its tollway operations on February 10, 2005.

Segment 8.1, a portion of Phase II, which is a 2.7 km-road designed to link Mindanao Avenue to the NLEX, had officially commenced tollway operation on June 5, 2010. Segment 9, a portion of Phase II, which is a 2.4 km-road connecting NLEX to the McArthur Highway, had officially commenced tollway operation on March 19, 2015. In May 2014, Segment 10, a portion of Phase II, which is a 5.76 km four-lane, elevated expressway that will start from the terminal of Segment 9 in Valenzuela City going to C-3 Road in Caloocan City above the alignment of Philippine National Railway (PNR) tracks, had commenced construction and is expected to be completed in May 2018. The estimated cost of construction of Segment 10 is ₱10.5 billion. The remaining portion of Phase II is under pre-construction works while Phase III of the NLEX has not yet been started as at February 20, 2017.

*Subic-Clark-Tarlac Expressway (SCTEX).* Pursuant to the Toll Operation Certificate (TOC) received from the TRB and agreements covering the SCTEX, NLEX Corp. has commenced the management, O&M of the SCTEX on October 27, 2015. The term of the agreements shall be from October 27, 2015 until October 30, 2043. The SCTEX is a 93.77-km four-lane divided highway, traversing the provinces of Bataan, Pampanga and Tarlac.

*NLEX-South Luzon Expressway (SLEX) Connector Road Project (NLEX-SLEX Connector Road).* On November 23, 2016, NLEX Corp. was awarded the concession for the design, financing, construction and O&M of the 8-km elevated NLEX-SLEX Connector Road. The NLEX-SLEX Connector Road is an elevated four-lane toll expressway structure with a length of 8 km passing through and above the right of way of the PNR starting from NLEX Segment 10 at C-3 Road Caloocan City and seamlessly connecting to SLEX through Metro Manila Skyway Stage 3 Project in Manila.

*Cavite Laguna Expressway Project (CALAX).* On July 10, 2015, MPCALA Holdings, Inc. (MHI), a subsidiary through MPTDC, was granted the concession to finance, design, construct, operate and maintain the CALAX, including the right to collect toll fees until July 2050. The CALAX involves the construction of 44.6 km closed-system four-lane toll road from the Manila-Cavite Expressway (CAVITEX) in Kawit, Cavite through Aguinaldo Highway in Silang, Cavite and ending at the SLEX Mamplasan Interchange in Biñan, Laguna. The CALAX will be divided into two segments as follows:



Cavite Segment	Approximately 26.48 km portion of the CALAX, which starts in Tirona Highway, Kawit, Cavite and ends in Aguinaldo Highway, Silang, Cavite
Laguna Segment	Approximately 18.15 km portion of the CALAX, which starts in Aguinaldo Highway, Silang, Cavite Interchange up to the Greenfield Property in Binan, Laguna

The CALAX is still in its pre-construction stage as at February 20, 2017.

*CAVITEX*. MPTC, Cavitex Holdings, Inc. (CHI) and Cavitex Infrastructure Corp. (CIC) executed a Management Letter-Agreement (MLA) on December 27, 2012 for the management of CIC by MPTC starting on January 2, 2013. By virtue of this MLA, MPTC acquired control over CIC and therefore CIC became a subsidiary of MPTC effective January 2, 2013.

CIC, then UEM - MARA Philippines Corporation, was incorporated on October 9, 1995 primarily to undertake the design, construction and financing of the CAVITEX in accordance with the terms of the concession granted by the Government of the Republic of the Philippines (ROP or the Grantor) and to receive all revenues arising from the operation thereof. CIC was originally organized to represent United Engineers (Malaysia) Berhad (UEM) and Majlis Amanah Rakyat (MARA), which entered into a joint venture agreement (JVA) with the Philippine Reclamation Authority (PRA) on December 27, 1994.

Under the amended JVA, each of the following expressways shall be constructed in segments. Each segment shall allow partial operation to be carried out as follows:

Phase I	Design and improvement of the 6.5 km R-1 Expressway which connects the Airport Road to Zapote and the design and construction of the 7 km R-1 Expressway Extension which connects the existing R-1 Expressway at Zapote to Noveleta
Phase II	Design and construction of the C-5 Link Expressway which connects the R-1 Expressway to the SLEX

CIC commenced the rehabilitation of the R-1 Expressway in November 1996 and completed the works in May 1998. The R-1 Expressway has been successfully tolled since then.

On April 29, 2011, as recommended by the independent consultant, the TRB issued the notice to start toll collection on the R-1 Expressway Extension authorizing the implementation of the approved toll rates starting May 1, 2011.

Phase II of the CAVITEX is now on its pre-construction stage as at February 20, 2017.

*Cebu-Cordova Link Expressway (CCLEX)*. On October 3, 2016, Cebu Cordova Link Expressway Corporation (CCLEC) was awarded the concession for the financing, design, construction, implementation and O&M of CCLEX, a four-lane 8.25 km toll road which will connect Cebu City and Cordova and will include a main bridge structure, viaduct, causeway and roadway. CCLEX is located around 7.5 km south of the Mactan-Mандаue Bridge and will take off from the Cebu South Coastal Road crossing the Mactan channel to Mactan Island.

The CCLEX is still in its pre-construction stage as at February 20, 2017.



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## 2. Service Concession Arrangements

### Supplemental Toll Operation Agreement (STOA) for the NLEX

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 was granted the franchise for the construction, O&M of toll facilities in the NLEX, SLEX and Metro Manila Expressway. PNCC executed a Toll Operation Agreement (TOA) with the ROP, by and through the TRB.

Pursuant to the 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 NLEX in favor of NLEX Corp., including the design, funding and rehabilitation of the NLEX, and installation of the appropriate collection system therein. MPTDC in turn assigned all its rights, interests and privileges to Segment 7, as defined in the Memorandum of Agreement (MOA) dated March 6, 1995, to NLEX Corp., which assumed all the rights and obligations as a necessary and integral part of the NLEX. The assignment of PNCC's usufructuary rights, interests and privileges under its franchise, to the extent of the portion pertaining to the NLEX, was approved by the then President of the ROP. On October 10, 1995, the Department of Justice (DOJ) issued Opinion No. 102, Series of 1995, noting the authority of the TRB to grant authority to operate a toll facility and to issue the necessary TOC. On November 24, 1995, in a letter by the then Secretary of Justice to the then Secretary of Public Works and Highways, the Secretary of Justice reiterated and affirmed the authority of the TRB to grant authority to operate a toll facility and to issue the necessary TOC in favor of PNCC and its joint venture partner for the proper and orderly construction, O&M of the NLEX as a toll road during the concession period.

In April 1998, the Grantor, acting by and through the TRB, PNCC (Franchisee) and NLEX Corp. (Concessionaire) executed the STOA for the NLEX, whereby the ROP granted NLEX Corp. the rights, obligations and privileges including the authority to finance, design, construct, operate and maintain the project roads as toll roads (the "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 TRB issued the necessary TOC for the NLEX in order to allow the continuation of the Concession. As further discussed in Note 32, NLEX Corp. pays a certain amount to PNCC.

Also, under the STOA, NLEX Corp. shall pay for the Grantor's project overhead expenses based on certain percentages of total construction costs or of periodic maintenance works on the project roads.

Upon expiry of the concession period, NLEX Corp. 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 acquired, works, toll road facilities and equipment found therein directly related to and in connection with the operation of the toll road facilities.

In October 2008, in consideration of the construction of Segment 8.1, TRB approved NLEX Corp.'s proposal to extend the concession term for Phase I and Segment 8.1 of the NLEX until December 31, 2037, subject to certain conditions.



From 2007 to 2010, NLEX Corp. obtained TRB's approval for certain amendments to the STOA for the MNEP which includes (a) the integration of Segment 10 into Phase II - July 2007; (b) amendment of adjustment formula for the Authorized Toll Rate (ATR) by removing the foreign exchange factor - June 2008; (c) adoption of an integrated operations period for Phase I and Segment 8.1 and extension of the concession period until December 31, 2037 - October 2008; (d) modification of alignments of Phase II Segments 9 and 10 - February 2010; and (e) the following approvals in relation to Phase II Segments 9 and 10 project: (i) adoption of the 2008 TRB approved ATR formula ("ATRF") for five (5) years following the completion of Segment 9; (ii) continuation of the implementation of the ATRF for ten (10) years from commercial operation of Segment 10; and (iii) approval of the additional ₱6.00 (exclusive of value-added tax or VAT) adjustment to the Open System toll rate upon completion of Segment 10.

#### Agreements covering the SCTEX

On February 26, 2015, NLEX Corp. and the Bases Conversion and Development Authority (BCDA) entered into the Business Agreement (BA) covering the assignment by BCDA to NLEX Corp. of its rights, interest and obligations under the TOA relating to the management and O&M of the SCTEX (which shall include the exclusive right to possess and use the SCTEX toll road and facilities and the right to collect toll). BCDA shall retain all rights, interests and obligations under the TOA relating to the design, construction and financing of the SCTEX. Nevertheless, NLEX Corp. and BCDA hereby acknowledge that BCDA has, as of date of the BA, designed, financed and constructed the SCTEX as an operable toll road in accordance with the TOA.

BCDA is a government instrumentality vested with corporate powers created by virtue of Republic Act (RA) No. 7227. Pursuant to Section 4 (b) of RA No. 7227, BCDA undertook the design, construction and O&M of the SCTEX, a major road project to serve as the backbone of a new economic growth corridor in Central Luzon, pursuant to a TOA entered into between BCDA and the ROP, acting through the TRB, on June 13, 2007. In 2008, TRB has issued in favor of BCDA a TOP authorizing the commercial operations of and the collection of tolls in SCTEX.

The term of the BA shall be from October 27, 2015 (effective date) until October 30, 2043, and may be extended subject to mutual agreement of NLEX Corp. and BCDA and the relevant laws, rules and regulations and required government approvals. At the end of the contract term or upon termination of the BA, the SCTEX, as well as the as-built plans, specifications and operation/repair/ maintenance manuals relating to the same shall be turned over to BCDA or its successor-in-interest conformably with law, and in all cases in accordance with and subject to the terms and conditions of the STOA. The STOA, which was a supplement to and revision to the TOA, was entered into, by and among the ROP, acting through the TRB, BCDA and NLEX Corp. on May 22, 2015, in order to fully allow NLEX Corp. to exercise its rights and interests under the BA.

In consideration for the assignment by BCDA to NLEX Corp. of its rights to and interests in SCTEX, NLEX Corp. paid BCDA an upfront cash of ₱3.5 billion (inclusive of VAT) upon effectivity of the BA (the Upfront Payment). NLEX Corp. shall also pay BCDA monthly concession fees amounting to 50% of the Audited Gross Toll Revenues of SCTEX for the relevant month from Effective Date to October 30, 2043. NLEX Corp. shall gross up the concession fees by the 12% VAT. NLEX Corp. recorded concession fees of ₱791.5 million and ₱132.1 million in 2016 and 2015, respectively, which is included under "Cost of services" account in the consolidated statement of income (see Note 24).

NLEX Corp. also commits to undertake at its own cost the maintenance works/special/ major emergency works, other additional works, enhancements and/or improvement works contained in the Maintenance Plans submitted by NLEX Corp. to BCDA from time to time.





On October 22, 2015, NLEX Corp. received the TOC from the TRB for the O&M of the SCTEX. NLEX Corp. officially took over the SCTEX toll facilities and officially commenced the management and O&M of the SCTEX on October 27, 2015.

NLEX-SLEX Connector Road Concession Agreement

In July 2016, after a competitive and comparative public bidding process or Swiss Challenge, NLEX Corp. was declared as the winning proponent to undertake the NLEX-SLEX Connector Road in accordance with Section 10.1 of the Revised Build-Operate-Transfer (BOT) Law and its Revised Implementing Rules and Regulations of 2012.

On November 23, 2016, NLEX Corp. and Department of Public Works and Highways (DPWH) signed the Concession Agreement for the NLEX-SLEX Connector Road. Under the concession agreement, the ROP, acting through the DPWH, granted NLEX Corp. the rights and obligations to finance, design, construct, operate and maintain the NLEX-SLEX Connector Road, including the right to collect toll fees over the concession period as well as commercial revenues and fees from non-toll user related facilities, subject to the right of DPWH to receive revenue share of 5% of commercial revenues from toll user and non-toll user related facilities. The concession period shall commence on the commencement date (being the date of issuance of the Notice to Proceed (NTP) by the DPWH to begin the construction of the NLEX-SLEX Connector Road) and shall end on its thirty-seventh (37<sup>th</sup>) anniversary, unless otherwise extended or terminated in accordance with the Concession Agreement. The concession period includes both the construction period and the operation period and in no event be extended beyond the fiftieth (50<sup>th</sup>) anniversary of the operation period.

In consideration for granting the basic right of way for the NLEX-SLEX Connector Road, NLEX Corp. shall pay DPWH periodic payments of ₱243.2 million annually which will commence on the first anniversary of the construction completion deadline, as extended, until the expiry of the concession period and will be subject to an agreed escalation every two years based on the prevailing Consumer Price Index (CPI) for the two-year period immediately preceding the adjustment or escalation.

During the concession period, NLEX Corp. shall pay for the project overhead expenses to be incurred by the DPWH or the TRB in the process of their monitoring, inspecting, evaluating and checking the progress and quality of the activities and works undertaken by NLEX Corp. NLEX Corp.'s liability for the payment of the project overhead expenses due to TRB shall not exceed ₱50.0 million and the liability for the payment of the project overhead expenses due the DPWH shall not exceed ₱200.0 million; provided, that these limits may be increased in case of inflation, or in case of additional work due to a concessionaire variation that will result in an extension of the construction period or concession period, upon mutual agreement of the parties in the concession agreement.

Legal title to the NLEX-SLEX Connector Road, including all assets and other improvements constructed therein and all additional and/or enhancement works contributed by NLEX Corp. during the concession period, shall remain with NLEX Corp. until the termination date. At the end of the concession period or upon the termination of the concession agreement, the NLEX-SLEX Connector Road, including all rights, title and interest in the aforesaid assets, shall be turned over to DPWH or to its successor-in-interest conformably with law, and in all cases in accordance with and subject to the terms and conditions of the Concession Agreement. NLEX Corp. shall be prohibited from transferring, alienating, selling, or otherwise disposing the NLEX-SLEX Connector Road.



Pursuant to the Concession Agreement, NLEX Corp. shall preserve the asset so it can be handed back to DPWH in a manner that complies with the pavement performance standards specified in the concession agreement and that all the building and equipment necessary to operate the expressway remain functional and in good condition that is equivalent to prudent industry practice. NLEX Corp. must also manage the maintenance of the assets so that there is a residual asset life that complies with the residual life standards stated in the concession agreement at the end of the concession period.

#### CALAX Concession Agreement

On May 26, 2015, after a competitive bidding, the DPWH announced MHI as the winning bidder to implement the CALAX. The CALAX will be undertaken using the BOT contractual arrangement, which is one of the Public-to-Private Partnership (PPP) variants specifically authorized under the BOT Law, or RA No. 6957, as amended by RA No. 7718 and its Revised Implementing Rules and Regulations of 2012.

On June 8, 2015, MHI received the Notice of Award (NOA) from the DPWH to implement the CALAX. Upon full compliance with all the requirements under the NOA on June 26, 2015, the DPWH issued its Notice of Compliance on June 30, 2015.

On June 25, 2015, MHI issued an irrevocable standby letter of credit amounting to ₱700.0 million in favor of DPWH as security for the performance by MHI of its obligations under the Concession Agreement for the CALAX.

On July 10, 2015, MHI signed the Concession Agreement for the CALAX with the DPWH. Under the Concession Agreement, MHI is granted the concession to design, finance, construct, operate and maintain the CALAX, including the right to collect toll fees over a 35 year concession period. MHI and DPWH also acknowledge and agree that the concession period shall in no event be extended beyond the 50<sup>th</sup> anniversary of the operation period.

In consideration for granting the concession, MHI shall pay DPWH a concession fee totaling ₱27.3 billion (Concession fee), payable over 9 years from signing of the Concession Agreement. On July 10, 2015, MHI paid DPWH an upfront fee of ₱5.5 billion representing 20% of the concession fee. The remaining concession fee is payable on an installment basis at the rate of 16% annually beginning on the fifth year from the contract signing date up to the ninth year from the contract signing date of the Concession Agreement. Once MHI fails to pay the concession fee on or before the agreed upon dates, MHI shall pay interest at the rate of one year Philippine Dealing System Treasury Reference Rate PM (PDST-R2) plus 1.75%. The interest at such rate shall continue to accrue until the remaining concession fee is paid, or until a notice of default and termination is received by MHI.

The CALAX will be funded through a combination of limited resource project financing facilities provided by Philippine financial institutions, and equity to be provided directly by MPTDC, as principal shareholder of MHI, and indirectly through Collared Wren Holdings, Inc. (CWHI) and Larkwing Holding, Inc. (LHI) for an amount of not less than 25% of MHI's estimated project cost. The total estimated project cost amounts to ₱56.0 billion, including the concession fee.

During the concession period, MHI shall pay for the project overhead expenses to be incurred by the DPWH and the TRB in the process of their monitoring, inspecting, evaluating and the checking the progress and qualities of the activities and works undertaken by MHI. MHI's liability for the payment of the project overhead expenses due to TRB shall not exceed ₱75.0 million and the liability for the payment of the project overhead expenses due to the DPWH shall not exceed ₱150.0 million; provided, that these limits may be increased in case of inflation,



or in case of additional work due to a concessionaire variation that will result in an extension of the construction period or concession period, upon mutual agreement of the parties in the concession agreement.

Pursuant to the concession agreement, upon issuance of the Certificate of Final Completion by the independent consultant, ownership of all works comprising the CALAX shall vest in the DPWH. Regardless of the ownership of all the works comprising the CALAX, including the Right of Way (ROW), possession, custody and risk of loss or deterioration shall vest in MHI during the concession period. Upon termination date or transfer date, whichever is earlier, possession, custody and risk of loss or deterioration of the CALAX, including the ROW, shall vest with the DPWH.

MHI shall preserve the asset so it handed back to DPWH in a manner that complies with the pavement performance standards specified in concession agreement. MHI must also manage the maintenance of the assets so that there is a residual asset life that complies with the residual life standards stated in the agreement at the end of the concession period.

#### TOA for the CAVITEX

On July 26, 1996, PRA (Grantee) and CIC entered into a TOA with the ROP, acting through the TRB, to expand the scope and toll collection period of the TOC of PRA and amplify the terms and conditions which are necessary to ensure the financial viability of the CAVITEX. Pursuant to the TOA, PRA will be responsible for the O&M of the expressway while CIC will be responsible for the design and construction of the expressway including its financing.

Construction of CAVITEX in accordance with the schedule provided in the TOA shall be carried out at the expense of CIC, provided that the Grantor shall fulfill all its obligations to CIC. In the event that the total construction costs estimated by the independent consultant are lower by 5.0% or more than the Company's cost estimate, the Grantor and PRA agree that the agreed toll rates shall be adjusted accordingly. The franchise period each segment of CAVITEX shall be 35 years calculated from the date such segment is substantially completed and can be operated as a toll road.

The expressways shall be owned by the Grantor without prejudice to the rights and entitlement of the Grantee and/or CIC.

Pursuant to the TOA, PRA established PEA Tollways Corporation (PEATC), its wholly owned subsidiary, to undertake the O&M obligations of PRA under the TOA. PEATC would collect the toll fees from the toll paying traffic and deposits such collections to the O&M Account of the joint venture maintained with a local bank.

As provided in the JVA, the joint venture partners shall receive a monthly share equivalent to the excess in cash balance, net of O&M expenses - equivalent to six months O&M for the initial monthly sharing and reduced to one month O&M after such initial sharing, to be distributed as follows: (a) 10.0% for PRA and 90.0% for CIC for the period starting from the CAVITEX completion until the full payment of loans and interest, cost advances, capital investments and return on equity of the parties and (b) 60.0% for PRA and 40.0% for CIC for the remainder of the 35-year toll concession period.

At the end of the toll collection period, the finished segments of the CAVITEX will be transferred to the Grantor.



On November 14, 2006, CIC, PRA and TRB entered into an O&M Agreement, as approved by the Office of the President of the ROP, to clarify and amend certain rights and obligations under the JVA and TOA. Below are the salient provisions of the O&M Agreement:

1. PRA agrees to execute and deliver a voting trust agreement which shall be coupled with an interest covering two-thirds of the outstanding capital stock of PEATC in order to transfer the voting rights over such PEATC shares in favor of CIC. Such voting rights of CIC over the shares shall be during the period of the loan from syndicated lenders covered by the Omnibus Loan Agreement or OLA (the OLA was signed by CIC and various lenders in 2006).
2. As a consequence of CIC's participation in the O&M Agreement set out in the previous paragraphs, CIC shall nominate 5 members of the BOD of PEATC while PRA shall nominate 2 members. PRA shall nominate the Chairman of the BOD and one (1) member as its second nominee as well as the Controller of PEATC, while CIC is entitled to nominate the Chief Executive Officer, Chief Operating Officer, Treasurer and the Corporate Secretary of PEATC. CIC shall further have the right to nominate other members of the BOD and other officers to the key position of PEATC as may be necessary to effectively implement the participation.
3. Effective on the first day of CIC's participation in the O&M, there will be a new and improved distribution of the share in the toll fees of PRA and CIC. PRA shall receive 8.5% of gross toll revenue while CIC shall receive 91.5% of the gross toll revenue and will absorb all O&M costs and expenses. PRA shall no longer share from any of the O&M costs and expenses. The share of PRA shall be increased by 0.5% every periodic toll rate adjustment under the TOA but not to exceed 10.0% of gross toll revenue at any one time during the repayment period of the loan.

Upon repayment in full of the loans and interest costs, advances, capital investment and the return of equity, CIC and PRA shall share at the ratio of 40.0% and 60.0%, respectively, as originally agreed upon under the JVA.

The current share of PRA based on gross revenue is 9.0% while CIC's share is 91.0% which took effect on the last toll rate adjustment on January 1, 2009.

4. All gross toll revenue collections shall be directly deposited on a daily basis to the respective bank accounts of PRA and CIC:
  - a) The 91.0% share of CIC shall absorb all O&M costs and expenses. CIC shall continue to set aside sinking fund in accordance with the TOA schedule of maintenance per segment. The sinking fund interest income shall remain intact and shall not be subject to revenue sharing of the joint venture partners;
  - b) The sinking fund which shall remain with PEATC and maintained adequately at all times, shall be solely used for major road repairs and re-pavement and for extraordinary costs and expenses needed by the operation but not provided in the annual budget. Any shortage in the sinking fund shall be the sole responsibility of CIC; and
  - c) All disbursements for O&M shall be authorized solely by CIC.
5. Acknowledgement of all parties that in the event of a default under the loan, the lenders shall be granted step-in rights in respect of the share of CIC on the revenues from the toll collections in favor of the lenders as security for the financing provided by such lenders.



6. Unless otherwise amended, revised or modified by CIC, PRA and TRB after obtaining the necessary regulatory approvals, CIC's participation in the O&M under this O&M Agreement shall be terminated upon repayment in full of the loans subject of the OLA dated August 25, 2006 and repayment to the Equity Contractor.

In a letter dated May 21, 2010, the PRA confirmed that the effectivity of the O&M Agreement and the voting trust agreement shall be extended for a period of four (4) years or until August 25, 2021, or upon full settlement of the funding obtained by CIC for the completion of CAVITEX.

#### CCLEX Concession Agreement

On December 23, 2015, MPTDC received the NOA from both the City of Cebu and the Municipality of Cordova (collectively "the LGUs" or "Grantors") which authorizes the formation of a joint venture (JV) company and the implementation by the JV company of the CCLEX. The NOA was issued by the LGUs in favor of MPTDC after no expression of interest to submit comparative proposals was received by the LGUs.

On April 15, 2016, the LGUs and MPTDC have finalized and executed the JVA. The JVA governs the LGU's and MPTDC's respective rights and obligations to each other in relation to the JV company. The JV company will be responsible for implementing the CCLEX as concessionaire under the JVA. Pursuant to the JVA, CCLEC was incorporated on August 8, 2016.

As indicated in the JVA, the LGUs shall receive a combined share of 2% of the annual toll revenues of the CCLEX. The JVA shall be effective from April 15, 2016 until its termination as indicated in the JVA, which include among others, the termination of the concession agreement for the CCLEX.

On October 3, 2016, CCLEC and the LGUs signed the concession agreement for the CCLEX. Under the concession agreement, CCLEC is granted the concession to design, construct, finance operate and maintain the CCLEX, including the right to collect toll fees over the concession period. The concession period shall commence from the date the LGUs issued to CCLEC the notice to proceed to start the construction of the CCLEX and shall end after 35 years unless otherwise extended in accordance with the concession agreement.

Throughout the construction period, the LGUs and the TRB shall be allowed to monitor, inspect, evaluate and check the progress and quality of the activities and works undertaken by CCLEC. CCLEC shall directly pay for the cost of project overhead expenses incurred by the LGUs or the TRB in relation to its supervision and monitoring of the activities undertaken by CCLEC, which liability shall not exceed ₱50.0 million each for the LGUs and TRB up to the end of the concession period.

The ownership of all works comprising CCLEX shall vest with the Grantors throughout the concession period.

Pursuant to the concession agreement, CCLEC shall preserve the asset so it can be handed back to the LGUs in a manner that complies with the pavement performance standards specified in the concession agreement and that all the building and equipment necessary to operate the expressway remain functional and in good condition that is equivalent to prudent industry practice. CCLEC must also manage the maintenance of the assets so that there is a residual asset life that complies with the residual life standards stated in the concession agreement at the end of the concession period.



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### 3. Summary of Significant Accounting Policies

#### Basis of Preparation

The consolidated financial statements have been prepared on a historical cost basis, except for the available-for-sale (AFS) financial assets which are measured at fair value. The consolidated financial statements are presented in Philippine peso, which is the Company's functional and presentation currency.

#### Statement of Compliance

The consolidated financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRSs) as issued by the Financial Reporting Standards Council (FRSC).

#### Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries as at and for the years ended December 31, 2016 and 2015.

Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Company controls an investee if and only if the Company has:

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

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Company has less than a majority of the voting or similar rights of an investee, the Company considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

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

The Company re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Company gains control until the date the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the Parent Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Company's accounting policies. All intra-group balances, transactions, income and expenses, unrealized gains and losses and dividends resulting from intra-group transactions are eliminated in full.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.



If the Company loses control over a subsidiary, it derecognizes the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognized in the consolidated statement of income. Any investment retained is recognized at fair value.

Non-controlling interests represent the interests in NLEX Corp. and Metro Strategic Infrastructure Holdings, Inc. (MSIHI) 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 equity attributable to equity holders of the parent.

The Parent Company's subsidiaries are as follows:

Activity	Country of incorporation and operation	December 31, 2016			December 31, 2015			
		MPTC Direct Interest	Direct Interest of Subsidiary	MPTC Effective Interest	MPTC Direct Interest	Direct Interest of Subsidiary	MPTC Effective Interest	
MPTDC (see Notes 1 and 2)	Holding Company	Philippines	100.0	–	100.0	100.0	–	100.0
NLEX Corp. (see Notes 1, 2 and 6)	Tollway Operations	Philippines	–	71.0	75.6	–	71.0	75.6
NLEX Ventures Corporation (NVC) <sup>(a)</sup>	Service Facilities and Traffic Management	Philippines	–	100.0	100.0	–	100.0	100.0
CWHI	Holding Company	Philippines	–	100.0	100.0	–	100.0	100.0
LHI	Holding Company	Philippines	–	100.0	100.0	–	100.0	100.0
MHI (see Notes 1 and 2)	Tollway Operations	Philippines	–	51.0	100.0	–	51.0	100.0
Metro Pacific Tollways Vizmin Corporation (MPT Vizmin) <sup>(b)</sup>	Holding Company	Philippines	–	100.0	100.0	–	–	–
CCLEC <sup>(b)</sup> (see Notes 1 and 2)	Tollway Operations	Philippines	–	100.0	100.0	–	–	–
Luzon Tollways Corporation (LTC) (dormant)	Tollway Operations	Philippines	–	100.0	100.0	–	100.0	100.0
CIC and subsidiaries (see Notes 1 and 2)	Tollway Operations	Philippines	100.0	–	100.0	100.0	–	100.0
MSIHI (Note 5)	Holding Company	Philippines	97.0	–	97.0	57.0	–	57.0
M+ Corporation (M+) <sup>(c)</sup>	Toll Collection	Philippines	100.0	–	100.0	–	–	–
Metro Pacific Tollways South Corporation (MPT South) <sup>(d)</sup>	Holding Company	Philippines	100.0	–	100.0	–	–	–
MPT Asia Corporation (MPT Asia) <sup>(c)</sup> (see Note 5)	Holding Company	British Virgin Island (BVI)	100.0	–	100.0	–	–	–
MPT Thailand Corporation (MPT Thailand) <sup>(c)</sup> (see Note 5)	Holding Company	BVI	100.0	–	100.0	–	–	–
FPM Tollway (Thailand) Limited (FTT) <sup>(c)</sup> (see Note 5)	Holding Company	Hong Kong	100.0	–	100.0	–	–	–
AIF Toll Road Holdings (Thailand) Limited (AIF) <sup>(c)</sup> (see Note 5)	Holding Company	Thailand	100.0	–	100.0	–	–	–

<sup>(a)</sup> Incorporated on September 23, 2015.

<sup>(b)</sup> Incorporated on August 8, 2016.

<sup>(c)</sup> Incorporated on August 24, 2016 with the primary purpose to carry on the toll collection function of CAVITEX and CALAX.

<sup>(d)</sup> Incorporated on August 9, 2016.

<sup>(e)</sup> On September 29, 2016, MPTC and MPIC Infrastructure Holdings Limited (MIHL), subsidiary of MPIC, entered into a Share Sale and Promissory Note Assignment Agreement for the purchase by MPTC of 6,500 shares (representing 100% effective ownership) of MPT Asia and assignment of the Promissory Notes amounting to US\$9.1 million.

### Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year, except that the Company has adopted the following new accounting pronouncements starting January 1, 2016. Adoption of these pronouncements did not have any significant impact on the Company's financial position or performance unless otherwise indicated.



- Amendments to PFRS 10, PFRS 12 and Philippine Accounting Standard (PAS) 28, *Investment Entities: Applying the Consolidation Exception*
- Amendments to PFRS 11, *Accounting for Acquisitions of Interests in Joint Operations*
- PFRS 14, *Regulatory Deferral Accounts*
- Amendments to PAS 1, *Disclosure Initiative*
- Amendments to PAS 16 and PAS 38, *Clarification of Acceptable Methods of Depreciation and Amortization*
- Amendments to PAS 16 and PAS 41, *Agriculture: Bearer Plants*
- Amendments to PAS 27, *Equity Method in Separate Financial Statements*
- Annual Improvements to PFRSs 2012 - 2014 Cycle
  - Amendment to PFRS 5, *Changes in Methods of Disposal*
  - Amendment to PFRS 7, *Servicing Contracts*
  - Amendment to PFRS 7, *Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements*
  - Amendment to PAS 19, *Discount Rate: Regional Market Issue*
  - Amendment to PAS 34, *Disclosure of Information 'Elsewhere in the Interim Financial Report'*

#### Business Combinations and Goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in general and administrative expenses.

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

If the business combination is achieved in stages, any previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognized in consolidated statement of income.

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

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of previously held equity interest in the acquiree over the net identifiable acquired assets and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Company re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the





amounts to be recognized at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognized in the consolidated statement of income.

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

Where goodwill forms part of a CGU 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 CGU retained.

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

*Reverse Acquisition.* A reverse acquisition occurs when the entity that issues securities (the legal acquirer) is identified as the acquiree for accounting purposes. The entity whose equity interests are acquired (the legal acquiree) must be the acquirer for accounting purposes for the transaction to be considered a reverse acquisition.

#### Common Control Business Combinations

A business combination involving entities or businesses under common control is 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.

Common control business combination where the transaction has no substance is accounted for using the pooling of interests method. Under the pooling of interests method:

- The assets and liabilities of the combining entities are reflected in the consolidated financial statements at their carrying amounts using the carrying values reported in the consolidated financial statements of the parent company. No adjustments are made to reflect fair values, or recognize any new assets or liabilities, at the date of the combination. The only adjustments that are made are those adjustments to harmonize accounting policies.
- No new goodwill is recognized as a result of the combination. The only goodwill that is recognized is any existing goodwill relating to either of the combining entities. Any difference between the consideration paid or transferred and the equity acquired is reflected within equity.



- The consolidated income statement reflects the results of the combining entities from the date combination took place. No restatement of financial information in the consolidated financial statements for periods prior to the combination.
- The equity reserves of the acquired entity are carried over at pooling of interest values that reflect the application of pooling of interests method.

#### Investments in Associates and a Joint Venture

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

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

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

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

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

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

The aggregate of the Company's share of profit or loss of an associate or joint venture is shown on the face of the consolidated statement of income outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate or joint venture. If the Company's share of losses of an associate or joint venture equals or exceeds its interest in the associate or joint venture, the Company discontinues recognizing its share of further losses.

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

After 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 its associates or joint venture. The Company determines at each balance sheet date whether there is any objective evidence that the investment in the associate or joint venture 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 or joint venture and its carrying value and recognizes the impairment loss in the consolidated statement of income.

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

#### Current versus Noncurrent Classification of Assets and Liabilities

The Company presents assets and liabilities in the consolidated balance sheet based on current or noncurrent classification.

An asset is current when it is:

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

All other assets are classified as noncurrent.

A liability is current when:

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

The Company classifies all other liabilities as noncurrent.

Deferred tax assets and liabilities are classified as noncurrent assets and liabilities.

#### Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and in banks and short-term deposits with original maturities of three months or less from the date of acquisition and are subject to an insignificant risk of changes in value.

#### Restricted Cash

Restricted cash represents cash in banks earmarked for long-term debt principal and interest repayment maintained in compliance with the loan agreement or placed in an escrow account pursuant to a construction agreement.

#### Financial Assets and Financial Liabilities

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.



*Initial Recognition and Measurement*

Financial assets are classified, at initial recognition, as financial assets at fair value through profit and loss (FVPL), loans and receivables, held-to-maturity (HTM) investments, and AFS financial assets or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial assets are recognized initially at fair value plus transaction costs, except in the case of financial assets recorded at FVPL.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognized on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

Financial liabilities are classified, at initial recognition, as financial liabilities at FVPL, other financial liabilities or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial liabilities are recognized initially at fair value and in the case of loans and borrowings, inclusive of directly attributable transaction costs.

The Company has no financial assets and liabilities at FVPL and HTM investments as at December 31, 2016 and 2015.

*Subsequent Measurement*

The subsequent measurement of financial assets and liabilities depends on their classification as described below:

a. Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, loans and receivables are subsequently measured at amortized cost using the effective interest rate (EIR) method, less any impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in finance income in the consolidated statement of income. The losses arising from impairment are recognized in the consolidated statement of income under general and administrative expenses.

Loans and receivables include cash and cash equivalents, restricted cash - current, receivables, due from related parties and restricted cash - noncurrent and refundable deposits (included in "Other noncurrent assets" account in the consolidated balance sheet) (see Notes 7, 8, 16 and 21).

b. AFS Financial Assets

AFS financial assets include equity and debt securities. Equity investments classified as AFS are those which are neither classified as held for trading nor designated at FVPL. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, AFS financial assets are measured at fair value with unrealized gains or losses being recognized as OCI in the "Other comprehensive income (loss) reserve" account, net of related deferred tax, 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 equity is included in the consolidated statement of income. Interest earned on the investments is reported as interest income using the EIR method. Dividends earned on holding AFS financial assets are recognized in the consolidated statement of income when the right of payment has been established.

Investments in unquoted equity shares are measured at cost, net of any impairment.

As at December 31, 2016 and 2015, AFS financial assets consist of investments in:

- Quoted fixed rate retail treasury bonds and notes of the ROP;
- Quoted fixed rate corporate bonds of Manila Electric Company (Meralco), PLDT Inc. (PLDT) and First Metro Investment Corporation (FMIC);
- Unit investment trust funds (UITF) which are presented as short-term deposits in the consolidated balance sheet;
- Quoted long-term negotiable certificate of deposits (LTNCD) of Metropolitan Bank and Trust Co. (Metrobank) and Philippine National Bank (PNB);
- Unquoted shares of Citra Metro Manila Tollways Corporation (CMMTC) and Pacific Global One Aviation Company, Inc. (PGOACI); and
- Club shares of Pico De Loro Beach & Country Club (see Note 15).

c. Other Financial Liabilities

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

These financial liabilities are subsequently carried at amortized cost, taking into account the impact of applying the EIR method of amortization (or accretion) for any related premium, discount and any directly attributable transaction costs.

This category includes accounts payable and other current liabilities, due to related parties, dividends payable, service concession fees payable and long-term debt (see Notes 17, 19, 20 and 21).

*Loans and Borrowings.* All loans and borrowings are initially recognized at fair value of the consideration received less directly attributable transaction costs (referred to herein as “debt issue costs”). After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the EIR method.

Debt issue costs are amortized over the life of the debt instrument using the EIR method. Debt issue costs are netted against the related loans and borrowings allocated correspondingly between the current and noncurrent portion.

Gains and losses are recognized in the consolidated statement of income when the liabilities are derecognized, as well as through the amortization process.

Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated balance sheet, if and only if, there is an enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The Company assesses that it has a currently enforceable right



of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Company and all of the counterparties.

#### 'Day 1' Profit or Loss

Where the transaction price in a non-active market is different from the fair value from 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 used 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.

#### Impairment of Financial Asset

The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. An impairment exists if one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors 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 a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

##### a. Financial Assets Carried at Amortized Cost

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Company determines 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.

The amount of any impairment loss identified 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 EIR.

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. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. 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 period, the amount of the impairment loss decreases and the decrease can be related objectively to 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 what its amortized cost would have been had the impairment not been recognized at the date the impairment is reversed.

b. AFS Financial Assets

In the case of equity investments classified as AFS financial assets, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. When 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 investment previously recognized in the consolidated statement of income) is removed from OCI and recognized in the consolidated statement of income. Impairment losses on equity investments are not reversed through the consolidated statement of income; increases in their fair value after impairment are recognized directly in OCI.

The determination of what is ‘significant’ or ‘prolonged’ requires judgment. In making this judgment, the Company evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

In the case of debt instruments classified as AFS financial assets, impairment is assessed based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the consolidated statement of income.

Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount future cash flows for the purpose of measuring the impairment loss. Such accrual is recorded as part of “Interest income” in the consolidated statement of income. If, in subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the consolidated statement of income, the impairment loss is reversed through the consolidated statement of income.

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instruments that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is remeasured 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.

Derecognition of Financial Assets and Liabilities

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized (i.e., removed from the Company’s consolidated balance sheet) when:

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



When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the asset is recognized to the extent of the Company's continuing involvement in the asset. In that case, the Company also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or has expired.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, shall be recognized in the consolidated statement of income.

#### Derivatives and Hedge Accounting

*Freestanding Derivatives.* The Company uses derivative financial instruments, such as interest rate swaps, to hedge its interest rate risks. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

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 designated and accounted for certain derivatives under cash flow hedges. The Company did not designate any of its derivatives as fair value hedges or hedges of a net investment in a foreign operation.

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 under "Other comprehensive income (loss) reserve" account, net of related deferred tax. 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 consolidated statement of 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 reported directly in equity is retained in equity until the forecasted transaction occurs. When the forecasted transaction is no longer expected to occur, any net cumulative gain or loss previously reported in equity is charged against the consolidated statement of income.

For derivatives that are not designated as effective accounting hedges, any gains or losses arising from changes in fair value of derivatives are recognized directly in the consolidated statement of income.

#### Fair Value Measurement

The Company measures financial instruments such as AFS financial assets at fair value at each balance sheet date.

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

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

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

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

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs. Assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described, as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

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



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

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

#### Inventories

Inventories, which consist of magnetic cards and spare parts, are valued at the lower of cost and net realizable value (NRV). Cost includes purchase cost and import duties and is determined primarily on a weighted average method. For magnetic cards, NRV is the estimated selling price in the ordinary course of business, less estimated costs necessary to make the sale. NRV for spare parts is the current replacement cost.

#### Advances to Contractors and Consultants

Advances to contractors and consultants represent the advance payments for mobilization of the contractors and consultants. These are stated at costs less any impairment in value. These are progressively reduced upon receipt of the equivalent amount of services rendered by the contractors and consultants.

#### Service Concession Arrangements

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

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

*Contractual Obligations.* The Company recognizes its contractual obligations, (i) to maintain the toll roads to a specified level of serviceability or (ii) to restore the toll roads to a specified condition before it is handed over to the grantor at end of the concession term, in accordance with PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, as the obligations arise 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. The service concession assets that were not acquired through business combinations are recognized initially at cost. The cost of the service concession assets consists of the construction or upgrade costs, including related borrowing costs; upfront fees payments on the concession agreements; and future fixed fee considerations in exchange for the license or right. The fixed fees are recognized at present value using the discount rate at the inception date with a corresponding liability recognized. Interest on the unwinding of discount of the liability is recognized as a borrowing cost that is capitalized as part of the service concession asset during



construction of the infrastructure asset and as an expense in the period incurred starting from the commercial operations of the said infrastructure asset. Following initial recognition, the service concession assets are carried at cost less accumulated amortization and any impairment losses.

Subsequent costs and expenditures related to the toll road infrastructure arising from the Company's commitments to the concession agreements, or that increase future revenues are recognized as additions to the service concession assets and are stated at cost. Repairs and maintenance and other expenses that are routine in nature are expensed and recognized to the consolidated statement of income as incurred.

The service concession assets are amortized using the unit-of-production (UOP) method. The annual amortization of the service concession asset is calculated by applying the ratio of actual traffic volume of the underlying toll expressways compared to the total expected traffic volume of the underlying toll expressways over the respective remaining concession periods to the net carrying value of the assets. The expected traffic volume is estimated by management with reference to the traffic projection reports.

The amortization expense is recognized under the "Cost of services" account in the consolidated statement of income.

The concession fees paid in consideration for the concession which vary in relation to future activity (i.e., based on toll revenues) are treated as executory and are expensed as incurred.

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

*Deferred Project Costs.* Costs directly attributable to the acquisition of a service concession asset are recorded as deferred project costs (under "Other noncurrent assets") until commencement of the concession term, whereupon the costs are transferred to the "Service concession assets" account.

#### Property and Equipment

Property and equipment is stated at cost less accumulated depreciation and any impairment in value. The cost of property and equipment consists of its purchase price and any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Cost also includes the cost of replacing the part of such property and equipment when the recognition criteria are met.

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



Depreciation commences once the property and equipment are available for use and is calculated on a straight-line basis over the estimated useful life of the asset as follows:

Building and building improvements	5-25 years
Leasehold improvements	5 years or lease term, whichever is shorter
Transportation equipment	5 years
Office equipment and others	3-5 years

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 item is derecognized.

Fully depreciated property and equipment are retained in the accounts until they are no longer in use and no further depreciation is charged to the consolidated statement of income.

The assets' residual values, useful lives and method of depreciation are reviewed at each financial year-end, and adjusted prospectively, if appropriate.

#### Investment Properties

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are carried at historical cost less provisions for depreciation and impairment.

An investment property is derecognized either when it has been disposed or when it is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the consolidated statement of income in the year of retirement or disposal.

Transfers are made to (or from) investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the carrying value at the date of change in use. If owner-occupied property becomes an investment property, the Company accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

#### Other Intangible Assets (Franchise and Software Costs)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in the consolidated statement of income in the period in which the expenditure is incurred.

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

Intangible assets with finite lives are amortized over 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 each balance sheet date. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting



estimates. The amortization expense on intangible assets with finite lives is recognized in the consolidated statement of income in the expense category that is consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the CGU level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

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

#### Impairment of Nonfinancial Assets

*Investments in Associates and a Joint Venture, Service Concession Assets, Property and Equipment, Software Cost and Other Noncurrent Assets.* The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal (FVLCD) 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. When 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. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other available fair value indicators.

Impairment losses of continuing operations are recognized in the consolidated statement of income in those expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date 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 or 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 other intangible assets) 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 tested for impairment annually and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

*Franchise Cost.* Intangible assets with indefinite useful lives are tested for impairment annually as at balance sheet date at the CGU level, as appropriate, and when circumstances indicate that the carrying value may be impaired.

### Provisions

*General.* Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. When the Company expects some or all of a provision to be reimbursed, 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. When discounting is used, the increase in the provision due to the passage of time is recognized as interest expense.

*Contingent Liabilities Recognized in a Business Combination.* A contingent liability, representing a present or possible obligation that arises from past events, recognized in a business combination is initially measured at its fair value. Subsequently, it is measured at the higher of (a) the amount that would be recognized in accordance with the general guidance for provisions above (PAS 37) or (b) the amount initially recognized less, when appropriate, cumulative amortization recognized in accordance with the guidance for revenue recognition (PAS 18).

### Deposit for Future Stock Subscription

Deposit for future stock subscription represents deposits received by the Company from its stockholder for the proposed increase in authorized capital stock. Deposit for future stock subscription is stated at cost.

### Equity

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

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

Incremental costs directly attributable to the issue of common shares or preferred shares are recognized as a deduction from equity, net of any tax effects.

Retained earnings represent the accumulated earnings net of dividends declared, adjusted for the effects of changes in accounting policies as may be required by PFRS' transitional provisions.



Treasury shares are own equity instruments which are reacquired and are recognized at cost and deducted from equity. No gain or loss is recognized in the consolidated statement of income on the purchase, sale, issue or cancellation of the Company's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognized in other reserves.

Other comprehensive income (loss) reserve comprise items of income and expense, including recycling to profit and loss, that are not recognized in the consolidated statement of income as required or permitted by other PFRS.

Other reserves comprise the premium paid on the acquisition of non-controlling interest in a subsidiary; the contribution from MPIC in relation to its executive stock option plan granted to MPTC employees accounted for as equity-settled share-based payment transactions; the 20% of Long-term Incentive Plan (LTIP) which grants cash incentives to eligible key executives of the Company which are shouldered by MPIC and treated as additional equity of MPIC; and the transaction costs on the issuance of the Company's preferred shares.

Non-controlling interests represent the equity interests in NLEX Corp., MSIHI and structured entities not held by the Parent Company.

#### Revenue 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 measured reliably, regardless of when the payment is received. Revenue is measured at fair value of the consideration received or receivable, taking into account contractually defined terms of payment, excluding VAT, discounts and rebates. The Company has concluded that it is acting as principal in all of its revenue arrangements since it is the primary obligor in all the revenue arrangements, has pricing latitude and is also exposed to inventory and credit risks.

The following specific criteria must also be met before revenue is recognized:

- Revenue from toll fees is recognized upon the sale of toll tickets. Toll fees received in advance, through transponders or magnetic cards, are recognized as income upon the holders' availment of the toll road services, net of discounts and rebates. The unused portion of toll fees received in advance is reflected as "Unearned toll revenue" in the consolidated balance sheet.
- Revenue from sale of magnetic cards is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer normally upon delivery.
- Construction revenue and costs are recognized by reference to the stage of completion of the contract activity at the balance sheet date. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately.
- Income from utility facility contracts, toll service facilities (TSF) and advertising, included in "Non-toll revenues" account in the consolidated statement of income, are recognized in accordance with the terms of the agreement.
- Rental revenue is accounted for on a straight-line basis over the lease term.
- Service revenue, included in "Non-toll revenues" account in the consolidated statement of income, is recognized as services are rendered in accordance with the terms of the agreements.



- Management fees, included in “Other income” account in the consolidated statement of income, are recognized when services are rendered.
- Dividend income, included in “Other income” account in the consolidated statement of income, is recognized when the right to receive the payment is established which is upon the declaration date.
- Interest income is recognized as the interest accrues using the EIR method.
- Other income is recognized when there is an incidental economic benefits, other than the usual business operations, that will flow to the Company through an increase in asset or reduction in liability and that can be measured reliably. This includes income from franchise fee, gain on disposals of property and equipment and AFS financial assets, and reversal of contingent liabilities.

#### Cost and Expenses Recognition

Cost and expenses are decreases in economic benefits during the accounting period in the form of outflows or decrease of assets or incurrence of liabilities that result in decrease in equity, other than those relating to distributions to equity participants. Cost of services, general and administrative expenses, construction costs and interest expense and other finance costs are recognized in the consolidated statement of income in the period these are incurred.

#### Lease

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 or 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 arrangement;
- 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 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 at the date of renewal or extension period for scenario (b).

*Company as Lessee.* A lease that transfers substantially all the risks and rewards incidental to ownership to the Company is classified as a finance lease. An operating lease is a lease other than a finance lease. Operating lease payments are recognized as an operating expense in the consolidated statement of income on a straight-line basis over the lease term.

*Company as Lessor.* Leases in which the Company does not transfer substantially all the risks and rewards of ownership of an asset are classified as operating leases. Initial direct costs incurred in negotiating and arranging an operating lease 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.





### Foreign Currency-denominated Transactions and Translations

The consolidated financial statements are presented in Philippine peso, which is the Parent Company's functional currency. All subsidiaries, associates and joint venture 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 and balances.* Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency closing exchange rate ruling at the balance sheet date. All differences are taken to the consolidated statement of income with the exception of differences on foreign currency borrowings that are regarded as adjustments to interest cost, and are capitalized as part of the cost of the service concession assets during the construction period.

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 is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognized in OCI or profit or loss are also recognized in OCI or profit or loss, respectively).

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

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets translated at the spot rate of exchange at the reporting date.

### Borrowing Costs

Borrowing costs are capitalized as part of service concession assets if they are directly attributable to the acquisition and construction of the projects. Capitalization of borrowing costs commences when the activities to prepare for the construction of the projects are in progress and expenditures and borrowing costs are being incurred, until the assets are ready for their intended use. If the resulting carrying amount of the asset exceeds its recoverable amount, an impairment loss is recorded.

Borrowing costs include interest charges, amortization of debt issue costs and other costs incurred in connection with the borrowing of funds, including exchange differences arising from foreign currency borrowings used to finance the projects, to the extent that they are regarded as adjustments to interest cost.

All other borrowing costs are expensed in the period they are incurred.



## Retirement Benefits

*Defined Contribution Plan.* The Parent Company and MPTDC maintain a defined contribution plan that covers all regular employees. Under their defined contribution plans, the Parent Company and MPTDC pay fixed contributions based on the employees' monthly salaries. The Parent Company and MPTDC, however, are covered under RA No. 7641, "The Philippine Retirement Law", which provides for its qualified employees a defined benefit minimum guarantee. The defined benefit minimum guarantee is equivalent to a certain percentage of the monthly salary payable to an employee at normal retirement age with the required credited years of service based on the provisions of RA No. 7641.

Accordingly, the Parent Company and MPTDC account for their retirement obligation at each reporting period under the higher of the defined benefit obligation relating to the minimum guarantee and the sum of defined contribution liability and the present value of the excess of the projected defined benefit obligation over projected defined contribution.

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

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

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in OCI.

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

*Defined Benefit Plan.* NLEX Corp. and CIC have defined benefit retirement plans. The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets, adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

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



Defined benefit costs comprise the following:

- Service cost
- Net interest on the net defined benefit liability or asset
- Remeasurements of net defined benefit liability or asset

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

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

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

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

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

#### Employee Leave Entitlement

Employee entitlements to annual leave are recognized as a liability when they are accrued to the employees. The undiscounted liability for leave expected to be settled wholly before twelve months after the end of the annual reporting period is recognized for services rendered by employees up to the end of the reporting period.

#### Share-based Payment

MPIC 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.

Executives of the Company are granted rights to equity instruments of MPIC as consideration for the services provided to the Company.



The Company shall measure the services received from its employees in accordance with the requirements applicable to equity-settled share-based payment transactions, with a corresponding increase recognized in equity as a contribution from MPIC, provided that the share-based arrangement is accounted for as equity-settled in the consolidated financial statements of MPIC.

A parent grants rights to its equity instruments to the employees of its subsidiaries, conditional upon the completion of continuing service with the group for a specified period. An employee of one subsidiary may transfer employment to another subsidiary during the specified vesting period without the employee's rights to equity instruments of the parent under the original share-based payment arrangement being affected. Each subsidiary shall measure the services received from the employee by reference to the fair value of the equity instruments at the date those rights to equity instruments were originally granted by the parent, and the proportion of the vesting period served by the employee with each subsidiary.

Such an employee may fail to satisfy a vesting condition other than a market condition after transferring between group entities. In this case, each subsidiary shall adjust the amount previously recognized in respect of the services received from the employee. Hence, no amount is recognized on a cumulative basis for the services received from that employee in the consolidated financial statements of any subsidiary if the rights to the equity instruments granted by the parent do not vest because of an employee's failure to meet a vesting condition other than a market condition.

Where the terms of an equity-settled transaction award are modified, the minimum expense recognized is the expense as if the terms had not been modified, if the original terms of the award are met. An additional expense is recognized for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

#### Other Long-term Employee Benefits

MPIC has LTIP which grants cash incentives to eligible key executives of MPIC and certain subsidiaries, including MPTC. Also, MPTC has LTIP that grants cash incentives to eligible key executives of the Company. Liability under the LTIP is determined using the projected unit credit method. Employee benefit costs include current service costs, interest cost, actuarial gains and loss and past service costs. Past service costs and actuarial gains and losses are recognized immediately.

The liability under LTIP comprise the present value of the defined benefit obligation (using discount rate based on government bonds) vested at the end of the reporting period.

#### Taxes

*Current Tax.* Current tax assets and liabilities 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 balance sheet date where the Company operates and generates taxable income.

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



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

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or 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.
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carryforward benefits of net operating loss carry over (NOLCO) and excess minimum corporate income tax (MCIT), to the extent that it is probable that taxable income will be available against which the deductible temporary differences, NOLCO and excess MCIT can be utilized, except:

- When the deferred tax asset relating to the deductible temporary difference 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.
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

Deferred tax assets and deferred tax 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 rate (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax relating to items recognized outside consolidated statement of income is recognized outside consolidated statement of income. Deferred tax items are recognized in correlation to the underlying transaction either in OCI or directly in equity.

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



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

*VAT.* Revenues, expenses and assets are recognized net of the amount of VAT except:

- When the VAT incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the VAT is recognized as part of the cost of acquisition of the asset or as part of the expense item, as applicable.
- When receivables and payables are stated with the amount of VAT included.

The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of other current assets or as part of payables in the consolidated balance sheet.

#### Contingencies

Contingent liabilities are not recognized in the consolidated financial statements but are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

Contingent assets are not recognized in the consolidated financial statements but disclosed when an inflow of economic benefits is probable.

#### Events After the Balance Sheet Date

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

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## **4. Significant Accounting Judgments, Estimates and Assumptions**

The preparation of the consolidated financial statements in compliance with PFRS requires management to make judgments, estimates and assumptions 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 and estimates used in the accompanying consolidated financial statements are based upon management's evaluation of relevant facts and circumstances as at 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 and estimates and 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 has the most significant effect on the amounts recognized in the consolidated financial statements.



*Service Concession Arrangement.* Philippine Interpretation IFRIC 12 outlines an approach to account for contractual arrangements arising from entities providing public services. Arrangements within the scope of Philippine Interpretation IFRIC 12 are those public-to-private service concession arrangements in which: (a) the grantor controls or regulates the services that the operator must provide using the infrastructure, to whom it must provide them, and at what price; and (b) the grantor controls any significant residual interest in the property at the end of the concession term through ownership, beneficial entitlement or otherwise. Infrastructure assets within scope are those constructed or acquired for the purpose of the service concession arrangement or existing infrastructure to which the operator is given access by the grantor for the purpose of the service concession arrangement.

Philippine Interpretation IFRIC 12 also provides that the operator should not account for the infrastructure as property, plant and equipment, but recognize a financial asset and/or an intangible asset.

The Company has made judgments that the concession agreements covering the NLEX, SCTEX, NLEX-SLEX Connector Road, CALAX, CAVITEX and CCLEX are within the scope of Philippine Interpretation IFRIC 12 and qualify under the intangible asset model, wherein the service concession assets are recognized as intangible assets in accordance with PAS 38, *Intangible Assets*.

The Company also recognizes construction revenues and costs in accordance with PAS 11. It measures contract revenue at the fair value of the consideration received or receivable. Given that NLEX Corp., MHI, CIC and CCLEC have subcontracted the construction to outside contractors, the construction revenue recognized is equal to the construction costs. Construction revenue and costs recognized in the consolidated statements of income amounted to ₱7,277.4 million and ₱3,434.3 million for the years ended December 31, 2016 and 2015, respectively (see Note 11).

The Company also recognizes its contractual obligations to restore the toll roads to a specified level of serviceability. The Company recognizes a provision following PAS 37 as the obligation arises which is a consequence of the use of the toll roads and therefore it is proportional to the number of vehicles using the roads and increasing in measurable annual increments. Provision for heavy maintenance amounted to ₱433.5 million and ₱354.4 million as at December 31, 2016 and 2015, respectively (see Note 18).

*Consolidation of CIC in which the Company Holds No Voting Rights.* The Company considers that it controls CIC even though it does not own any voting rights by virtue of the MLA (see Note 1). Under the MLA, MPTC has the power to solely direct the entire operations, including the capital expenditure and expansion plans of CIC. MPTC shall then receive all the financial benefits from CIC's operations and all losses incurred by CIC are to be borne by MPTC.

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



*Common Control Business Combination.* As also discussed in Note 5, MPTC acquired 100% ownership interest in MPT Asia from MIHL (a wholly owned subsidiary of MPIC). The Company has determined that both before and after the transaction, MPIC has control over MPTC and MPT Asia and that the control is not transitory. Moreover, as the basis of the payment is the book value of MPT Asia as at acquisition date, the Company has determined that the transaction has no substance, therefore, MPTC accounted for the transaction under the pooling of interests method.

*Majority Ownership Interest Without Control.* Where the Company holds more than 50% of voting rights in an investee, there is a presumption that the Company has the power to exercise control and such investment is treated as a subsidiary. However, in applying the control provisions in relation to the Company's participation in the investee's decision making and other relevant activities, the Company has made certain judgment which determined the accounting and classification of the investment in TMC. In December 2016, MPTC increased its ownership interest in Tollways Management Corporation (TMC) from 46% to 60%. Despite ownership interest of 60%, investment in TMC remains to be accounted for as an associate as another significant shareholder holds significant veto rights related to changes to operating and dividend policies that affects investors' returns (see Note 10).

The carrying value of the investment in TMC as at December 31, 2016 and 2015 amounted to ₱942.6 million and ₱162.4 million, respectively (see Note 10).

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

The carrying value of the investment in ESC as at December 31, 2016 and 2015 amounted to ₱125.1 million and ₱114.6 million, respectively (see Note 10).

*Potential Voting Rights on Exchangeable Bonds.* As also discussed in Note 10, MPTC acquired exchangeable bonds from Ho Chi Minh City Infrastructure Investment Joint Stock Company (CII) on March 11, 2015 and September 14, 2015. These exchangeable bonds were mandatorily exchanged into the shares of CII Bridges and Roads Investment Joint Stock Company (CII B&R, a subsidiary of CII) on April 4, 2016 and October 7, 2016. The Company has determined that potential voting rights in substance give the Company additional access to the returns associated with its ownership interest in CII and therefore accounted for the exchangeable bonds under PAS 28, *Investments in Associates and Joint Ventures*.

The Company's investments in CII B&R amounted to ₱3,869.0 million and ₱4,104.5 million as at December 31, 2016 and 2015, respectively (see Note 10).





*Operating Lease Commitments - Company as Lessee.* The Company has entered into lease agreements covering certain office units, storage room, parking spaces and certain transportation and other equipment. The Company has determined that the significant risks and rewards are retained by the lessor and accounts for the leases as operating leases.

*Operating Lease Commitments - Company as Lessor.* The Company has entered into commercial property lease on its investment property portfolio. The Company has determined, based on an evaluation of the terms and conditions of the arrangement, such as the lease term not constituting a major part of the economic life of the commercial property and the present value of the minimum lease payments not amounting to substantially all of the fair value of the commercial property, that it retains all the significant risks and rewards of ownership of these properties and accounts for the contracts as operating leases.

*Fair Value of 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.

Unquoted AFS financial assets amounted to ₱328.2 million as at December 31, 2016 and 2015 (see Note 15).

#### Estimates and Assumptions

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

*Allowance for Doubtful Accounts.* Allowance for doubtful accounts is maintained at a level considered adequate to provide for potentially uncollectible receivables. The level of allowance is based on past collection experience and other factors that may affect collectability. An evaluation of the receivables, which is designed to identify potential charges to the allowance, is performed on a continuous basis throughout the year. There were no provisions under collective assessment in 2016 and 2015.

Receivables (net of allowance for doubtful accounts of ₱24.9 million and ₱14.2 million as at December 31, 2016 and 2015, respectively) amounted to ₱688.8 million and ₱767.6 million as at December 31, 2016 and 2015, respectively (see Note 8).

Due from related parties (net of allowance for doubtful accounts of ₱21.5 million) amounted to ₱40.0 million and ₱112.4 million as at December 31, 2016 and 2015, respectively (see Note 21).

*Amortization of Service Concession Assets.* The service concession assets are amortized using unit-of-production (UOP) method, where the amortization is calculated based on the ratio of actual traffic volume of the underlying toll expressways compared to the total expected traffic volume of the underlying toll expressways over the remaining concession periods of the concession agreements. Adjustments may need to be made to the carrying amounts of service concession assets should there be a material difference between the total expected traffic volume and the actual results. The



Company's management has reviewed the total expected traffic volume and made appropriate adjustments to the assumptions of the expected traffic volume with reference to the latest traffic studies. The management of the Company considers that these are calculated by reference to the best estimates of the total expected traffic volumes of the underlying toll expressways.

In 2016 and 2015, the Company reported amortization of service concession assets amounting to ₱788.5 million and ₱748.0 million, respectively (see Note 24). The total carrying values of service concession assets amounted to ₱61,827.8 million and ₱52,987.3 million as at December 31, 2016 and 2015, respectively (see Note 11).

*Impairment of Service Concession Assets not yet Available for Use.* Impairment exists when the carrying value of an asset or CGU exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs of disposing of the asset. The value in use calculation is based on a discounted cash flow (DCF) model. The cash flows are derived from the budget for the concession period and do not include restructuring activities that the Company is not yet committed to or significant future investments that will enhance the performance of the assets of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash inflows and the growth rate used for extrapolation purposes. These estimates are most relevant to service concession assets not yet available for use recognized by the Company. The key assumptions used to determine the recoverable amount are disclosed and further explained in Note 11.

No impairment loss was recognized in the consolidated financial statements for the years ended December 31, 2016 and 2015. The carrying values of the Company's service concession assets not yet available for use amounted to ₱30,812.2 million and ₱24,640.9 million as at December 31, 2016 and 2015, respectively (see Note 11).

*Impairment of Goodwill.* Goodwill is subject to annual impairment test. This requires an estimation of the value in use of CGUs to which the goodwill is allocated. Estimating the value in use requires the Company to make an estimate of the expected future cash flows from the CGU and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

No impairment of goodwill was recognized in 2016 and 2015. The carrying amount of goodwill amounted to ₱4,979.2 million as at December 31, 2016 and 2015 (see Note 13).

*Recognition of Deferred Tax Assets.* The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow or part of the deferred tax assets to be utilized.

Deferred tax assets are recognized on deductible temporary differences and the carryforward benefits of NOLCO and MCIT to the extent that it is probable that taxable income will be available against which the deductible temporary differences and the carryforward benefits of NOLCO and MCIT can be utilized. The Company's assessment on the recognition of deferred tax assets on deductible temporary differences is based on the expected future financial performance.

Deferred tax assets amounted to ₱5,833.4 million and ₱4,858.7 million as at December 31, 2016 and 2015, respectively (see Note 31).



Temporary differences, NOLCO and MCIT for which no deferred tax assets were recognized, as management believes that it is more likely than not that there will be no sufficient taxable income to realize the benefits of the deferred tax, amounted to ₱1,129.9 million and ₱950.5 million as at December 31, 2016 and 2015, respectively (see Note 31).

*Retirement Benefits.* The cost of defined benefit retirement plan and the present value of retirement obligation is determined based on actuarial valuations. The actuarial valuations involve making various assumptions about discount rates, expected return on assets, future salary increases and mortality rates. Due to the complexity of the valuation, the underlying assumptions and long-term nature of the plan, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each balance sheet date. Further details about the assumptions used are given in Note 27.

Pension asset under the defined benefit plan amounted to ₱0.9 million and ₱12.1 million as at December 31, 2016 and 2015, respectively. Accrued retirement costs under the defined benefit plan amounted to ₱3.2 million and ₱1.5 million as at December 31, 2016 and 2015, respectively (see Note 27).

*Long-Term Incentives Benefits.* The LTIP for key executives of the Company will be based on profit targets for the covered Performance Cycle. The cost of LTIP is determined using the projected unit credit method based on prevailing discount rates and profit targets. While management's assumptions are believed to be reasonable and appropriate, significant differences in actual results or changes in assumptions may materially affect the Company's other long term incentives benefits.

Carrying value of the LTIP, recognized under "Other reserves" in the equity section of the consolidated balance sheets, amounted to ₱23.1 million as at December 31, 2016 and 2015 (see Note 27). LTIP payable as at December 31, 2016 and 2015 amounted to ₱261.3 million and ₱139.8 million, respectively (see Note 27).

*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.

The provision for the heavy maintenance requires an estimation of the periodic cost, generally estimated to be every seven to nine 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 date 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.

Provisions (current and noncurrent) amounted to ₱753.1 million and ₱685.5 million as at December 31, 2016 and 2015, respectively (see Note 18).

*Contingencies.* Certain subsidiaries of the Company are parties to certain lawsuits or claims arising from the ordinary course of business. However, the Company's management and legal counsel believe that the eventual liabilities under these lawsuits or claims, if any, will not have a material effect on the consolidated financial statements (see Note 35).



## 5. Business Combinations and Acquisition of Non-controlling Interests

### Acquisition of MPT Asia

On September 29, 2016, MPTC and MIHL (a wholly owned subsidiary of MPIC) entered into a Share Sale and Promissory Note Assignment Agreement for the purchase by MPTC of 6,500 shares of MPT Asia, representing 100% ownership interest, for a purchase price of US\$67.9 million (₱2,959.5 million). Moreover, MPTC will take assignment of the Promissory Notes amounting to US\$9.1 million (₱405.3 million). On September 30, 2016, MPTC paid ₱2,959.5 million and ₱405.3 million covering the purchase price of the shares of MPT Asia and assigned promissory notes, respectively.

The transaction was accounted for as a common control business combination under the pooling of interests method with the difference between the consideration paid and the equity acquired of ₱673.4 million reflected within equity (see Note 22).

Total cash consideration paid to MIHL	₱2,959,532,091
Consolidated net assets of MPT Asia	3,632,920,425
Difference recognized within equity	(₱673,388,334)

Net cash outflow on the acquisition is as follow:

Total cash paid on the transaction	₱2,959,532,091
Cash acquired with the subsidiary	8,108,344
Net cash outflow	₱2,951,423,747

### Acquisition of Non-controlling Interests

On June 16, 2016, MPTC and Neo Oracle Holdings, Inc. (NOHI) entered into a Deed of Absolute Sale of Shares of Stock for the sale and transfer to MPTC of 159,998 common shares of MSIHI held by NOHI representing 40.0% of the total issued and outstanding capital stock of MSIHI on December 31, 2015 (closing date). The consideration or purchase price to be paid by MPTC to NOHI is ₱23.4 million.

After the abovementioned transactions, MPTC's effective ownership in MSIHI increased from 57.0% to 97.0%. The increase in effective ownership in MSIHI is accounted for as an equity transaction with the discount of ₱0.3 million recognized in equity. The discount represents the difference between the carrying value of the additional interest acquired and the total consideration paid.

Total cash consideration paid to NOHI	₱23,418,467
Carrying value of the additional interest acquired in MSIHI	23,762,438
Difference recognized in "Other reserves" account	(₱343,971)



## 6. Material Partly-Owned Subsidiary

Financial information of NLEX Corp. and its subsidiary that has material non-controlling interests is provided below:

	2016	2015
Proportion of equity interest held by non-controlling interests	24.4%	24.4%
Accumulated balances of material non-controlling interests	<b>₱2,327,199,283</b>	₱1,966,572,355
Net income during the year allocated to material non-controlling interests	<b>997,550,596</b>	730,627,496
Dividends paid to material non-controlling interests	<b>981,508,544</b>	535,207,168

The summarized financial information of NLEX Corp. and its subsidiary is provided below. This information is based on amounts before inter-company eliminations.

### Summarized Consolidated Balance Sheets

	As at December 31	
	2016	2015
Current assets	<b>₱2,126,106,999</b>	₱5,479,489,670
Noncurrent assets	<b>33,162,589,884</b>	25,405,510,628
Current liabilities	<b>(4,081,763,629)</b>	(5,165,264,490)
Noncurrent liabilities	<b>(21,595,315,519)</b>	(17,586,097,280)
Total equity	<b>₱9,611,617,735</b>	₱8,133,638,528
Attributable to:		
Equity Holders of the Parent	<b>₱7,284,418,452</b>	₱6,167,066,173
Non-controlling interests	<b>2,327,199,283</b>	1,966,572,355
	<b>₱9,611,617,735</b>	₱8,133,638,528

### Summarized Consolidated Statements of Comprehensive Income

	Years Ended December 31	
	2016	2015
Operating revenues	<b>₱10,696,347,946</b>	₱8,603,457,548
Cost of services	<b>(4,392,888,455)</b>	(3,420,625,851)
General and administrative expenses	<b>(726,169,402)</b>	(708,962,366)
Interest expense and other finance costs	<b>(442,912,617)</b>	(622,295,149)
Other income (including construction revenue)	<b>6,242,375,746</b>	3,415,059,910
Construction costs	<b>(6,170,060,989)</b>	(3,328,364,819)
Income before income tax	<b>5,206,692,229</b>	3,938,269,273
Provision for income tax	<b>1,119,614,957</b>	945,139,130
Net income	<b>4,087,077,272</b>	2,993,130,143
Other comprehensive loss	<b>(10,342,908)</b>	(66,016,726)
Total comprehensive income	<b>₱4,076,734,364</b>	₱2,927,113,417
Attributable to non-controlling interests	<b>₱997,550,596</b>	₱714,519,415



Summarized Consolidated Cash Flow Information

	<b>Years Ended December 31</b>	
	<b>2016</b>	<b>2015</b>
Operating	<b>₱5,867,182,445</b>	₱4,146,601,128
Investing	<b>(4,658,148,449)</b>	(2,725,931,162)
Financing	<b>(3,488,690,744)</b>	(1,707,704,608)
Net decrease in cash and cash equivalents	<b>(₱2,279,656,748)</b>	(₱287,034,642)

The ability of NLEX Corp. to pay dividends or make other distributions or payments to their shareholders is subject to applicable laws and other restrictions contained in shareholder agreements and other agreements that prohibit or limit the payment of dividends or other transfers of funds. Such applicable restrictions are as follows:

- Under Philippine law, a corporation is permitted to declare dividends only to the extent that it has unrestricted retained earnings that represent the undistributed earnings of the corporation which have not been allocated for any managerial, contractual or legal purposes and which are free for distribution to the shareholders as dividends; and
- Under NLEX Corp.'s shareholders' agreement, unless otherwise agreed upon by the shareholders, no amounts shall be distributed by way of dividends until the PNCC fee for the year has been repaid in full.

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**7. Cash and Cash Equivalents and Restricted Cash**

Cash and cash equivalents consist of:

	<b>2016</b>	<b>2015</b>
Cash on hand and in banks	<b>₱835,466,321</b>	₱829,576,359
Short-term deposits as cash equivalents	<b>655,651,490</b>	3,159,616,673
	<b>₱1,491,117,811</b>	₱3,989,193,032

*Cash and Cash Equivalents*

Cash in banks earn interest at the prevailing bank deposit rates. Short-term deposits as cash equivalents are made for varying periods of up to three months depending on the immediate cash requirements of the Company, and earn interest at the respective short-term deposit rates.

Cash in banks also include Transaction Accounts maintained by Manila Cavite Toll Road Finance Company (a special purpose entity or SPE of CIC). The Transaction Accounts amounted to ₱262.3 million and ₱340.2 million as at December 31, 2016 and 2015, respectively. The Transaction Accounts which mainly consist of the O&M Account, Major Maintenance Reserve Account, Cash Trapping Event Reserve Account, Construction Cost Account, Coverage Reserve Account and Series 2010-1 Debt Service Reserve Account are established in compliance with the Indenture Supplement Agreement entered into by the SPE, CIC and the Indenture Trustee pursuant to the issuance of Series 2010-1 Notes as discussed in Note 19.



*Restricted Cash*

Restricted cash comprise revenue and debt service reserve and payment accounts amounting to ₱471.6 million and ₱391.0 million as at December 31, 2016 and 2015, respectively, which are established and maintained for debt servicing of CIC's, MPTDC's and MPTC's long-term debt. The revenue and debt service reserve and payment accounts also form part of the securities for CIC's, MPTDC's and MPTC's long-term debt (see Note 19).

Interest earned from cash and cash equivalents and restricted cash amounted to ₱50.3 million and ₱38.5 million for the years ended December 31, 2016 and 2015, respectively (see Note 28).

As at December 31, 2016 and 2015, NLEX Corp. had available ₱5.0 billion and ₱2.0 billion of undrawn committed term loan facilities, respectively.

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**8. Receivables**

This account consists of:

	2016	2015
Trade receivables		
Related parties (see Note 21)	<b>₱304,124,441</b>	₱262,284,406
Third parties	<b>59,666,238</b>	51,643,974
Advances to DPWH	<b>180,361,049</b>	202,883,464
Dividend receivable (see Note 15)	<b>55,187,000</b>	53,807,325
Advances to officers and employees (see Note 21)	<b>20,681,048</b>	10,225,368
Interest receivables	<b>14,738,854</b>	144,696,930
Other receivables	<b>79,011,492</b>	56,270,586
	<b>713,770,122</b>	781,812,053
Less allowance for doubtful accounts	<b>24,938,590</b>	14,162,059
	<b>₱688,831,532</b>	₱767,649,994

Trade receivables are noninterest-bearing and are generally on terms of 30 to 45 days.

Advances to DPWH is pursuant to the Reimbursement Agreement entered into by NLEX Corp. with DPWH in 2013 where DPWH requested these advances in order to fast track the acquisition of right-of-way for the construction of Segments 9 and 10, portions of Phase II of NLEX. The balance also includes direct advances to certain Segment 9 landowners as consideration for the grant of immediate right-of-way possession to NLEX Corp. ahead of the expropriation proceedings. Under a Deed of Assignment with Special Power of Attorney agreement, these landowners agreed to assign their receivables from DPWH to NLEX Corp. in consideration for the direct advances received from NLEX Corp. These advances to DPWH are noninterest-bearing and are collectible within a year.

Advances to officers and employees are normally liquidated within a month.

Interest receivables are collectible within three to six months.

Other receivables are noninterest-bearing and are collectible within a year. As at December 31, 2016 and 2015, other receivables include those receivables from motorists who caused accidental damage to NLEX property from day-to-day operations amounting to ₱38.2 million and ₱33.2 million, respectively.



Movements in the allowance for individually assessed impaired receivables in 2016 and 2015 are as follows:

	2016		
	Trade Receivables	Other Receivables	Total
Balance at beginning of year	₱2,389,832	₱11,772,227	₱14,162,059
Provision for doubtful accounts (see Note 25)	664,119	10,112,412	10,776,531
Balance at end of year	<b>₱3,053,951</b>	<b>₱21,884,639</b>	<b>₱24,938,590</b>

  

	2015		
	Trade Receivables	Other Receivables	Total
Balance at beginning of year	₱2,238,191	₱7,645,006	₱9,883,197
Provision for doubtful accounts (see Note 25)	151,641	4,127,221	4,278,862
Balance at end of year	<b>₱2,389,832</b>	<b>₱11,772,227</b>	<b>₱14,162,059</b>

#### 9. Other Current Assets

This account consists of:

	2016	2015
Input VAT	<b>₱461,896,847</b>	₱467,068,064
Advances to contractors and consultants (see Notes 21 and 32)	<b>298,617,715</b>	104,294,446
Deferred input VAT	<b>186,898,381</b>	166,091,789
Creditable taxes	<b>142,485,362</b>	113,432,540
Prepaid expenses	<b>80,992,340</b>	42,630,819
Advances to suppliers	<b>6,298,339</b>	2,918,681
Others	<b>7,513,023</b>	7,362,090
	<b>1,184,702,007</b>	903,798,429
Less allowance for unusable creditable taxes	<b>15,380,461</b>	15,380,461
	<b>₱1,169,321,546</b>	₱888,417,968

Creditable taxes are the amount withheld by the payees which the Company can claim as tax credits against income tax payable.





## 10. Investments in Associates and a Joint Venture

This account consists of:

	Relationship	2016	2015
Don Muang Tollway Public Ltd. (DMT)	Associate	<b>₱6,381,299,410</b>	₱-
CII B&R	Associate	<b>3,869,019,589</b>	4,104,481,754
TMC	Associate	<b>942,644,603</b>	162,446,746
ESC	Joint Venture	<b>125,060,901</b>	114,553,991
		<b>₱11,318,024,503</b>	₱4,381,482,491

The Company's investments in associates and a joint venture comprise the Company's investment in:

	Place of Business	Principal Activities	Ownership Interest in %	
			2016	2015
Associates:				
DMT	Thailand	Tollway Operation	<b>29.5</b>	29.5
CII B&R	Vietnam	Tollway Operation	<b>44.9</b>	44.9
TMC	Philippines	O&M of Tollways	<b>60.0</b>	46.0
Joint Venture -				
ESC	Philippines	Electronic Pass Issuer	<b>50.0</b>	50.0

Details of the Company's investment in associates and a joint venture are as follows:

	2016	2015
Acquisition cost:		
Balance at beginning of year	<b>₱4,241,744,081</b>	₱120,480,000
Additions during the year	<b>7,109,299,202</b>	4,121,264,081
Balance at end of year	<b>11,351,043,283</b>	4,241,744,081
Accumulated equity in net earnings:		
Balance at beginning of year	<b>146,289,370</b>	162,161,305
Equity in net earnings for the year	<b>459,614,748</b>	476,040,134
Dividends received	<b>(743,585,911)</b>	(491,912,069)
Balance at end of year	<b>(137,681,793)</b>	146,289,370
Share in remeasurements of defined benefit retirement plan:		
Balance at beginning of year	<b>(6,550,960)</b>	(9,534,988)
Remeasurements of defined benefit retirement plan during the year	<b>(1,635,506)</b>	2,984,028
Balance at end of year	<b>(8,186,466)</b>	(6,550,960)
Share in cumulative translation adjustment (CTA):		
Share in CTA of an associate during the year	<b>112,849,479</b>	-
	<b>₱11,318,024,503</b>	₱4,381,482,491



## DMT

In 2013, MIHL acquired from FPC 25% ownership in MPT Asia (then, FPM Infrastructure Holdings Limited) which holds a 29.45% stake in a Thai toll road operator, DMT.

On July 31, 2014, FPC transferred its 75% shareholding in MPT Asia to MIHL for a consideration of approximately US\$101.25 million. MPT Asia became wholly-owned subsidiary of MPIC and its sole asset is a 29.45% interest in DMT. DMT is a major toll road operator in Bangkok, Thailand. The concession for DMT runs until 2034 for the operation of a 21.9 km six-lane elevated toll road from central Bangkok to Don Muang International Airport and further to the National Monument in the north of Bangkok. On December 22, 2014, DMT secured toll rate increases of 17% and 20% on its Original road and Northern extension, respectively.

## CII B&R

MPTC has 44.94% voting interest in CII B&R as at December 31, 2016 and 2015. CII B&R and its subsidiaries are primarily engaged in the construction, development and operation in urban infrastructure sector under the BOT contracts and Built-Transfer contracts. CII B&R is incorporated in Vietnam and listed in Ho Chi Minh City Stock Exchange.

As at December 31, 2016 and 2015, CII B&R has investments in the following companies:

	Relationship	Ownership Interest	
		2016	2015
Sai Gon Bridge Construction Joint Stock Company (JSC)	Subsidiary	89.9%	89.9%
Lu Gia Mechanical Electric JSC	Subsidiary	99.8%	99.8%
Ha Noi Highway Construction and Investment JSC	Subsidiary	51.0%	51.0%
Ninh Thuan Investment Construction Development JSC	Subsidiary	100.0%	100.0%
BOT Ninh Thuan Province Company Limited	Subsidiary	100.0%	100.0%
Hien An Binh Bridge and Road JSC	Subsidiary	100.0%	100.0%
VRG Infrastructure Investment Co., Ltd	Subsidiary	100.0%	100.0%
CII Bridges and Road Development Investment Company Limited	Subsidiary	100.0%	–
Co Chien Investment Company Limited	Subsidiary	51.0%	–
BOT Rach Mieu Bridge Co., Ltd.	Associate	49.8%	49.8%
BOT Trung Luong - My Thuan JSC	Joint Venture	10.0%	10.0%
MCSC Service Company Limited	Associate	45.0%	–

On January 14, 2015, MPTC entered into the following agreements with CII:

- a. SPA covering the purchase by MPTC from CII of 30 million shares of CII B&R at VND22,100 per share in two tranches. The SPA provides that for so long as MPTC holds the number of bonds and exchangeable shares equivalent to at least 20% of the Charter Capital of CII B&R on a fully diluted basis, CII shall procure the successful appointment of the candidates nominated by MPTC to the following positions of CII B&R: (i) 2 seats (out of 7 seats) in the BOD including 1 Vice Chairman and 1 BOD member; (ii) 1 Deputy General Director; and (iii) 1 Financial Controller.



- b. Bond Subscription Agreement (BSA) covering the issuance by CII of and the subscription by MPTC to 1,020,000 bonds each with a face value of VND1.0 million, in two tranches, which are exchangeable to 56,666,667 shares of CII B&R at the option of MPTC.

The terms and conditions of the exchangeable bonds are follows:

- Subscription price for the first and second tranche bonds shall be VND604.0 billion and VND688.0 billion, respectively.
  - The bonds shall earn 11% interest per annum.
  - Maturity is 7 years from the issuance of the first and second tranche bonds.
  - The bonds are exchangeable into shares of CII B&R any time after 19 months from first tranche closing date (in respect of the first tranche exchangeable bonds) or the first anniversary of the second tranche closing date (in respect of the second exchangeable bonds).
  - There is no early redemption. The redemption at maturity shall be made in cash at a price equivalent to the face value of bonds; any accrued and unpaid interest on the face value of such bonds; and any other outstanding payment obligations of the issuer to the bondholder with regard to such bonds.
- c. Put Option Agreement (POA) where MPTC is entitled, but shall have no obligation, to sell to CII, and upon exercise by MPTC, CII shall be obligated to purchase, all or any part of the put option shares (all the shares received by MPTC pursuant to the SPA (30 million shares) and BSA (56,666,667 shares) if a Default (as defined in POA) has occurred and is continuing

On March 11, 2015, MPTC completed the purchase of the first tranche of CII B&R shares (equivalent to 20 million shares) for VND442 billion (₱916.1 million). On the same date, MPTC completed the subscription of first tranche of bonds (equivalent to 491,275 bonds) from CII for VND604.0 billion (₱1,251.9 million).

On March 24, 2015, MPTC completed the purchase of second tranche of CII B&R shares (equivalent to 10 million shares) for VND221 billion (₱459.8 million).

On September 14, 2015, MPTC completed the subscription of second tranche bonds (equivalent to 528,725 bonds) for VND688 billion (₱1,449.1 million).

Total transaction costs on the acquisition of CII B&R shares and CII bonds amounted to ₱44.3 million in 2015.

On March 31, 2015, MPTC and CII entered into a letter agreement clarifying MPTC's intention to mandatorily exchange the first tranche and second tranche exchangeable bonds to CII B&R shares after 12 months from the issuance of such first and second tranche exchangeable bonds. The letter agreement also clarified that MPTC will have 44.94% voting percentage (combination of shares and the potential voting rights) at any time from March 31, 2015 until the first anniversary of the acquisition of the second tranche exchangeable bonds.

On April 4, 2016, MPTC completed the exchange of its first tranche of exchangeable bonds (equivalent to 491,275 bonds) with CII. The exchangeable bonds were exchanged into 27,293,055 CII B&R shares. Upon exchange, MPTC received interest income from the first tranche of exchangeable bonds amounting to ₱108.8 million.



On October 7, 2016, MPTC completed the exchange of its second tranche of exchangeable bonds (equivalent to 528,725 bonds) with CII. The exchangeable bonds were exchanged into 29,373,611 CII B&R shares. Upon exchange, MPTC received interest income from the second tranche of exchangeable bonds amounting to ₱121.4 million.

Based on the purchase price allocation, the difference of ₱1,243.2 million between the Company's share on the total fair value of CII B&R and subsidiaries' identified assets and liabilities and the Company's total cost of investment was allocated to goodwill and was included in the carrying value of the investment in CII B&R.

*Cash Dividends.* On February 2, 2016 and August 15, 2016, CII B&R's BOD declared cash dividends amounting to VND40.0 billion (₱84.3 million) and VND81.7 billion (₱170.0 million) payable on April 29, 2016 and October 7, 2016, respectively. The Company's share in the total dividends declared amounted to ₱114.4 million.

On August 12, 2015, CII B&R's BOD declared cash dividends of VND1,000 per share to shareholders of record as at August 27, 2015 payable on or before September 11, 2015. MPTC received its share in the dividends of VND30.0 billion (₱62.6 million) in September 2015.

*Fair Value of Investment in CII B&R.* The fair value of CII B&R shares held by the Company (including the equivalent shares of the potential voting rights) amounted to VND2,106.0 billion (₱4,589.3 million) and VND2,045.3 billion (₱4,245.2 million) as at December 31, 2016 and December 31, 2015, respectively.

## **TMC**

TMC is primarily engaged in the operations and maintenance of tollways, tollways facilities, interchanges and related works. TMC is the operator of NLEX and SCTEX under an O&M Agreement as further discussed in Note 21.

On December 28, 2016, MPTDC acquired additional 53,200 TMC common shares from Egis Road Operation S.A., representing 14% of the total issued and outstanding capital stock of TMC, for a total purchase price of ₱884.7 million. This transaction increased MPTDC's interest in TMC to 60%. Despite ownership interest of 60%, investment in TMC remains to be accounted for as an associate as another significant shareholder holds significant veto rights related to changes to operating and dividend policies that affects investors' returns.

Based on the initial purchase price allocation, the difference of ₱867.0 million between the Company's share on the total fair value of TMC's identified assets and liabilities and the Company's total cost of investment was allocated to goodwill and was included in the carrying value of the investment in TMC.

*Proposed Merger.* On October 19, 2016, the TMC's BOD approved the proposed merger between NLEX Corp. and TMC, with NLEX Corp. as the surviving entity. The revised plan of merger was approved by the majority of TMC's stockholders on December 15, 2016. As at February 20, 2017, NLEX Corp. and TMC have yet to file the proposed merger with the SEC.

In January 2017, TMC received a notice from the ROP that it will exercise its appraisal right in accordance with Title X of the Corporation Code of the Philippines as it voted against the plan of merger. The ROP shall be entitled to an amount equal to the fair value of its shares held payable upon approval of the merger by the SEC. An Appraisal Body is being convened to determine the fair value of ROP's shares.



*Cash Dividends.* TMC's BOD approved the declaration of cash dividends aggregating to ₱900.2 million and ₱654.3 million in 2016 and 2015, respectively. The Company's share in the dividends declared amounted to ₱414.1 million and ₱301.0 million in 2016 and 2015, respectively.

On February 16, 2017, the BOD approved the declaration of cash dividends amounting to ₱87.5 million to stockholders of record as of February 16, 2017 payable on or before April 30, 2017.

## ESC

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

Summarized financial information in respect of DMT, CII B&R, TMC and ESC are as follows:

	2016				2015		
	DMT	CII B&R	TMC	ESC	CII B&R	TMC	ESC
Current assets	₱474,701,631	₱4,504,986,220	₱692,510,484	₱469,337,865	₱4,311,675,708	₱874,121,023	₱392,931,942
Noncurrent assets	25,554,661,921	12,749,545,264	144,124,779	41,350,981	13,719,920,583	142,537,241	38,464,912
Current liabilities	(2,845,660,080)	(2,494,668,199)	(706,341,050)	(440,610,398)	(2,642,092,678)	(663,513,164)	(383,692,570)
Noncurrent liabilities	(6,129,421,565)	(8,916,790,256)	(4,240,729)	(4,740,558)	(7,675,679,553)	–	(3,380,214)
Equity	17,054,281,907	5,843,073,029	126,053,484	65,337,890	7,713,824,060	353,145,100	44,324,070
Proportion of the Company's ownership	29.45%	44.94%	60%	50%	44.94%	46%	50%
Share in equity of the investees	5,022,486,022	2,625,877,019	75,632,091	32,668,945	3,466,592,533	162,446,746	22,162,035
Goodwill	1,358,813,388	1,243,142,570	867,012,512	92,391,956	637,889,221	–	92,391,956
Carrying amount of the investment	₱6,381,299,410	₱3,869,019,589	₱942,644,603	₱125,060,901	₱4,104,481,754	₱162,446,746	₱114,553,991

	Years Ended December 31						
	2016				2015		
	DMT	CII B&R	TMC	ESC	CII B&R	TMC	ESC
Operating revenues	₱1,049,291,017	₱448,772,479	₱2,046,814,922	₱138,025,583	₱278,422,909	₱2,018,093,331	₱113,284,813
Cost of services	(337,707,281)	(102,616,908)	(1,086,449,883)	(18,905,867)	(189,314,281)	(1,029,084,784)	(18,742,919)
General and administrative expenses	(32,465,973)	(309,606,669)	(308,990,678)	(87,798,373)	(172,544,001)	(240,003,211)	(71,050,219)
Other income (expenses) – net	(41,058,906)	274,325,666	242,114,023	(37,688)	492,369,823	77,642,165	1,059,525
Income before income tax	638,058,857	310,874,568	893,488,384	31,283,655	408,934,450	826,647,501	24,551,200
Provision for income tax	(130,998,300)	(11,561,836)	(216,828,603)	(10,269,835)	(21,412,560)	(189,338,627)	(7,099,771)
Net income	507,060,557	299,312,732	676,659,781	21,013,820	387,521,890	637,308,874	17,451,429
Other comprehensive income (loss)	–	–	(3,555,448)	–	–	6,487,017	–
Total comprehensive income	₱507,060,557	₱299,312,732	₱673,104,333	₱21,013,820	₱387,521,890	₱643,795,891	₱17,451,429
Company's share of:							
Net income	₱149,329,057	₱134,511,141	₱311,263,499	₱10,506,910	₱174,152,337	₱293,162,082	₱8,725,715
Total comprehensive income	₱149,329,057	₱134,511,141	309,627,993	10,506,910	174,152,337	296,146,110	8,725,715



## 11. Service Concession Assets

The movements in the service concession assets follow:

	NLEX	SCTEX	NLEX-SLEX Connector Road	CALAX	CAVITEX	CCLEX	Total
<b>Cost:</b>							
At January 1, 2015	₱22,800,931,259	₱-	₱-	₱-	₱9,765,608,306	₱-	₱32,566,539,565
Additions	3,328,364,819	3,177,555,625	-	20,898,235,546	21,880,464	-	27,426,036,454
At December 31, 2015	26,129,296,078	3,177,555,625	-	20,898,235,546	9,787,488,770	-	59,992,576,019
Additions	5,602,509,836	378,504,587	2,507,847,423	975,195,805	32,860,171	132,149,112	9,629,066,934
At December 31, 2016	<b>₱31,731,805,914</b>	<b>₱3,556,060,212</b>	<b>₱2,507,847,423</b>	<b>₱21,873,431,351</b>	<b>₱9,820,348,941</b>	<b>₱132,149,112</b>	<b>₱69,621,642,953</b>
<b>Accumulated amortization:</b>							
At January 1, 2015	₱5,938,007,295	₱-	₱-	₱-	₱319,277,174	₱-	₱6,257,284,469
Amortization (see Note 24)	563,733,763	11,364,125	-	-	172,873,047	-	747,970,935
At December 31, 2015	6,501,741,058	11,364,125	-	-	492,150,221	-	7,005,255,404
Amortization (see Note 24)	540,223,703	74,896,760	-	-	173,427,329	-	788,547,792
At December 31, 2016	<b>₱7,041,964,761</b>	<b>₱86,260,885</b>	-	₱-	<b>₱665,577,550</b>	₱-	<b>₱7,793,803,196</b>
<b>Carrying value:</b>							
At December 31, 2016	<b>₱24,689,841,153</b>	<b>₱3,469,799,327</b>	<b>₱2,507,847,423</b>	<b>₱21,873,431,351</b>	<b>₱9,154,771,391</b>	<b>₱132,149,112</b>	<b>₱61,827,839,757</b>
At December 31, 2015	19,627,555,020	3,166,191,500	-	20,898,235,546	9,295,338,549	-	52,987,320,615

### NLEX

Additions during 2016 and 2015 pertain mainly to lane widening project on Segments 2 and 3 (portions of Phase I); civil works construction for Segments 9 and 10 (portion of Phase II); and fixed operating equipment (FOE) design, supply and installation on Segment 10 (portion of Phase II). Additions also include the pre-construction costs of Segment 8.2, portion of Phase II.

Borrowing costs capitalized amounted to ₱653.7 million and ₱383.0 million for the years ended December 31, 2016 and 2015, respectively. The interest rate used to determine the amount of borrowing costs eligible for capitalization ranges from 5.0% to 5.8% in 2016 and 2015.

The concession term for fully operational Phase I and Segments 8.1 and 9 of Phase II of the NLEX is until December 31, 2037. As at December 31, 2016 and 2015, the remaining concession term is 21 years and 22 years, respectively.

As at February 20, 2017, Segment 10, portion of Phase II, with a carrying amount of ₱6,265.9 million and ₱3,742.7 million as at December 31, 2016 and 2015, respectively, has not yet started its tollway operation.

### SCTEX

As discussed in Note 2, NLEX Corp. took over from BCDA the management, O&M of the SCTEX on October 27, 2015. Additions during 2015 pertain to an upfront fee payment amounting to ₱3.1 billion and other directly attributable costs of the project. Additions during 2016 pertain to the cost of pavement rehabilitation in certain portion of SCTEX and other costs incurred for upgrading the toll road facilities and equipment in SCTEX.

The concession term for SCTEX is until October 30, 2043. As at December 31, 2016 and 2015, the remaining concession term for SCTEX is 27 years and 28 years, respectively.

### NLEX-SLEX Connector Road

As discussed in Note 2, NLEX Corp. and DPWH signed the Concession Agreement for the NLEX-SLEX Connector Road on November 23, 2016. Additions during 2016 pertain mainly to the present value of the service concession fees payable of ₱2,318.8 million and pre-construction costs of ₱171.9 million.



Borrowing costs capitalized amounted to ₱17.1 million for the year ended December 31, 2016. The borrowing rate used to determine the amount of borrowing costs eligible for capitalization is 7.1% in 2016.

The expected concession period for NLEX-SLEX Connector Road is until 2055, which is 37 years after the expected issuance by the DPWH of the NTP to start the construction of the NLEX-SLEX Connector Road.

#### CALAX

As discussed in Note 2, the Company took over the construction and operation and management of the CALAX on July 10, 2015. Additions during 2015 pertain to the upfront fee paid to DPWH of ₱5.5 billion, present value of the service concession fees payable of ₱15.4 billion and pre-construction costs of ₱84.0 million. Additions for 2016 pertain to the pre-construction cost of ₱114.7 million and accretion of interest of ₱860.5 million.

Borrowing cost capitalized amounted to ₱860.5 million and ₱399.5 million for the years ended December 31, 2016 and 2015, respectively. The borrowing rate used to determine the amount of borrowing costs eligible for capitalization is 5.6% in 2015.

The concession term for CALAX is until July 10, 2050. As at December 31, 2016 and 2015, the remaining concession term for CALAX is 33.5 years and 34.5 years, respectively.

No amortization was recognized in 2016 and 2015 as the service concession asset is not yet available for use as at December 31, 2016.

#### CAVITEX

Additions in 2016 pertain to pre-constructions costs of the C5 Link Project. Additions in 2015 pertain to the civil works construction of the Modified Zapote Interchange, which forms part of Segment 4 or R-1 Expressway Extension and Toll Collection System Migration, which forms part of Segment 1 or R1 Expressway.

The concession terms for R-1 Expressway and R-1 Expressway Extension are until May 23, 2033 and April 30, 2046, respectively. As at December 31, 2016, the remaining concession terms for R-1 Expressway and R-1 Expressway Extension are 17 years and 30 years, respectively. Concession term for C5 Link has not yet commenced as at December 31, 2016.

#### CCLEX

As discussed in Note 2, CCLEC took over the construction and OM of the CCLEX project on October 3, 2016. Additions during 2016 pertain to pre-construction costs of ₱132.1 million.

The project has 35-year concession period. As at December 31, 2016, the remaining concession term for CCLEX is 35 years.

No amortization was recognized in 2016 as the service concession asset is not yet available for use as at December 31, 2016.

#### *Impairment Testing of Service Concession Assets Not Yet Available for Use*

For the purposes of impairment testing related to an intangible asset (service concession asset) not yet available for use under the requirements of PAS 36, *Impairment of Assets*, the Company has performed the analysis by comparing the recoverable amount and the carrying amount of the service concession assets as at reporting date.



As at December 31, 2016 and 2015, the total carrying amount of service concession assets not yet available for use amounted to ₱30,812.2 million and ₱24,640.9 million, respectively.

The recoverable amount of these service concession assets have been determined based on a value in use computation using the cash flow projections from most recent financial budgets and forecast of the Company. For the impairment testing conducted, average traffic volume growth rates used were 0.9% to 13.7% and the pre-tax discount rates applied range from 10.0% to 10.7%, which was based on the weighted average cost of capital with estimated premium of 2.0% over cost of equity. The average forecast period used in the computation is 21 years to 39 years. The forecast period is greater than 5 years as management can reliably estimate the cash flow for the entire duration of the concession period.

Based on the impairment test, management did not identify an impairment loss for these service concession assets. Management also believes that no reasonably possible change in any of the key assumptions would cause the carrying values of the service concession assets not yet available for use to materially exceed their respective recoverable amounts.

## 12. Property and Equipment

The movements in this account follow:

	Building, Building Improvements and Leasehold Improvements	Transportation Equipment	Office Equipment and Others	Total
Cost:				
At January 1, 2015	₱96,996,531	₱111,535,317	₱177,775,245	₱386,307,093
Additions	1,805,804	18,060,110	36,852,061	56,717,975
Disposals	-	(8,692,773)	(724,111)	(9,416,884)
At December 31, 2015	98,802,335	120,902,654	213,903,195	433,608,184
Additions	6,084,304	45,772,230	76,511,647	128,368,181
Disposals	-	(18,221,191)	(3,591,447)	(21,812,638)
Reclassification	-	1,013,393	(1,013,393)	-
<b>At December 31, 2016</b>	<b>₱104,886,639</b>	<b>₱149,467,086</b>	<b>₱285,810,002</b>	<b>₱540,163,727</b>
Accumulated depreciation:				
At January 1, 2015	₱35,074,108	₱53,547,894	₱116,013,860	₱204,635,862
Depreciation (see Notes 24 and 25)	5,311,920	21,694,153	30,429,140	57,435,213
Disposals	-	(6,332,901)	(562,111)	(6,895,012)
At December 31, 2015	40,386,028	68,909,146	145,880,889	255,176,063
Depreciation (see Notes 24 and 25)	4,742,667	20,352,993	27,924,567	53,020,227
Disposals	-	(15,048,990)	(3,531,478)	(18,580,468)
Reclassification	-	1,013,393	(1,013,393)	-
<b>At December 31, 2016</b>	<b>₱45,128,695</b>	<b>₱75,226,542</b>	<b>₱169,260,585</b>	<b>289,615,822</b>
Net book value:				
<b>At December 31, 2016</b>	<b>₱59,757,944</b>	<b>₱74,240,544</b>	<b>₱116,549,417</b>	<b>₱250,547,905</b>
At December 31, 2015	58,416,307	51,993,508	68,022,306	178,432,121

Proceeds from the sale of property and equipment amounted to ₱4.1 million in 2016 and ₱3.0 million in 2015. Gain on disposals of property and equipment included in "Others" under "Other income" account in the consolidated statements of income amounted to ₱0.9 million and ₱0.5 million in 2016 and 2015, respectively (see Note 30).

The gross carrying amounts of fully depreciated property and equipment that are still in use amounted to ₱182.0 million and ₱160.0 million as at December 31, 2016 and 2015, respectively.





### 13. Goodwill and Other Intangible Assets

The movements in goodwill and other intangible assets are as follows:

	Goodwill	Franchise Cost	Software Cost	Total
<b>Cost:</b>				
At January 1, 2015	₱4,979,245,878	₱100,000,000	₱106,206,822	₱5,185,452,700
Additions	–	–	5,578,652	5,578,652
At December 31, 2015	4,979,245,878	100,000,000	111,785,474	5,191,031,352
Additions	–	–	10,902,783	10,902,783
<b>At December 31, 2016</b>	<b>₱4,979,245,878</b>	<b>₱100,000,000</b>	<b>₱122,688,257</b>	<b>₱5,201,934,135</b>
<b>Accumulated amortization:</b>				
At January 1, 2015	₱–	₱–	₱77,425,392	₱77,425,392
Amortization (see Notes 24 and 25)	–	–	13,844,244	13,844,244
At December 31, 2015	–	–	91,269,636	91,269,636
Amortization (see Notes 24 and 25)	–	–	7,968,664	7,968,664
<b>At December 31, 2016</b>	<b>₱–</b>	<b>₱–</b>	<b>₱99,238,300</b>	<b>₱99,238,300</b>
<b>Carrying value:</b>				
<b>At December 31, 2016</b>	<b>₱4,979,245,878</b>	<b>₱100,000,000</b>	<b>₱23,449,957</b>	<b>₱5,102,695,835</b>
At December 31, 2015	4,979,245,878	100,000,000	20,515,838	5,099,761,716

*Goodwill.* Goodwill is the difference between the cost of business combination and the fair values of identifiable assets and liabilities. Goodwill amounting to ₱13.6 million arose from the reverse acquisition in 2007 when the then shareholders of MPTDC transferred all their shares in MPTDC (then FPIDC, regarded as the accounting acquirer) in exchange for shares of MPTC. The additional goodwill of ₱4,965.7 million arose from the Company's acquisition of CIC in 2013.

*Franchise Cost.* On July 4, 2014, MPIC and Airfreight 2100, Inc. executed a MOA for the acquisition of the latter's Philippine Basketball Association (PBA) Franchise, including its shares in PBA Properties, Inc., for ₱100.0 million in cash.

On October 22, 2014, MPTC sent a letter to the PBA Commissioner requesting the transfer of the PBA Franchise from MPIC to MPTC since the PBA Franchise is directly funded by MPTC.

On October 30, 2014, the Board of Governors of the PBA unanimously approved the transfer of ownership of the franchise from MPIC to MPTC.

The Company earned income from franchise fee amounting to nil and ₱29.0 million for the years ended December 31, 2016 and 2015, respectively, and recorded in "Other income" account in the 2015 consolidated statement of income (see Note 30).

*Software Cost.* Software costs pertain to computer software relating to the Company's accounting, reporting and asset management systems with estimated useful lives of five (5) years.



Impairment Testing of Goodwill

The goodwill related to the acquisition of CIC amounted to ₱4,965.7 million. The test for recoverability of MPTC's goodwill from the acquisition of CIC was applied at the subsidiary level, which represents the lowest level for which identifiable cash flows are largely independent of the cash inflows and outflows of other Company's assets and liabilities.

The recoverable amounts of the CIC CGU as at December 31, 2016 and 2015 have been determined based on a value in use computation using the cash flow projections from most recent financial budgets and forecast of CIC. For the impairment testing conducted for the years ended December 31, 2016 and 2015, average traffic volume growth rates used are 0.9% to 5.2% and 1.8% to 8.0%, respectively, for R-1 Expressway, R-1 Expressway Extension and C5- link. The pre-tax discount rates applied were 11.5% and 11.0% in 2016 and 2015, respectively, which was based on the weighted average cost of capital with estimated premium of 4.0% over cost of equity. The average forecast period used in the computation is 17 years and 18 years for the R-1 Expressway for 2016 and 2015, respectively, 30 years and 31 years for R-1 Expressway, in 2016 and 2015, respectively, and 37 years for C5- link. The forecasted period is greater than five years as management can reliably estimate the cash flow for the entire duration of CIC's concession period.

Based on the impairment test, management did not identify an impairment loss for this CGU. Management also believes that no reasonably possible change in any of the key assumptions would cause the carrying values of the CGUs to materially exceed their respective recoverable amounts.

Impairment Testing of Franchise Cost

The intangible asset (franchise cost) acquired by the Company has been determined to have an indefinite useful life. As at December 31, 2016 and 2015, the intangible asset was tested for impairment.

The recoverable amount of the franchise cost has been determined using its FVLCD as of impairment testing date. The Company used market approach in determining the fair value of the intangible asset (franchise cost) in reference to prices generated in similar recent transactions from other market participants involving identical or comparable assets. The Company adjusted the price to account for costs of disposal to determine FVLCD as one of the measures of recoverable amount required by PAS 36. Based on the impairment testing, management did not identify any impairment loss for this intangible asset (franchise cost) as FVLCD exceeds the carrying amount of the intangible asset (franchise cost). The FVLCD of the franchise cost is classified under Level 1 of fair value hierarchy.

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**14. Investment Properties**

Details of this account as at December 31, 2016 are as follows:

Land	₱37,761,270
Land improvements	3,682,610
<u>Total</u>	<u>₱41,443,880</u>

In 2016, NVC purchased parcels of land located in Valenzuela City from certain land owners. A parcel of land acquired is presently the site of a service facility while the other parcels of land will be developed as a service facility and/or for lease with business proponents.



As discussed in Note 32, the land acquired with a service facility was leased to RDL Fuel Point, Inc. Rental income earned from this investment property amounted to ₱4.3 million in 2016 (see Note 23).

Fair Value of Investment Properties

As at December 31, 2016, the fair value of investment properties amounting to ₱50.3 million is based on valuation performed by an accredited independent appraiser. A valuation model in accordance with that recommended by the International Valuation Standards Committee has been applied.

	<b>Valuation Technique</b>	<b>Significant unobservable inputs</b>	<b>Range (Weighted Average)</b>
Land and land improvements	Direct Sales Comparison Approach	Price per square meter (sqm)	₱6,200 per sqm

The Market Data (or Direct Sales Comparison) Approach is an appraisal technique in which the market value estimate is predicated based upon prices paid in actual market transactions and current listings, the former fixing the lower limit of value in a static or advancing market (price wise), and fixing the higher limit of value in a declining market; and the latter fixing the higher limit in any market. It is a process of correlation and analysis of similar recently sold properties.

The reliability of this technique is dependent upon: (a) the degree of comparability of each property with the property under appraisal; (b) the time of the sale; (c) the verification of the sale data, and; (d) the absence of unusual conditions affecting the sale. The weight given to this approach is dependent on the availability of recent confirmed listings/sales of properties considered comparable to the property under appraisal. These listings/sold properties are compared to the subject in key units of comparison. Appropriate adjustments are made for differences between the subject and the comparables, resulting in adjusted sales values for each of the comparables. These adjusted values are then reconciled for a value conclusion by the Sales Comparison Data Grid.

The Market Data (or Direct Sales Comparison) Approach relies on the comparison of recent sale transactions or offerings of similar properties which have occurred and/or offered with close proximity to the subject property. The reliability of this method depends on the number of comparables utilized and their overall similarity to the property being appraised.

Significant increases (decreases) in estimated price per sqm in isolation would result in a significantly higher (lower) fair value.

The determination of the fair value of investment properties are categorized under Level 3 fair value measurement.

The Company has no restriction on the realizability of its investment properties and no obligation to either purchase, construct or develop, or for repairs, maintenance and enhancements.



## 15. Available-for-Sale Financial Assets

This account consists of:

	2016	2015
Current:		
UITF*	₱770,415,867	₱1,225,420,748
Investment in quoted treasury bonds	–	200,645,000
	<b>770,415,867</b>	<b>1,426,065,748</b>
Noncurrent:		
Investment in unquoted equity shares:		
CMMTC	315,746,526	315,746,526
PGOACI	12,500,000	12,500,000
Investment in quoted corporate bonds	453,095,000	456,921,000
Investment in quoted treasury bonds and notes	802,356,695	959,967,246
Investment in quoted LTNCD	98,216,000	97,595,000
Investment in quoted club shares	740,000	740,000
	<b>1,682,654,221</b>	<b>1,843,469,772</b>
	<b>₱2,453,070,088</b>	<b>₱3,269,535,520</b>

\* Presented as "Short-term deposits" in the consolidated balance sheets.

The movements in this account follow:

	2016	2015
Balance at beginning of year	₱3,269,535,520	₱7,056,621,683
Additions	9,386,899,757	5,407,332,256
Maturity	(200,000,000)	(250,000,000)
Sale of AFS financial assets	(10,039,918,208)	(8,865,590,303)
Gain (loss) on AFS financial assets during the year (see Note 22)	36,553,019	(78,828,116)
Balance at end of year	<b>₱2,453,070,088</b>	<b>₱3,269,535,520</b>

### CMMTC

Investment in CMMTC represents 2.0% interest in unquoted shares of stocks of CMMTC. CMMTC is engaged primarily in the design, construction and financing of the Metro Manila Skyway (in three stages) and the proposed Metro Manila Tollways projects. The 30-year franchise period for the Stage 1 of the South Metro Manila Skyway (SMMS) and for the integrated Stage 1 and Stage 2 of the SMMS commenced on October 10, 1999 and April 25, 2011, respectively.

*Cash Dividends.* The Company's share in the dividends declared by CMMTC's BOD in 2016 and 2015 amounted to ₱138.0 million and ₱144.6 million, respectively (see Note 30). The Company's dividend receivable amounted to ₱55.2 million and ₱53.8 million as at December 31, 2016 and December 31, 2015, respectively (see Note 8).

### PGOACI

On June 14, 2011, MPTC entered into a Shareholders' Agreement with PLDT, Meralco Powergen Corporation, Philex Mining Corporation, MPIC and Jubilee Sky Limited to establish PGOACI to carry on, by means of aircraft of every kind or description, the general business of common and/or private carrier. MPTC subscribed and paid for 12,500,000 shares at a par value of ₱1 per share which represents 5.0% interest in unquoted shares of stocks of PGOACI.



Investments in UITF, Treasury Bonds and Notes, Corporate Bonds and LTNCD

Details of the investments are shown below:

Maturity Date	Interest Rates	2016		2015	
		Fair Value	Principal Amount	Fair Value	Principal Amount
<b>UITF</b>					
Short-term		<b>₱770,415,867</b>	<b>₱765,926,101</b>	₱1,225,420,748	₱1,220,988,850
<b>ROP Retail Treasury Bonds</b>					
March 3, 2016	6.00%	–	–	150,870,000	150,000,000
August 15, 2023	3.25%	<b>524,017,230</b>	<b>565,100,000</b>	525,712,530	565,100,000
		<b>524,017,230</b>	<b>565,100,000</b>	676,582,530	715,100,000
<b>Fixed Rate Treasury Notes</b>					
April 25, 2016	1.63%	–	–	49,775,000	50,000,000
May 23, 2018	2.13%	<b>246,600,000</b>	<b>250,000,000</b>	434,254,716	449,260,000
July 19, 2019	4.75%	<b>11,179,465</b>	<b>11,230,000</b>	–	–
August 20, 2020	3.38%	<b>20,560,000</b>	<b>20,000,000</b>	–	–
		<b>278,339,465</b>	<b>281,230,000</b>	484,029,716	499,260,000
<b>LTNCD</b>					
PNB - June 12, 2020	4.13%	<b>49,613,000</b>	<b>50,000,000</b>	49,460,000	50,000,000
Metrobank - November 21, 2021	4.25%	<b>48,603,000</b>	<b>50,000,000</b>	48,135,000	50,000,000
		<b>98,216,000</b>	<b>100,000,000</b>	97,595,000	100,000,000
<b>Corporate Bonds</b>					
FMIC - August 10, 2019	5.75%	<b>48,781,000</b>	<b>50,000,000</b>	52,745,000	50,000,000
Meralco - December 12, 2020	4.38%	<b>197,300,000</b>	<b>200,000,000</b>	202,142,000	200,000,000
PLDT - February 6, 2021	5.23%	<b>207,014,000</b>	<b>200,000,000</b>	202,034,000	200,000,000
		<b>453,095,000</b>	<b>450,000,000</b>	456,921,000	450,000,000
		<b>₱2,124,083,562</b>	<b>₱2,162,256,101</b>	₱2,940,548,994	₱2,985,348,850

UITFs are ready-made investments that allow the pooling of funds from different investors with similar investment objectives. These UITFs are managed by professional fund managers and are invested in various financial instruments such as money market securities, bonds and equities, which are normally available to bigger investors only. A UITF uses the mark-to-market method in valuing the fund's securities. It is a valuation method which calculates the Net Asset Value based on the estimated fair market value of the assets of the fund based on prices supplied by independent sources.

The fair values of the investments in treasury bonds and notes, corporate bonds, LTNCD and club shares are based on quoted market price of the instruments as at December 31, 2016 and 2015.

The movements in the net unrealized gain on fair value change in AFS financial assets under "Other comprehensive income (loss) reserve" account as at and for the years ended December 31, 2016 and 2015 follow:

	2016	2015
Balance at beginning of year	<b>(₱37,253,554)</b>	₱41,574,562
Changes in fair value	<b>36,553,019</b>	11,121,533
Reclassification to profit or loss*	<b>(33,911,148)</b>	(89,949,649)
Balance at end of year	<b>(34,611,683)</b>	(37,253,554)
Tax effects of items taken directly in equity (see Note 31)	<b>1,464,530</b>	2,657,152
	<b>(₱33,147,153)</b>	(₱34,596,402)
<b>Attributable to:</b>		
Equity holders of the Parent	<b>(₱23,941,157)</b>	(₱26,086,913)
Non-controlling interests	<b>(9,205,996)</b>	(8,509,489)
	<b>(₱33,147,153)</b>	(₱34,596,402)

\* Includes gain on sale of UITF deducted from borrowing costs capitalized to service concession assets amounting to ₱22,635,560 and ₱87,917,303 in 2016 and 2015, respectively.



Interest earned from AFS financial assets amounted to ₱40.1 million and ₱53.8 million for the years ended December 31, 2016 and 2015, respectively (see Note 28).

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## 16. Other Noncurrent Assets

Other noncurrent assets consist of:

	2016	2015
Restricted cash (see Note 32)	<b>₱889,000,000</b>	₱889,000,000
Deferred project costs	<b>13,295,516</b>	171,343,434
Sinking fund	<b>154,520,887</b>	157,090,681
Advances to contractors and consultants	<b>64,487,310</b>	64,487,310
Refundable deposits	<b>8,117,415</b>	8,236,741
Reimbursement right - retirement	<b>2,284,226</b>	2,284,226
Others	<b>36,796,128</b>	16,618,805
	<b>₱1,168,501,482</b>	₱1,309,061,197

The sinking fund was established to finance the future major road repairs, re-pavements and other extraordinary costs and expenses of the R-1 Expressway.

Reimbursement right - retirement pertains to the pre-termination values from a group pension plan purchased by CIC for some of its regular employees. The proceeds from the pension plan shall form part of the settlement of CIC's retirement liability (see Note 27). The premium contributions are payable semi-annually over 5 to 10 years at a fixed amount as determined at the time the pension plan was purchased.

In 2015, the indemnification asset recognized in relation to the probable claim arising from the acquisition of CIC in 2013 has expired. Consequently, the Company derecognized the indemnification asset and recognized a loss on derecognition amounting to ₱555.4 million in 2015. Prior to derecognition, the increase in the value of indemnification asset in 2015 amounting to ₱7.1 million arose from the passage of time (see Note 28).

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## 17. Accounts Payable and Other Current Liabilities

This account consists of:

	2016	2015
Trade payables (see Note 21)	<b>₱378,090,776</b>	₱961,505,711
Accrued expenses (see Note 21)	<b>2,304,695,534</b>	1,064,671,934
Retention payable	<b>431,675,061</b>	239,537,108
Interest payable	<b>173,356,597</b>	201,940,957
Payable to CHI	<b>163,428,840</b>	163,428,840
Output VAT	<b>183,388,453</b>	141,938,965
Withholding taxes payable	<b>113,184,947</b>	115,873,728
Unearned toll revenue	<b>11,439,532</b>	9,960,218
Unearned rental income (see Note 32)	<b>2,132,223</b>	-
Others	<b>39,350,301</b>	42,412,979
	<b>₱3,800,742,264</b>	₱2,941,270,440



Trade payables and accrued expenses are noninterest-bearing and are normally settled within one year.

Retention payable is a percentage of the amount certified as due to the contractor on an interim certificate, that is deducted from the amount due and retained by the Company. Retention payable is usually released upon completion of the relevant project.

Interest payable is settled within three to six months.

Payable to CHI relates to noninterest-bearing advances obtained by CIC in 2012 for its debt service requirements. The amount is due and demandable.

Accrued expenses consist of:

	2016	2015
Construction costs	<b>₱1,551,445,903</b>	₱242,072,135
Operator's fees (see Notes 21 and 24)	<b>254,782,016</b>	348,001,841
Professional fees	<b>145,142,306</b>	26,573,663
Concession fees	<b>87,422,800</b>	78,025,151
Advertising and marketing expenses	<b>52,599,331</b>	84,522,105
PNCC fees (see Note 32)	<b>52,539,032</b>	47,895,086
Outside services	<b>27,967,780</b>	20,613,003
Salaries and employee benefits (see Note 27)	<b>27,206,476</b>	75,304,286
Insurance	<b>12,806,822</b>	10,670,039
Repairs and maintenance	<b>8,941,759</b>	24,658,260
Filing fees	-	22,500,000
Others	<b>83,841,309</b>	83,836,365
	<b>₱2,304,695,534</b>	₱1,064,671,934

## 18. Provisions

The movements in this account follow:

	Heavy Maintenance	Contingent Liability	Others	Total
At January 1, 2015	₱272,405,358	₱1,171,682,775	₱114,834,910	₱1,558,923,043
Additions (see Notes 24 and 25)	168,917,285	-	15,951,846	184,869,131
Accretion (see Note 29)	11,939,461	15,136,484	-	27,075,945
Reversals (see Note 30)	-	(762,204,845)	-	(762,204,845)
Payments	(98,812,746)	(192,239,545)	(32,128,428)	(323,180,719)
At December 31, 2015	354,449,358	232,374,869	98,658,328	685,482,555
Additions (see Notes 24 and 25)	157,545,596	-	227,726,455	385,272,051
Accretion (see Note 29)	13,355,182	-	-	13,355,182
Reversals (see Note 30)	-	(152,955,420)	-	(152,955,420)
Payments	(91,888,750)	(79,419,449)	(6,737,051)	(178,045,250)
<b>At December 31, 2016</b>	<b>₱433,461,386</b>	<b>₱-</b>	<b>₱319,647,732</b>	<b>₱753,109,118</b>



	Heavy Maintenance	Contingent Liability	Others	Total
At December 31, 2016:				
Current	228,915,410	–	305,807,550	534,722,960
Noncurrent	204,545,976	–	13,840,182	218,386,158
	<b>₱433,461,386</b>	<b>₱–</b>	<b>₱319,647,732</b>	<b>₱753,109,118</b>
At December 31, 2015:				
Current	₱105,000,000	₱–	₱84,818,146	₱189,818,146
Noncurrent	249,449,358	232,374,869	13,840,182	495,664,409
	<b>₱354,449,358</b>	<b>₱232,374,869</b>	<b>₱98,658,328</b>	<b>₱685,482,555</b>

*Provision for heavy maintenance.* Provision for heavy maintenance pertains to the present value of the estimated contractual obligations of the Company to maintain the service concession assets to a specified level of serviceability during the concession term and to restore the same assets in good condition prior to turnover of the assets to the Grantor. The amount of provision is reduced by the actual obligations paid for heavy maintenance of the service concession assets.

*Contingent liability.* A contingent liability at a fair value of ₱1,100.1 million was initially recognized at the acquisition date of CIC resulting from probable claim from a third party. As at December 31, 2015, the contingent liability amounted to ₱232.4 million. The contingent liability in 2016 and 2015 is net of portions that have been settled, reversed and/or have expired (see Note 30). No further disclosures regarding the contingent liability arising from the probable claim is being made by the Company at this time since the Company believes that such disclosures might be expected to be seriously prejudicial to the position of the Company.

*Other provisions.* These consist of estimated liabilities for losses on claims by a third party. The information usually required by PAS 37 is not disclosed as it may prejudice the Company's negotiation with the third party.

## 19. Long-term Debt

This account consists of borrowings of MPTC, MPTDC, NLEX Corp., CIC and AIF:

	2016	2015
Peso-denominated Notes, Loans and Bonds:		
Term Loan Facilities	<b>₱12,171,250,000</b>	₱10,252,500,000
Series A Notes	<b>4,949,719,307</b>	5,961,821,615
Rizal Commercial Banking Corporation and BDO Unibank, Inc. (RCBC/BDO) Loan	<b>5,679,599,242</b>	5,838,461,583
Fixed-rate Bonds	<b>6,957,430,000</b>	6,957,430,000
	<b>29,757,998,549</b>	29,010,213,198
Dollar-denominated Notes:		
Series 2010-1 Notes	<b>657,674,740</b>	737,216,736
Term Loan Facility	<b>2,089,704,247</b>	–
	<b>32,505,377,536</b>	29,747,429,934
Less unamortized debt issue costs	<b>149,113,157</b>	173,174,134
	<b>32,356,264,379</b>	29,574,255,800
Less current portion of long-term debt - net of unamortized debt issue costs of ₱27,337,004 in 2016 and ₱22,099,551 in 2015	<b>1,047,265,879</b>	1,332,218,999
	<b>₱31,308,998,500</b>	<b>₱28,242,036,801</b>





The unamortized debt issue costs incurred in connection with the availment of long-term debt amounting to ₱149.1 million and ₱173.2 million as at December 31, 2016 and 2015, respectively, were deducted against the long-term debt. The movements in debt issue costs are as follows:

	<b>2016</b>	2015
Balance at beginning of year	<b>₱173,174,134</b>	₱188,652,837
Amortization during the year* (see Note 29)	<b>(35,949,785)</b>	(41,734,679)
Debt issue costs incurred during the year	<b>11,888,808</b>	26,255,976
Balance at end of year	<b>₱149,113,157</b>	₱173,174,134

*\*Includes amortization of debt issue costs capitalized to service concession assets amounting to ₱12,158,913 and ₱9,322,837 in 2016 and 2015, respectively.*

## **MPTC**

### Bridge Loan Facility

On February 24, 2015, MPTC entered into a Bridge Loan Facility Agreement (“Bridge Loan”) with BDO for a ₱2.1 billion loan for the purpose of financing its investment in CII B&R. The bridge loan is payable upon maturity which is six months from the initial drawdown date.

The bridge loan is subject to an interest rate of 4.5% payable monthly. Interest from the bridge loan charged to operations amounted to ₱26.2 million in 2015. On May 26, 2015, MPTC settled its bridge loan.

### Term Loan Facility

On May 22, 2015, MPTC entered into Term Loan Facility Agreement with BDO for a ₱2.1 billion loan for the purpose of refinancing its ₱2.1 billion Bridge Loan previously entered into by MPTC. The loan is payable semi-annually, up to a maximum term of 10 years from initial drawdown date.

The loan is subject to interest rate of the higher of (i) 5-year PDST-R2 rate on the drawdown date plus a margin of 1.5% per annum; and (ii) 5.125% per annum, which will be repriced after 5 years from drawdown date. On the repricing date, an interest rate review shall be undertaken and the applicable interest rate shall be adjusted to a rate equal to the higher of (i) 5.125% per annum; and (ii) 5-year PDST-R2 rate on the repricing date plus a margin of 1.5% per annum. The interest shall be payable semi-annually.

The Term Loan Facility Agreement provides, among others, that for as long as the loan remains outstanding, MPTC is subject to certain affirmative and negative covenants requiring prior approval of the creditors for specified corporate acts. In addition, MPTC is required to maintain certain financial ratios. Under the Term Loan Facility Agreement, MPTC shall provide collateral security which consists of debt service payment and reserve accounts.

### Compliance with Loan Covenants

As at December 31, 2016 and 2015, MPTC is in compliance with the required financial ratios and other loan covenants.



## **MPTDC**

### Term Loan Facility

On January 9, 2014, MPTDC entered into Term Loan Facility Agreement with BDO for a ₱3.25 billion loan for the purpose of financing its acquisition of 8.5% of the total issued and outstanding capital stock of NLEX Corp. from Egis Projects SA (EPSA) and for other corporate purposes. The loan is payable semi-annually, up to a maximum term of ten (10) years from initial drawdown date.

The loan is subject to interest rate of the higher of (i) 5-year PDST Fixing (PDST-F) rate on the drawdown date plus a margin of 1.75% per annum; and (ii) 5.5% per annum, which will be repriced after 5 years from drawdown date. On the repricing date, an interest rate review shall be undertaken and the applicable interest rate shall be adjusted to a rate equal to the higher of (i) 5.5% per annum; and (ii) 5-year PDST-F rate on the repricing date plus a margin of 1.75% per annum. The interest shall be payable semi-annually.

The Term Loan Facility Agreement provides, among others, that for as long as the loan remains outstanding, MPTDC is subject to certain negative covenants requiring prior approval of the creditors for specified corporate acts. In addition, MPTDC is required to maintain certain financial ratios. Under the Term Loan Facility Agreement, MPTDC shall provide collateral security which consist of debt service reserve and payment accounts.

### Compliance with Loan Covenants

As at December 31, 2016 and 2015, MPTDC is in compliance with the required financial ratios and other loan covenants.

## **NLEX Corp.**

### Series A Notes

On April 15, 2011, NLEX Corp. entered into a Corporate Notes Facility Agreement with various local financial institutions for fixed-rate unsecured notes amounting to ₱6.2 billion, with tenors ranging from 5 years, 7 years and 10 years (“Series A Notes”). Weighted average fixed interest rate on the Series A Notes is 7.22% per annum. Debt issue costs incurred in the availment of the Series A Notes amounted to ₱141.9 million in 2011.

### Term Loan Facilities

*The Insular Life Assurance Company, Ltd. (Insular) and the Philippine American Life and General Insurance Company (Philam).* On December 12, 2011, NLEX Corp. entered into a Term Loan Facility Agreement for a ₱1.0 billion fixed-rate term loan facility from Insular and Philam. The loan facility has a final maturity date of 15 years, with two bullet repayment tranches of ₱500.0 million each after 10 years and 15 years from availment date. Average fixed rate on the loan facility is 7.10% per annum. Debt issue cost incurred in the availment of the fixed-rate term loans amounted to ₱8.1 million.

On November 20, 2015, NLEX Corp. issued a notice of prepayment effective on December 15, 2015 for the loans availed from Insular and Philam, amounting to ₱500.0 million each. The prepayment penalty amounting to ₱30.0 million was recognized as part of “Interest expense and other finance costs” (see Note 29).



*Sun Life of Canada (Philippines) Inc. (Sun Life).* On October 8, 2013, NLEX Corp. entered into a Term Loan Facility Agreement with Sun Life Inc. for a fixed-rate loan amounting to ₱800.0 million payable in lump sum after 10 years. The fixed interest rate on the loan is 5.30% per annum. Debt issue costs incurred in the availment of the loan amounted to ₱6.5 million.

*Insular.* On November 26, 2013, NLEX Corp. entered into Term Loan Facility Agreement with Insular for a ₱200.0 million fixed-rate loan payable in lump sum after 10 years. The fixed interest rate on the loan is 5.03% per annum. Debt issue costs incurred in the availment of the loan amounted to ₱1.6 million.

*Philam.* On December 5, 2013, NLEX Corp. entered into a Term Loan Facility Agreement with Philam for a ₱1.0 billion fixed-rate loan payable in lump sum after 15 years. The fixed interest rate on the loan is 5.80% per annum. Debt issue costs incurred in the availment of the loan amounted to ₱8.2 million.

The loans availed from Sun Life, Insular and Philam in 2013 are intended to partially finance the Phase II expansion projects of NLEX Corp.

*PNB.* On December 4, 2015, NLEX Corp. entered into a new ten-year term loan facility agreement for a facility amount of ₱5.0 billion with PNB to finance capital expenditure projects such as the NLEX Lane Widening Project, NLEX-SCTEX Integration Project and the upgrade of the SCTEX. On December 10, 2015, NLEX Corp. made its initial drawdown amounting to ₱3.0 billion. The undrawn amount will be available for drawing until December 4, 2017. The maturity date of the loan is on December 10, 2025. Debt issue costs incurred on the initial drawdown amounted to ₱15.0 million.

The applicable interest rate for each drawdown made until repricing date (which is December 15, 2020) shall be the higher of (i) 5-year PDST-R2 rate on the drawdown date plus a 1.0% per annum; and (ii) 5.0% per annum, which will be repriced after 5 years from drawdown date. On the date immediately after the repricing date and until termination, the applicable interest rate shall be the higher of (i) 5-year PDST-R2 rate plus a 1.0% per annum; and (ii) weighted average of the applicable interest rate for each drawdown. The interest shall be payable semi-annually.

*Unionbank of the Philippines (Unionbank).* On January 29, 2016, NLEX Corp. entered into a new ten-year term loan facility agreement with Unionbank for a facility amount of ₱5.0 billion to finance capital expenditures which include Segment 10 and its exit ramps and the NLEX-SLEX Connector Road. On February 3, 2016 and December 29, 2016, NLEX Corp. made its initial and second drawdown amounting to ₱1.0 billion each. The undrawn amount will be available for drawing in one (1) or more availments on any banking day within one (1) year from July 24, 2015 with an extension period up to July 24, 2017, or such longer period as the parties may agree upon in writing. Total debt issue costs incurred on the initial and second drawdown amounted to ₱11.0 million.

The applicable interest rate for the loan shall be 130 basis points plus the prevailing 10 year PDST-R2, provided that the applicable interest rate shall not be lower than 5% per annum. Interest payment shall be made quarterly until maturity date of February 3, 2026.



#### Fixed-rate Bonds

On March 31, 2014, NLEX Corp. issued ₱4.4 billion principal amount of fixed-rate bonds with terms of seven years at 5.07% per annum and ₱2.6 billion principal amount of bonds with terms of ten years at 5.50% per annum, for public distribution and sale in the Philippines. Interest payments are payable quarterly in arrears on March 31, June 30, September 30 and December 31 starting on June 30, 2014. Total debt issue costs incurred amounted to ₱76.0 million.

The bonds will be payable with bullet payment at the end of 7-year/10-year maturity periods. The proceeds will be used by NLEX Corp. to partially fund the construction cost of Segment 10, portion of Phase II of NLEX, which will connect the MacArthur Highway in Valenzuela City to C-3 Road in Caloocan City.

#### Compliance with Loan Covenants

As at December 31, 2016 and 2015, NLEX Corp. is in compliance with the required financial ratios and other loan covenants. NLEX Corp.'s long-term debts are unsecured as at December 31, 2016 and 2015.

#### **CIC and Subsidiaries**

##### RCBC/BDO Loan

On December 16, 2013, CIC entered into an Amended and Restated Omnibus Agreement with Cavite Finance Corporation (CFC), Goldbow Investments Ltd. (Goldbow), RCBC Capital Corporation, BDO Capital and Investments Corporation, BDO and RCBC for a ₱6.1 billion loan for the main purpose of refinancing CIC's existing loan and other obligations under the Omnibus Agreement previously entered into by CIC in April 2012. The loan is subject to quarterly principal amortizations starting from January 13, 2014 to December 26, 2023. Interest rate (a) during the period from December 26, 2013 to December 26, 2018 shall be 6.5% per annum, and (b) during the period from December 26, 2018 until December 26, 2023, the rate per annum shall be the higher of (i) the 5-year PDST-F on December 26, 2018 plus 3.0% margin and (ii) the minimum interest rate of 6.25%.

Under the Amended and Restated Omnibus Agreement, CIC shall provide collateral security, which shall consist of the mortgage on CIC's investment in 40,000 preferred shares of CFC, pledge of the Series 2012-1 bonds held by CFC, assignment of the revenue and debt service reserve accounts and pledge of the 5,000 ordinary voting shares of CFC held and owned by Goldbow.

The agreement covering the loan provides, among others, that for as long as the loans remain outstanding, CIC is subject to certain negative covenants requiring prior approval of the creditors for specified corporate acts. In addition, except as otherwise disclosed in the Disclosure Letter, CIC is required to maintain certain financial ratios.

On December 16, 2013, CIC issued a Disclosure Letter to RCBC/BDO indicating the disclosures and exceptions to the amended and restated representations and warranties, covenants, and events of default under the Amended and Restated Omnibus Agreement, which includes the exemption on the required financial ratios as at December 31, 2014 and 2013. Further, on December 29, 2015, CIC issued a supplemental disclosures and exceptions to the amendment and restated representations and warranties, covenants and events of defaults under the Amended and Restated Omnibus Agreement dated December 16, 2013 which includes the exemption on the required financial ratios as at December 31, 2015.



Further, on December 29, 2016, CIC issued a supplemental disclosures and exceptions to the amendment and restated representations and warranties, covenants and events of defaults under the Amended and Restated Omnibus Agreement dated December 16, 2013 which includes the exemption on the required financial ratios as at December 31, 2016.

#### Series 2010-1 Notes

This Series 2010-1 Notes was issued by the SPE of CIC on August 27, 2010. The terms of the Series 2010-1 Notes are as follows:

- The principal amount is US\$160.0 million with a coupon rate of 12.0%. Interest on the Series 2010-1 Notes shall be payable quarterly in arrears, on the 15th day of each March, June, September and December.
- Principal payments shall be made quarterly in accordance with the amortization schedule for the Series 2010-1 Notes, commencing on the March 2013 payment date. Unless redeemed, repurchased or amortized prior thereto, the final payment on the Series 2010-1 Notes is expected to be made on the September 2022 payment date.
- The Series 2010-1 Notes is subject to mandatory redemption upon the occurrence of any of the repurchase events at the redemption price of the sum in US dollars of (a) the Principal Balance of such Series 2010-1 Notes, (b) all accrued and unpaid interest on such Series 2010-1 Notes (if any) on such redeemed principal amount to but excluding the date set for redemption (the Redemption Date), (c) all unpaid Additional Amounts with respect to such Series 2010-1 Notes.

The Series 2010-1 Notes shall also be subject to redemption if (i) CIC or CHI undergoes a change in control and (ii) such change in control results in a withdrawal or downgrade of a rating.

The Series 2010-1 Notes can also be redeemed upon instruction by CIC to the SPE, in whole or in part, at a price equal to the Series 2010-1 Redemption Price which is equal to the sum of (a) the Principal Balance of the Notes (b) all accrued and unpaid interest (c) all unpaid Additional Amounts with respect to the Series 2010-1 Notes and (d) the Series 2010-1 Make Whole Premium. Any redemption of less than the full Principal Balance of the Series 2010-1 Notes will be applied to each remaining Series 2010-1 scheduled principal amount, on a pro-rata basis, and the Series 2010-1 Make Whole Premium will be applied after taking this into consideration.

- Pursuant to the issuance of the Series 2010-1 Notes, the SPE, CIC and the Indenture Trustee appointed by the SPE entered into an Indenture Supplement Agreement wherein the Indenture Trustee established a collections account to where the tolls collections shall be deposited. The Indenture Trustee shall have the sole and exclusive dominion and control and sole and exclusive right of withdrawal over the collections account. The amounts deposited to the collections account shall be allocated according to payment priorities set forth as the Collections Account Waterfall or the Priority of Payments. The Priority of Payments includes fees and expenses of the Indenture Trustee, fees and expenses of the Servicer and deposits into the O&M Account and the Major Maintenance and Reserve Account. The Collections Account Waterfall involve the establishment of several sub-accounts namely the Operations and Maintenance Account, Major Maintenance Reserve Account, Cash Trapping Event Reserve Account, Construction Cost Account, Coverage Reserve Account and Series 2010-1 Debt Service Reserve Account, collectively referred to as the “Transaction Accounts”.



- Upon the event of default by the SPE on the Series 2010-1 Notes, the outstanding amount of the Series 2010-1 Notes (including accrued interest) will be payable by CIC.

*Securities for the Series 2010-1 Notes*

The Series 2010-1 Notes will be secured by the following:

- a. Pledge over all Transaction Accounts.
- b. Concession collections under the concession agreements and all other agreements to the extent relating to the R-1 Expressway and R-1 Expressway Extension portion of the toll road.
- c. Pledge of the shares of CIC as owned by CHI.

Compliance with Loan Covenants

As at December 31, 2016 and 2015, CIC is in compliance with its loan covenants.

**AIF**

Term Loan Facility

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

Compliance with Loan Covenants

All dividend proceeds in respect of the investment in DMT shall be applied to repay this loan. The loan agreement also contains, among others, covenants regarding the maintenance of certain financial ratios such as (1) debt-to-equity ratio and Debt Service Coverage Ratio (DSCR), maintenance of ownership in DMT of at least 29.45%, and maintenance of debt-service reserve account. AIF is in compliance with its debt covenants as at December 31, 2016 and 2015.

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**20. Service Concession Fees Payable**

The movements in the service concession fees payable are as follows:

	CALAX	NLEX-SLEX Connector Road	Total
At January 1, 2015	₱-	₱-	₱-
Additions	14,954,698,635	-	14,954,698,635
Accretion	399,521,092	-	399,521,092
At December 31, 2015	15,354,219,727	-	15,354,219,727
Additions	-	2,318,800,856	2,318,800,856
Accretion	860,465,405	17,115,373	877,580,778
<b>At December 31, 2016</b>	<b>₱16,214,685,132</b>	<b>₱2,335,916,229</b>	<b>₱18,550,601,361</b>



CALAX

As discussed in Note 2, MHI will pay DPWH a total bid premium for the CALAX amounting to ₱27.3 billion. On July 10, 2015, MHI paid DPWH an upfront fee of ₱5.5 billion representing 20% of the concession fee. The remaining concession fee amounting to ₱21.8 billion is payable on installment basis at the rate of 16% annually beginning on the fifth year from the contract signing date (July 10, 2015) up to the ninth year from the contract signing date of the Concession Agreement.

The service concession fees payable is based on the discounted value of future cash flows using the prevailing peso interest rates on July 10, 2015.

The schedule of undiscounted estimated future service concession fees payments, based on the Concession Agreement as at December 31, 2016, is as follows:

Year	Amount
2020	₱4,368,000,000
2021	4,368,000,000
2022	4,368,000,000
2023	4,368,000,000
2024	4,368,000,000
	₱21,840,000,000

NLEX-SLEX Connector Road

As discussed in Note 2, NLEX Corp. shall pay DPWH periodic payments in consideration for the grant of the basic right of way. The periodic payments are computed using the rate of four percent (4%) per annum applied to the agreed valuation of such portion of the basic right of way assigned for the use by the NLEX-SLEX Connector Road. The payment will commence on the first anniversary of the construction completion deadline, as extended, until the expiry of the concession period and will be subject to an agreed escalation every two years based on the prevailing CPI for the two-year period immediately preceding the adjustment or escalation.

The service concession fees payable is based on the discounted value of future fixed cash flows using the prevailing peso interest rates on November 23, 2016.

The undiscounted estimated future periodic payments, excluding the effect of the CPI, is ₱8,510.4 billion.

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**21. Related Party Disclosures**

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.



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

Name	Relationship		Management Fees (see Note 30)	Income from Utility Facilities (see Note 23)	Income from Advertising (see Note 23)	Operator's Fee (see Note 24)	Repairs and Maintenance (see Note 24)	Communication, Light and Water (see Notes 24 and 25)	Outside Services (see Note 24)	Rentals (see Note 25)
TMC	Associate	<b>2016</b>	<b>₱56,252,346</b>	<b>₱-</b>	<b>₱-</b>	<b>₱2,001,498,970</b>	<b>₱6,234,952</b>	<b>₱-</b>	<b>₱787,437</b>	<b>₱-</b>
		2015	56,252,346	-	-	1,741,674,430	5,524,377	-	2,741,250	-
ESC	Joint Venture	<b>2016</b>	-	-	<b>920,000</b>	-	-	-	<b>67,861,426</b>	-
		2015	-	-	60,000	-	-	-	71,347,727	-
SMART Communications, Inc. (SMART)	Associate of FPC	<b>2016</b>	-	<b>357,756</b>	<b>43,480,000</b>	-	-	-	-	-
		2015	-	342,350	72,850,000	-	-	-	-	-
PLDT	Associate of FPC	<b>2016</b>	-	<b>6,628,069</b>	<b>1,009,000</b>	-	<b>610,801</b>	-	-	<b>1,552,234</b>
		2015	-	2,423,099	-	-	-	-	-	1,913,098
Digitel Mobile Philippines, Inc. (Digitel)	Associate of FPC	<b>2016</b>	-	-	-	-	-	-	-	-
		2015	-	-	7,579,000	-	-	-	-	-
Meralco	Associate of MPIC	<b>2016</b>	-	-	-	-	-	<b>5,975,142</b>	-	-
		2015	-	-	-	-	-	-	-	-
Total		<b>2016</b>	<b>₱56,252,346</b>	<b>₱6,985,825</b>	<b>₱45,409,000</b>	<b>₱2,001,498,970</b>	<b>₱6,845,753</b>	<b>₱5,975,142</b>	<b>₱68,648,863</b>	<b>₱1,552,234</b>
		2015	56,252,346	2,765,449	80,489,000	1,741,674,430	5,524,377	-	74,088,977	1,913,098





Outstanding balances of receivables from/payables to related parties are carried in the consolidated balance sheets under the following accounts:

Name	Relationship		Receivables (see Note 8)	Advances to Contractors and Consultants (see Note 9)	Accounts payable and other current liabilities <sup>(1)</sup> (see Note 17)	Due from Related Parties <sup>(2)</sup>	Due to Related Parties	Terms	Conditions
MPIC	Parent Company	<b>2016</b>	<b>₱–</b>	<b>₱–</b>	<b>₱–</b>	<b>₱2,061,896</b>	<b>₱1,424,758</b>	On demand; noninterest-bearing	Unsecured; no impairment
		2015	–	–	–	2,061,896	1,425,259		
TMC	Associate	<b>2016</b>	<b>43,010</b>	<b>58,000</b>	<b>337,023,444</b>	<b>37,640,700</b>	–	(1) 30-45 days; noninterest-bearing (2) On demand; noninterest-bearing	Unsecured; with allowance for doubtful account of ₱21.5 million
		2015	25,455	58,000	482,235,549	110,270,510	–		
ESC	Joint Venture	<b>2016</b>	<b>246,967,216</b>	–	<b>92,637,081</b>	<b>107,171</b>	–	(1) 7 days; noninterest-bearing (2) On demand; noninterest-bearing	Unsecured; no impairment
		2015	228,352,174	–	62,173,873	107,171	–		
PLDT	Associate of FPC	<b>2016</b>	<b>7,057,761</b>	–	<b>445,162</b>	–	–	30-45 days; noninterest-bearing	Unsecured; no impairment
		2015	892,697	–	538,011	–	–		
SMART	Associate of FPC	<b>2016</b>	<b>44,949,254</b>	–	<b>131,972</b>	–	–	30-45 days; noninterest-bearing	Unsecured; no impairment
		2015	24,727,200	–	128,697	–	–		
Digitel	Associate of FPC	<b>2016</b>	<b>5,107,200</b>	–	<b>2,781</b>	–	–	30-45 days; noninterest-bearing	Unsecured; no impairment
		2015	8,286,880	–	–	–	–		
Indra Philippines, Inc. (Indra)	Associate of MPIC	<b>2016</b>	–	<b>493,728</b>	<b>19,776,883</b>	–	–	Within one year; noninterest-bearing	Unsecured; no impairment
		2015	–	425,045	18,010,626	–	–		
Meralco	Associate of MPIC	<b>2016</b>	–	<b>6,727,892</b>	–	–	–	Within one year; noninterest-bearing	Unsecured; no impairment
		2015	–	–	–	–	–		
Maynilad	Associate of MPIC	<b>2016</b>	–	–	–	<b>231,434</b>	–	On demand; noninterest-bearing	Unsecured; no impairment
		2015	–	–	–	–	–		
Others	Other Related Party	<b>2016</b>	–	–	–	–	<b>3,655,238</b>	On demand; noninterest-bearing	Unsecured
		2015	–	–	–	–	3,655,238		
Total		<b>2016</b>	<b>₱304,124,441</b>	<b>₱7,279,620</b>	<b>₱450,017,323</b>	<b>₱40,041,201</b>	<b>₱5,079,996</b>		
		2015	262,284,406	483,045	563,086,756	112,439,577	5,080,497		



Settlement of outstanding balances at year-end occurs in cash for the outstanding receivables from/payables to related parties, while advances to contractors and consultants will be applied to future services rendered.

#### Transactions with Stockholders

- In 2016 and 2015, MPIC billed MPTC for various operating expenses paid in behalf of MPTC.
- In 2016 and 2015, MPTDC billed MPIC for certain expenses paid in behalf of MPIC.

#### Transactions with an Associate

##### *O&M of NLEX*

- TMC provides services to NLEX Corp. as operator to the existing NLEX and Segment 7 under the O&M Agreement entered into by NLEX Corp. and TMC on July 6, 2001. The O&M Agreement contains the terms and conditions for the O&M by TMC of existing NLEX and subsequently, of Segment 7, and sets forth the scope of its services. Under the O&M Agreement, NLEX Corp. pays TMC a minimum fixed annual amount of ₱605.4 million for the existing NLEX and ₱38.8 million for Segment 7, to be escalated on a quarterly basis plus a variable component, which took effect upon start of commercial operations. The O&M Agreement, which also provides for certain bonuses and penalties as described in the O&M Agreement, shall be effective for the entire concession term.
- On May 27, 2010, pursuant to the O&M Agreement and the TRB's approval to integrate the operations period of Phase I and Segment 8.1, portion of Phase II of the NLEX, and to extend the concession term, NLEX Corp. and TMC agreed to extend the O&M Agreement to cover Segment 8.1 from June 1, 2010 until December 31, 2037. Consequently, NLEX Corp. agreed to pay TMC an annual base fee for the O&M of Segment 8.1 in the amount of ₱33.6 million effective in June 2010.
- On December 10, 2012, pursuant to the O&M Agreement and the TRB's approval to open and operate the Balagtas Interchange as an integral part of Phase I of the NLEX, NLEX Corp. and TMC agreed that the scope of the O&M Agreement shall correspondingly cover the Balagtas Interchange from June 25, 2012 until December 31, 2037. Consequently, NLEX Corp. agreed to pay TMC an annual base fee for the O&M of the Balagtas Interchange in the amount of ₱15.6 million effective in 2012. On July 6, 2015, NLEX Corp. and TMC agreed to reduce the base fee for Balagtas Interchange from ₱15.6 million to ₱13.7 million to take into account the reduction in operational and maintenance costs of the Sta. Rita Interchange. The Balagtas Interchange is a 1.5 km-stretch connecting Plaridel to NLEX.
- In 2012, NLEX Corp. also added the new Bocaue Interchange Northbound Exit to the scope of TMC's operations and maintenance contract at the proposed annual fee of ₱7.7 million. On June 22, 2015, pursuant to the O&M Agreement, NLEX Corp. gave a formal notice to TMC that the scope of the O&M Agreement shall correspondingly cover the Bocaue Interchange Northbound Exit from July 29, 2012 until December 31, 2037. Consequently, NLEX Corp. agreed to pay TMC an annual base fee of ₱7.7 million. It has been further agreed that the base fee may be escalated after the lapse of one (1) year from July 2012.



- In 2014, in view of the latest publication of the National Statistics Office (NSO) for CPI values issued in July 2011, with different commodity grouping compared with those stipulated in the O&M Agreement, NLEX Corp. and TMC agreed to amend the base fee, effective January 9, 2012 as follows:
  - ₱1,312.6 million for the existing NLEX;
  - ₱84.2 million for Segment 7;
  - ₱6.9 million for Dau Interchange; and
  - ₱32.9 million for Segment 8.1.

All compensations payable to TMC shall be escalated in accordance with the O&M Agreement with a new Base Date of January 1, 2012. NLEX Corp. and TMC further agree that in order to reflect the new commodity grouping for the indices published by the NSO in July 2011, the definition of CPI in the O&M Agreement was likewise amended.

- On March 15, 2015, NLEX Corp. engaged TMC to operate and maintain Segment 9, portion of Phase II of NLEX, for a proposed annual fee of ₱31.6 million (inclusive of VAT) until December 31, 2037. On May 13, 2016, pursuant to the O&M and TRB's letter dated March 18, 2015, giving NLEX Corp. the authority to operate and maintain Segment 9, NLEX Corp. gave a notice to TMC that the scope of O&M shall correspondingly cover Segment 9, from March 19, 2015 until December 31, 2037. Consequently, NLEX Corp. agreed to pay TMC an annual base fee of ₱31.6 million (inclusive of VAT). NLEX Corp. and TMC further agreed that the Segment 9 base fee may be escalated after the lapse of one (1) year from March 19, 2015.

#### *O&M of SCTEX*

- On May 27, 2015, in view of the turn-over of the management, O&M of the SCTEX to NLEX Corp. by the BCDA (see Note 2), NLEX Corp. and TMC entered into a letter-agreement where TMC was designated to operate and maintain the SCTEX under the existing O&M Agreement dated July 6, 2001 for a compensation computed based on a cost plus margin, which compensation shall not exceed ₱26.3 million per month (inclusive of VAT). TMC commenced the O&M of the SCTEX on October 27, 2015.

#### *Management Services to TMC*

- MPTC and MPTDC perform management, operational and financial advisory services for TMC. MPTC and MPTDC are in the process of formalizing their management agreements with TMC as at February 20, 2017.

#### Transactions with a Joint Venture

#### *ESC*

#### *NLEX*

- On December 5, 2007, NLEX Corp. engaged the services of ESC to assist NLEX Corp. in increasing the usage of the ETC facility along the NLEX which ended on April 30, 2010. On November 24, 2010, NLEX Corp. and ESC signed the Supplemental Agreement to the Service Agreement extending the services of ESC as ETC service provider for another eight years effective on May 1, 2010 with a five year extension. In accordance with the Supplemental Agreement, NLEX Corp. will pay ESC an annual fixed fee of ₱14.0 million for Class 1 vehicles and annual fixed fee of ₱5.0 million for Class 2 and 3 vehicles, which are to be maintained and escalated every year for labor index and CPI. NLEX Corp. shall also pay for variable fees of ₱0.75 or ₱2.50 per transaction for Class 1 vehicles depending on the number of transactions achieved during the year compared with prior year; and ₱3.0 and ₱4.0 per



transactions for Class 2 and 3, respectively, which are also to be maintained and escalated every year for labor index and CPI.

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

#### *CAVITEX*

- On July 15, 2014, CIC executed a Service Agreement, engaging the services of ESC to exclusively promote and distribute radio frequency identification (RFID) sticker tags to CAVITEX users as well as the account management services for all ETC customers. The said agreement is for five years effective on September 1, 2014 and with five year extension. In accordance with the Service Agreement, CIC will pay ESC an annual fixed fee of ₱6.3 million, which is to be escalated every year for labor index and CPI. CIC shall also pay for variable fees of ₱1.0, ₱3.5 and ₱4.6 per transaction for Class 1, Class 2 and Class 3 vehicles, which are also to be escalated every year for labor index and CPI.

#### Transactions with Other Related Parties

##### *Indra*

- On June 14, 2013, NLEX Corp. entered into a Contract Agreement with Egis Projects Philippines, Inc. (EPPI) and Indra Consortium for the design, supply, installation, testing and commissioning of the FOE for Segment 9 of Phase II of NLEX. The total contract price of €1.3 million (₱77.5 million) shall be fixed lump sum, inclusive of VAT. Segment 9 has been substantially completed and has started tollway operation on March 19, 2015.
- On May 8, 2015, NLEX Corp. entered into a Contract Agreement with EPPI and Indra Consortium for the design, supply, installation, testing and commissioning of the FOE for Segment 10, part of Phase II of the NLEX. The total contract amount is €1.8 million (₱92.7 million), inclusive of VAT. The target completion of the works shall be within 2 years from contract date.
- On August 7, 2015, NLEX Corp. issued a letter of acceptance to EPPI and Indra Consortium relating to the revised proposal dated August 3, 2015 for the design, supply, installation, testing and commissioning of the FOE for the NLEX-SCTEX integration project. The revised contract price amounted to €10.2 million (₱507.2 million). The project was completed on March 15, 2016.

##### *PLDT, SMART and Digitel*

- On November 1, 2010, MPTC entered into a lease agreement with PLDT covering certain office units and parking spaces for a period of five years from November 1, 2010 to October 31, 2015 for a monthly payment of ₱0.1 million, subject to annual escalation of 5.0%. The lease agreement may be terminated at the option of the parties.



On November 1, 2015, a new lease agreement was executed between MPTC and PLDT covering certain office units and parking spaces for a period of five years from November 1, 2015 to October 31, 2020 for a monthly payment of ₱0.2 million, subject to annual escalation of 5.0%. The lease agreement may be terminated at the option of the parties.

Future minimum operating lease payments are as follows:

<u>Period Covered</u>	<u>2016</u>	<u>2015</u>
Not later than one year	<b>₱2,484,013</b>	₱1,880,201
More than one year and not later than five years	<b>8,205,782</b>	7,259,691

- On March 17, 2010, NLEX Corp. and PLDT entered into an agreement with respect to the commercial aspect of the Utility Facilities Contract for the Fiber Optic Overlay along Phase I of the NLEX, the contract of which was signed on February 18, 2013. Pursuant to the agreement, PLDT shall pay NLEX Corp. an annual fee of ₱1.3 million starting in the year 2010 which shall then be escalated annually by 9.0% on the succeeding years. The contract shall be effective for a period of 20 years from April 15, 2010 and may be renewed or extended upon mutual agreement by NLEX Corp. and PLDT.
- On January 5, 2011, NLEX Corp. and SMART (a subsidiary of PLDT) signed a Utility Facilities Contract where NLEX Corp. provides SMART an access for the construction, O&M of a cell site inside the NLEX right of way for an annual fee of ₱0.3 million which shall then be escalated annually to 4.5% starting on the fourth year of the contract and every year thereafter. The contract is effective from April 26, 2010 for a period of five years which may be renewed or extended upon mutual agreement by NLEX Corp. and SMART.

On September 19, 2016, NLEX Corp. and Smart renewed its Utility Facilities Contract. The renewed contract shall be for a period of 5 years from April 27, 2015 to April 26, 2020. The annual fee shall be ₱0.3 million which shall be subject to 4.5% increase annually starting at the second year of the new contract period.

- On March 26, 2012, NLEX Corp. and SMART agreed on the terms of the grant to SMART of exclusive rights to name the NLEX-Mindanao Avenue Cloverleaf as a SMART Connect Interchange and put up outdoor advertising structures near the interchange. The annual package is based on a predetermined timetable of when the official road signs are progressively built. The base price is from ₱175.0 million to ₱228.2 million and may increase depending on the final features and characteristics of the cloverleaf. This agreement shall take effect from April 1, 2012 until April 30, 2017, unless pre-terminated or renewed by mutual written agreement of the parties.
- In 2016 and 2015, NLEX Corp. entered into advertising arrangements with SMART and Digitel (subsidiaries of PLDT) related to various advertising mediums which include rental, material production, installation and maintenance at several locations along NLEX. In 2015, the advertising arrangement with Digitel has ended.

#### ***Meralco***

- NLEX Corp. was billed by Meralco for its electric consumption in its head office; in Segment 9, portion of Phase II of NLEX and for its drainage system in Balintawak and Valenzuela.



- As at December 31, 2016, NLEX Corp. has advances to Meralco for its new electric line applications for Segment 9, portion of Phase II of NLEX, and Balintawak and Valenzuela drainage system. These advances are either refundable or consumable upon activation of the electric lines in Segment 9 and Balintawak and Valenzuela drainage system.

**Other Transactions**

- Compensation of key management personnel of the Company are as follows:

	2016	2015
Short-term employee benefits	<b>₱211,330,359</b>	₱206,087,752
Retirement costs (see Note 27)	<b>9,059,351</b>	25,575,240
ESOP expense (see Notes 26 and 27)	<b>1,244,843</b>	3,702,439
LTIP expense (see Note 27)	<b>121,468,533</b>	117,434,785
	<b>₱343,103,086</b>	₱352,800,216

- The Company acts as a surety or co-obligor with certain Company officers for the payment of valid corporate expenses through the use of corporate credit cards at specified approved amounts ranging from ₱0.04 million to ₱0.4 million.
- The Company paid its directors amounting to ₱2.9 million in 2016 and ₱1.0 million in 2015 recorded under “General and administrative expenses” account in the consolidated statement of income (see Note 25).
- Total advances to officers and employees amounted to ₱20.7 million and ₱10.2 million as at December 31, 2016 and 2015, respectively (see Note 8).
- In the normal course of business, the Company also grants and avails noninterest-bearing advances to/from subsidiaries, associates and other related parties.

**22. Equity**

Capital Stock

As at December 31, 2016 and 2015 the capital stock of the Parent Company consists of:

	2016	2015
Issued capital stock:		
Common shares	<b>₱5,946,150,937</b>	₱5,912,532,037
7% Preferred shares	<b>6,771,600,000</b>	6,771,600,000
	<b>12,717,750,937</b>	12,684,132,037
Subscribed capital stock	<b>495,690</b>	495,690
Less subscriptions receivable	<b>371,768</b>	371,768
	<b>123,922</b>	123,922
	<b>₱12,717,874,859</b>	₱12,684,255,959



Movements in shares of stock of the Parent Company are as follows:

	2016		2015	
	Number of Shares			
	Common Shares	Preferred Shares	Common Shares	Preferred Shares
Authorized - ₱100 par value:				
Balance at beginning of year	75,000,000	70,000,000	54,000,000	70,000,000
Increase during the year	–	–	21,000,000	–
Balance at end of year	75,000,000	70,000,000	75,000,000	70,000,000
Issued and outstanding:				
Balance at beginning of year	59,125,320	67,716,000	50,650,749	67,716,000
Issuance during the year	336,189	–	8,474,571	–
	59,461,509	67,716,000	59,125,320	67,716,000
Treasury shares	(870,202)	(67,716,000)	(870,202)	(67,716,000)
Balance at end of year	58,591,307	–	58,255,118	0
Subscribed	4,957	–	4,957	–

- a. On July 23, 2008, the BOD of the Parent Company made a call for the payment of unpaid subscriptions and stockholders were given until August 29, 2008 to fully pay their subscriptions. As at December 31, 2016 and 2015, the subscriptions were not yet paid in full.
- b. On October 23, 2015, the BOD of the Parent Company approved the following:
  - The increase in the authorized capital stock of the Parent Company from ₱12,400.0 million divided into (i) 54,000,000 common shares each with a par value of ₱100, and (ii) 70,000,000 voting, cumulative, non-convertible, redeemable and non-participating preferred shares each with a par value of ₱100, to up to ₱17,000.0 million divided into: (i) up to 100,000,000 common shares each with a par value of ₱100, and (ii) up to 70,000,000 voting, cumulative, non-convertible, redeemable and non-participating preferred shares each with a par value of ₱100 (the “Capital Increase”), including the corresponding amendment to the Seventh Article of the Amended Articles of Incorporation of the Parent Company reflecting the aforesaid Capital Increase.
  - The first tranche of the Capital Increase to be implemented by the Parent Company shall be from ₱12,400.0 million divided into (i) 54,000,000 common shares each with a par value of ₱100, and (ii) 70,000,000 voting, cumulative, non-convertible, redeemable and non-participating preferred shares each with a par value of ₱100, to ₱14,500.0 million divided into: (i) 75,000,000 common shares each with a par value of ₱100, and (ii) 70,000,000 voting, cumulative, non-convertible, redeemable and non-participating preferred shares each with a par value of ₱100.
  - The Parent Company to redeem all of its issued and outstanding redeemable preferred shares consisting of 67,716,000 preferred shares previously issued to MPIC at a redemption price equivalent to the issue value of the shares or ₱100 per share or an aggregate amount of ₱6,771.6 million.
  - The Parent Company to issue 3,224,571 new common shares to MPIC for cash in which shares shall be issued out of the unissued portion of the existing authorized capital stock of the Parent Company at an issue price of ₱2,100 per share or a total issue price of ₱6,771.6 million.



The above Capital Increase was approved by the stockholders of the Parent Company on November 4, 2015.

- c. On November 28, 2015, MPTC and MPIC entered into subscription agreements where MPIC offered to subscribe for an aggregate of 5,250,000 new common shares to be issued from the Capital Increase of MPTC for ₱2,100 per share or a total issue price of ₱11,025.0 million. MPTC will apply the aggregate value of the deposits for future stock subscription in the total amount of ₱7,600.0 million as partial payment on the total issue price upon approval by the SEC of the Capital Increase. The deposits for future stock subscription amounting to ₱700.0 million, ₱5,500.0 million, ₱1,300.0 million, ₱100.0 million and ₱800 were received by the Parent Company on March 5, July 8, September 7, October 30 and November 27, 2015, respectively.
- d. Pursuant to the subscription agreements between MPTC and MPIC, the Parent Company redeemed all its issued and outstanding preferred shares consisting of 67,716,000 preferred shares issued to MPIC at a redemption price of ₱100 per share. The entire amount of the redemption price was applied by MPTC as subscription payment by MPIC for 3,224,571 new common shares issued out of the existing authorized capital stock of MPTC at a subscription price of ₱2,100 per share or an aggregate subscription price of ₱6,771.6 million.

The SEC approved the first tranche of the Capital Increase on December 23, 2015. Following the approval by the SEC of the Parent Company's Capital Increase, the Parent Company issued the common shares to MPIC in December 2015.

- e. Features of the Preferred Shares follow:
  - The Preferred Shares shall have the full voting rights as common shares of the Parent Company.
  - Subject to and upon declaration by the Parent Company's BOD, the holders of Preferred shares shall be entitled to receive out of the unrestricted retained earnings of the Company, yearly cumulative dividends at 7% of the issue value of the Preferred Shares, before any dividends shall be set apart and paid to the holders of common shares. The holders of Preferred Shares shall not be entitled to participate with the holders of common shares in any further dividends payable by the Parent Company.
  - The Preferred Shares shall not be convertible to common shares or any stock of the Parent Company.
  - The Preferred Shares shall be redeemable at any time at the option of the Parent Company by paying the issue value of the Preferred Shares and all outstanding dividends due on the Preferred Shares at the time of redemption. Once redeemed, the Preferred Shares shall become treasury shares.
  - In the event of any dissolution, liquidation or winding up of the Parent Company, the holders of the Preferred Shares shall be entitled to be paid in full, or pro rata insofar as the assets and properties of the Parent Company will permit, the issue value of the Preferred Shares and any accrued but unpaid dividends, in respect of such Preferred Shares before any distribution shall be made to the holders of common shares. The holders of Preferred Shares shall not be entitled to any other distribution.





- f. On September 29, 2016, the Parent Company issued 229,460 new common shares to MPIC to be issued out of the unissued portion of the existing authorized capital stock at a subscription price of ₱2,100 per share or a total subscription price of ₱481.9 million.
- g. On December 5, 2016, the Parent Company issued 106,729 new common shares to MPIC to be issued out of the unissued portion of the existing authorized capital stock at a subscription price of ₱2,100 per share or a total subscription price of ₱224.1 million.

APIC

In 2015, the excess of consideration received over the par value on issuance of 8,474,571 common shares to MPIC amounted to ₱16,949.0 million.

In relation to the subscription agreement entered into by the Parent Company and MPIC on November 28, 2015, the Parent Company recognized a subscription receivable of ₱3,225.0 million from its redemption of the outstanding preferred shares issued to MPIC and application of the entire redemption price as subscription payment for the 3,224,571 new common shares of the Parent Company. The subscription receivable was deducted against APIC.

On March 31, 2016 and September 29, 2016, MPIC fully paid its remaining subscription receivable of ₱342.0 million and ₱2,883.0 million, respectively.

In 2016, the excess of consideration received over the par value on issuance of 336,189 common shares to MPIC amounted to ₱672.4 million.

The transaction cost on the issuance of the common shares amounting to ₱0.1 million in 2016 and ₱4.2 million in 2015 were deducted against APIC.

As at December 31, 2016 and 2015, APIC amounted to ₱17,583.3 million and ₱13,720.0 million, respectively.

Equity Adjustment on Reverse Acquisition

Equity adjustment on reverse acquisition resulted from the transaction involving the transfer of the then shareholders of MPTDC of all their shares in MPTDC (then FPIDC, regarded as the accounting acquirer) in exchange for the shares of MPTC (then First Philippine Infrastructure Inc. or FPPI, regarded as the legal acquirer and accounting acquiree), which was accounted for as a reverse acquisition in the consolidated financial statements of MPTC in 2007.

Cash Dividends

The Parent Company's BOD declared the following cash dividends to common stockholders in 2016 and 2015:

Declaration Date	Record Date	Payment Date	Cash Dividend per Share	Total
<b>February 18, 2016</b>	<b>March 4, 2016</b>	<b>April 1, 2016</b>	<b>₱11.24</b>	<b>₱637,000,000</b>
<b>July 29, 2016</b>	<b>August 12, 2016</b>	<b>September 9, 2016</b>	<b>13.55</b>	<b>789,123,872</b>
February 13, 2015	February 27, 2015	March 25, 2015	12.09	601,682,355
July 22, 2015	August 2, 2015	September 2, 2015	9.62	478,999,988

As at December 31, 2016 and 2015, the unpaid cash dividends to common stockholders of the Parent Company amounted to ₱3.2 million and ₱864.7 million, respectively.



On February 20, 2017, the Parent Company's BOD declared cash dividends of ₱13.15 per share or total amount of ₱770.7 million to common stockholders of record as at March 6, 2017 payable on or before March 30, 2017.

Cash dividends declared by NLEX Corp. and MSIHI to non-controlling stockholders in 2016 and 2015 amounted to ₱637.5 million and ₱655.6 million, respectively. In 2016 and 2015, NLEX Corp. and MSIHI paid cash dividends to non-controlling stockholders amounting to ₱1,041.5 million and ₱535.2 million, respectively. As at December 31, 2016 and 2015, NLEX Corp. and MSIHI have unpaid dividends to non-controlling stockholders amounting to ₱7.6 million and ₱411.6 million, respectively.

#### Scrip Dividends

On October 16, 2008, the BOD of MPTC declared scrip dividends to all stockholders of record as at October 30, 2008 amounting to US\$3.9 million (₱181.5 million). As at December 31, 2016 and 2015, unpaid scrip dividends amounted to ₱0.3 million and is included under the "Dividends payable" account.

#### Retained Earnings Not Available for Dividend Distribution

The Parent Company's retained earnings includes undistributed earnings of subsidiaries, associates and a joint venture amounting to ₱5,812.0 million and ₱2,781.2 million as at December 31, 2016 and 2015, respectively, which are not currently available for dividend distribution.

#### Other Comprehensive Income (Loss) Reserve

	Cumulative Translation Adjustment (CTA)	Income Tax Related to CTA	AFS Financial Assets	Income Tax Related to AFS Financial Assets	Re-measurement of Defined Benefit Plan	Income Tax Related to Defined Benefit Plan	Share in OCI of an associate	Total	Attributable to Parent Company Owners	Non-controlling Interest
Balance at January 1, 2016	(₱847,643)	₱254,293	(₱37,253,554)	₱2,657,152	₱27,986,929	(₱8,396,086)	(₱6,550,960)	(₱22,149,869)	(₱15,841,622)	(₱6,308,247)
Net movement in CTA	80,885,033	-	-	-	-	-	-	80,885,033	80,885,033	-
Change in fair value of AFS financial assets (see Note 15)	-	-	2,641,871	(1,192,622)	-	-	-	1,449,249	2,145,756	(696,507)
Remeasurement loss (see Note 27)	-	-	-	-	(11,173,989)	3,352,197	(1,635,506)	(9,457,298)	(7,630,135)	(1,827,163)
Acquisition of non-controlling interest	-	-	69,919,629	(6,991,963)	-	-	-	62,927,666	62,927,666	-
Balance at December 31, 2016	₱80,037,390	₱254,293	(₱35,307,946)	(₱5,527,433)	₱16,812,940	(₱5,043,889)	(₱8,186,466)	₱113,654,781	₱122,486,698	(₱8,831,917)
Balance at January 1, 2015	(₱4,623,395)	₱1,387,019	₱41,574,562	(₱2,826,742)	₱20,504,750	(₱6,151,424)	(₱9,534,988)	₱40,329,782	₱30,529,948	₱9,799,834
Net movement in cash flow hedge (see Note 34)	3,775,752	(1,132,726)	-	-	-	-	-	2,643,026	1,998,127	644,899
Change in fair value of AFS financial assets (see Note 15)	-	-	(78,828,116)	5,483,894	-	-	-	(73,344,222)	(55,448,231)	(17,895,991)
Remeasurement gain (see Note 27)	-	-	-	-	7,482,179	(2,244,662)	2,984,028	8,221,545	7,078,534	1,143,011
Balance at December 31, 2015	(₱847,643)	₱254,293	(₱37,253,554)	₱2,657,152	₱27,986,929	(₱8,396,086)	(₱6,550,960)	(₱22,149,869)	(₱15,841,622)	(₱6,308,247)

#### Other Reserves

As at December 31, 2016 and 2015 other reserves of the Company consists of:

	2016	2015
Long-term incentive plan reserves (see Note 27)	₱23,100,000	₱23,100,000
Executive stock option plan reserves (see Note 26)	26,479,225	25,234,382
Premium paid on acquisition of non-controlling interests (see Note 5)	(2,448,412,482)	(2,448,756,453)
Transaction costs on issuance of preferred shares	-	(33,858,000)
	(₱2,398,833,257)	(₱2,434,280,071)



In 2016, the Company reclassified the transaction costs of ₱33.9 million on the issuance of preferred shares from “Other reserves” account to “Additional paid-in capital” account. Both accounts are under equity in the Company’s consolidated balance sheets.

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### 23. Non-toll Revenues

Details of non-toll revenues follow:

	2016	2015
Income from advertising (see Note 21)	₱122,021,355	₱120,363,761
Income from TSF	36,414,084	32,661,844
Income from utility facilities (see Note 21)	7,836,678	5,088,001
Rental income (see Notes 14 and 32)	4,307,205	–
Service revenue	2,410,563	–
	<b>₱172,989,885</b>	<b>₱158,113,606</b>

Service revenue pertains to the traffic management services, supply and application of pavement markings of NVC to various customers.

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### 24. Cost of Services

This account consists of:

	2016	2015
Operator’s fee (see Note 21)	₱2,146,344,375	₱1,875,012,078
Concession fees (see Note 2)	791,493,044	132,146,972
Amortization of service concession assets (see Note 11)	788,547,792	747,970,935
PNCC fee (see Note 32)	527,740,201	482,149,955
Provision for heavy maintenance (see Note 18)	141,355,169	150,819,004
Insurance	93,445,423	69,472,459
Repairs and maintenance (see Note 21)	89,691,007	132,198,328
Outside services (see Note 21)	72,622,640	74,459,531
Salaries and employee benefits (see Note 27)	59,100,500	53,303,999
Toll collection and medical services	25,484,409	17,636,666
Communication, light and water (see Note 21)	19,330,862	21,127,258
Depreciation of property and equipment (see Note 12)	12,682,000	15,632,528
Cost of inventories	2,380	6,790
Others (see Note 13)	47,696,326	57,673,425
	<b>₱4,815,536,128</b>	<b>₱3,829,609,928</b>

Others include CAVITEX expenses which pertain to various payments made to different parties for minor reworks and repairs, amortization, and site office expenses.



## 25. General and Administrative Expenses

This account consists of:

	2016	2015
Salaries and employee benefits (see Notes 21, 26 and 27)	<b>₱471,628,676</b>	₱490,107,678
Professional fees	<b>218,004,157</b>	66,711,892
Advertising and marketing expenses	<b>182,128,960</b>	425,539,667
Provisions (see Note 18)	<b>201,504,175</b>	15,951,846
Taxes and licenses	<b>160,232,449</b>	113,928,803
Representation and travel	<b>50,142,766</b>	38,369,649
Provisions for doubtful accounts (see Notes 8 and 20)	<b>32,242,822</b>	4,278,862
Depreciation of property and equipment (see Note 12)	<b>40,338,227</b>	41,802,685
Outside services	<b>27,352,449</b>	25,946,423
Communication, light and water	<b>14,248,653</b>	11,899,162
Repairs and maintenance	<b>14,144,483</b>	7,754,083
Training and development costs	<b>7,037,700</b>	7,661,048
Office supplies	<b>7,030,469</b>	4,292,916
Amortization of other intangible assets (see Note 13)	<b>5,983,191</b>	10,954,057
Rentals (see Note 21)	<b>5,513,351</b>	3,827,446
Directors' fees (see Note 21)	<b>2,850,911</b>	999,663
Donations and contributions	<b>3,489,616</b>	40,000
Miscellaneous	<b>62,592,750</b>	32,580,503
	<b>₱1,506,465,805</b>	₱1,302,646,383

## 26. Share-based Payment

On June 24, 2007, the stockholders 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 of MPIC 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 exercise price in relation to each option shall be determined by MPIC'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.



On October 14, 2013, MPIC has granted options in respect of 120,000,000 common shares of MPIC to its directors and senior management officers of MPIC and to selected management committee members of MPTC and subsidiaries. Of the total shares granted, 14,000,000 common shares were allocated to MPTC and subsidiaries. The stock options will expire on October 15, 2018. With respect to the stock options granted to MPIC subsidiaries, said stock options will vest as follows: 50.0% on October 14, 2014 and 50.0% on October 14, 2015.

A summary of the Company's stock option activity received from MPIC and related information for the years ended December 31, 2016 and 2015 follows:

	2013 Grant	
	Number of Shares	Exercise Price
Outstanding at January 1, 2015	14,000,000	₱4.60
Exercised during the year	—	—
Outstanding at December 31, 2015	14,000,000	₱4.60
Exercised during the year	1,400,000	4.60
<b>Outstanding at December 31, 2016</b>	<b>12,600,000</b>	<b>₱4.60</b>
Exercisable at:		
<b>December 31, 2016</b>	<b>12,600,000</b>	<b>₱4.60</b>
December 31, 2015	14,000,000	4.60

The weighted average remaining contractual life for the 2013 share options outstanding as at December 31, 2016 and 2015 is 1.8 years and 2.8 years, respectively.

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 2013:

	50.0% vesting on October 14, 2014	50.0% vesting on October 14, 2015
Grant date	October 14, 2013	
Spot price	₱4.59	₱4.59
Exercise price	₱4.60	₱4.60
Risk-free rate	0.66%	2.40%
Expected volatility*	35.23%	33.07%
Term to vesting (in days)	365	730
Call price	₱0.63	₱0.89

\* The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the options is indicative of future trends, which may also not necessarily be the actual outcome.

Executive stock options expense, recognized by the Company in "Salaries and employee benefits" account, under "General and administrative expenses" in the consolidated statements of income, amounted to ₱1.2 million and ₱3.7 million in 2016 and 2015, respectively (see Notes 21, 25 and 27).

Carrying value of the ESOP, recognized under "Other reserves" in the consolidated statements of changes in equity, amounted to ₱26.5 million and ₱25.2 million as at December 31, 2016 and 2015, respectively (see Note 22).



**27. Personnel Cost and Employee Benefits**

This account consists of:

	2016	2015
Salaries expense	<b>₱348,331,080</b>	₱360,816,086
LTIP expense	<b>121,468,533</b>	117,434,785
Retirement costs	<b>11,914,463</b>	28,757,532
ESOP expense (see Note 26)	<b>1,244,843</b>	3,702,439
Other employee benefits	<b>47,770,257</b>	32,700,835
	<b>₱530,729,176</b>	₱543,411,677
Cost of services (see Note 24)	<b>₱59,100,500</b>	₱53,303,999
General and administrative expenses (see Note 25)	<b>471,628,676</b>	490,107,678
	<b>₱530,729,176</b>	₱543,411,677

**LTIP**

On December 16, 2010, MPIC’s BOD approved the broad outline of MPIC’s strategic plans for 2010 to 2012 focusing on the development of new revenue streams to drive future growth while protecting the existing core business. To ensure the proper execution of the three-year plan, particularly with respect to the manpower resources being committed to such plans, the 2010 to 2012 LTIP, upon endorsement of MPIC’s Compensation Committee, was approved by MPIC’s BOD to cover the period from January 1, 2010 to December 31, 2012, or the 2010 to 2012 Performance Cycle. The payment under the 2010 to 2012 LTIP was intended to be made at the end of the 2010 to 2012 Performance Cycle (without interim payments) and contingent upon the achievement of an approved target core income of the Company by the end of the 2010 to 2012 Performance Cycle.

On April 27, 2012, the Parent Company’s BOD approved the implementation of 2012 to 2014 LTIP of the Company which became effective on January 1, 2012. In 2015, pending approval from Parent Company’s BOD, Parent Company’s management implemented the 2015-2017 LTIP of the Company effective January 1, 2015. Subsequently on April 21, 2016, MPTC’s BOD and its Compensation and Remuneration Committee approved the implementation of MPTC Group LTIP effective January 1, 2015.

MPTC’s LTIP is a cash plan that is intended to provide meaningful and contingent financial incentive compensation for eligible executives and officers of the MPTC Group, who are consistent performers and contributors to the achievement of the long-term financial targets, strategic plans and objective, as well as the functional strategy and goals of the MPTC Group. Likewise, the MPTC Group LTIP is intended to attract and retain talented employees to ensure the sustained growth and success of the MPTC Group. The payment under the LTIP was intended to be made at the end of the performance cycle (without interim payments) and contingent on the achievement of the MPTC Group’s cumulative consolidated core income target for the relevant performance cycle.

Total amount of LTIP under the plans discussed above is fixed upon achievement of the target core income and is not affected by changes in future salaries of the employees covered. The long term employee benefit liability comprises the present value of the defined benefit obligation (using discount rate based on government bonds) at the end of the reporting period.



The total cost of the LTIP recognized by the Company in 2016 and 2015 included in “Salaries and employee benefits” account under “General and administrative expenses” in the consolidated statements of income amounted to ₱121.5 million and ₱117.4 million, respectively (see Notes 21, 24 and 27).

Carrying value of the 2010 to 2012 LTIP cost recognized under “Other reserves” in the consolidated statements of changes in equity amounted to ₱23.1 million as at December 31, 2016 and 2015, representing MPIC’s share in the LTIP cost of the Company as per 2010 to 2012 LTIP (see Note 22).

The carrying value of the other LTIP amounting to ₱261.3 million and ₱139.8 million was presented as LTIP payable in the current and noncurrent liability section of the consolidated balance sheets as at December 31, 2016 and 2015, respectively.

#### Defined Contribution Retirement Plan

Retirement benefits of the employees of the Parent Company and MPTDC are provided through a defined contribution scheme as approved by the BOD of the Parent Company and MPTDC on June 21, 2011 and April 1, 2010, respectively. The Parent Company and MPTDC operate a retirement plan which is a contributory plan wherein the Parent Company and MPTDC undertake to contribute a predetermined amount to the individual account of each employee and employee gets whatever is standing to his credit upon separation from the Parent Company and MPTDC. The plan is managed and administered by a Retirement Committee and a trustee bank had been appointed to hold and invest the assets of the retirement fund in accordance with the provisions of the plan.

The Parent Company and MPTDC’s contributions to the plan are made based on the employee’s monthly basic salary which is at 10.0%. Additionally, an employee has an option to make a personal contribution to the fund, at an amount not exceeding 40.0% of his monthly salary. The Parent Company and MPTDC then provide an additional contribution to the fund which aims to match the employee’s contribution but only up to a maximum of 5.0% of the employee’s monthly salary. Although the plan has a defined contribution format, the Parent Company and MPTDC regularly monitor compliance with RA No. 7641, otherwise known as “The Retirement Pay Law.” As at December 31, 2016 and 2015, the Parent Company and MPTDC are in compliance with the requirements of RA No. 7641.

As discussed in Note 3, the Parent Company and MPTDC maintain defined contribution plans which are accounted for as defined benefit plans with minimum guarantee. The details of the Parent Company and MPTDC’s defined benefit obligation for the defined benefit minimum guarantee are provided below.

#### Defined Benefit Retirement Plan

NLEX Corp. and CIC have funded noncontributory defined benefit retirement plans covering all of their regular and full time employees. The plans provide for a lump sum benefit payments upon retirement. Contributions and costs are determined in accordance with the actuarial study made for the plan. The most recent actuarial valuation of plan assets and the present value of the defined benefit obligation were carried out as at December 31, 2016 by certified actuaries.

The funds of NLEX Corp. and CIC are administered by trustee banks. Subject to the specific instructions provided by NLEX Corp. and CIC in writing, NLEX Corp. and CIC direct the trustee banks to hold, invest, and reinvest the funds and keep the same invested, in its sole discretion, without distinction between principal and income in, but not limited to, certain government securities and bonds, term loans, short-term fixed income securities and other loans and investments.



Under the existing regulatory framework, RA No. 7641 requires a provision for retirement pay to qualified private sector employees in the absence of any retirement plan in the entity, provided however that the employee's retirement benefits under any collective bargaining and other agreements shall not be less than those provided under the law. The law does not require minimum funding of the plan.

The following tables summarize the components of provision for retirement costs, included in "Salaries and employee benefits" under "General and administrative expenses" account in the consolidated statements of income and "Pension asset" or "Accrued retirement costs" account in the consolidated balance sheets, which are based on the latest actuarial valuation.

Changes in accrued retirement costs (pension asset) of the Company in 2016 are as follows:

	Present Value of Defined Benefit Obligation	Fair Value of Plan Assets	Accrued Retirement Costs (Pension Asset)
At January 1, 2016	₱185,434,519	₱195,948,130	(₱10,513,611)
Net benefit cost in consolidated statement of income:			
Current service cost	12,389,172	-	12,389,172
Net interest	5,203,784	5,678,493	(474,709)
	17,592,956	5,678,493	11,914,463
Benefits paid	(73,647)	(73,647)	-
Remeasurements in OCI:			
Return on plan assets (excluding amount included in net interest)	-	(2,307,939)	2,307,939
Actuarial changes arising due to changes in demographic assumptions	(2,649,045)	-	(2,649,045)
Actuarial changes arising from changes in financial assumptions	500,435	-	500,435
Actuarial changes due to experience adjustments	11,014,660	-	11,014,660
	8,866,050	(2,307,939)	11,173,989
Contributions	-	10,318,979	(10,318,979)
At December 31, 2016	₱211,819,878	₱209,564,016	₱2,255,862
Pension asset			(₱904,680)
Accrued retirement costs			3,160,542
			₱2,255,862

Changes in accrued retirement costs (pension asset) of the Company in 2015 are as follows:

	Present Value of Defined Benefit Obligation	Fair Value of Plan Assets	Accrued Retirement Costs (Pension Asset)
At January 1, 2015	₱188,640,324	₱189,214,097	(₱573,773)
Net benefit cost in consolidated statement of income:			
Current service cost	28,770,673	-	28,770,673
Net interest	8,084,051	8,097,192	(13,141)
	36,854,724	8,097,192	28,757,532
Benefits paid	(26,416,340)	(26,416,340)	-
Remeasurements in OCI:			
Return on plan assets (excluding amount included in net interest)	-	(6,162,010)	6,162,010
Actuarial changes arising due to changes in demographic assumptions	525,026	-	525,026
Actuarial changes arising from changes in financial assumptions	(10,919,831)	-	(10,919,831)
Actuarial changes due to experience adjustments	(3,249,384)	-	(3,249,384)
	(13,644,189)	(6,162,010)	(7,482,179)
Contributions	-	31,215,191	(31,215,191)
At December 31, 2015	₱185,434,519	₱195,948,130	(10,513,611)
Pension asset			(₱12,055,764)
Accrued retirement costs			1,542,153
			(₱10,513,611)





The maximum economic benefit available is a combination of expected refunds from the plan and reductions in future contributions.

The actual return on plan assets amounted to ₱3.4 million in 2016 and ₱1.9 million in 2015.

NLEX Corp. and CIC expect to contribute ₱17.6 million to their defined benefit retirement plans in 2017. MPTC and MPTDC expect to contribute ₱9.0 million and ₱2.8 million, respectively to their defined contribution retirement plans in 2016.

The major categories of plan assets follow:

	2016		2015	
	Amount	Percentage	Amount	Percentage
Investments in:				
Government securities	<b>₱101,273,767</b>	<b>48.33%</b>	₱105,753,533	53.97%
Debt securities	<b>41,849,207</b>	<b>19.97%</b>	47,496,858	24.24%
UITF	<b>22,554,959</b>	<b>10.76%</b>	18,449,449	9.42%
Equity securities	<b>3,716,110</b>	<b>1.77%</b>	2,362,088	1.21%
Cash and cash equivalents	<b>35,940,457</b>	<b>17.15%</b>	16,707,567	8.52%
Loans/notes receivable	<b>992,723</b>	<b>0.47%</b>	3,367,109	1.72%
Receivables and others	<b>3,236,793</b>	<b>1.55%</b>	1,811,526	0.92%
	<b>₱209,564,016</b>	<b>100.00%</b>	₱195,948,130	100.00%

The plan asset's carrying amount approximates its fair value since these are short-term in nature or marked-to-market.

As at December 31, 2016 and 2015, the plan assets consist of the following:

- Investments in government securities consist primarily of fixed-rate treasury notes and retail treasury bonds that bear interest ranging from 2.13% to 11.70% in 2016 and 2.13% to 11.70% in 2015 and have maturities from 2016 to 2032.
- Investments in debt securities consist of quoted, unsecured, long-term corporate bonds and subordinated notes, which bear interest ranging from 4.63% to 6.27% per annum and have maturities from 2017 to 2025.
- As at December 31, 2015 and 2014, investments in equity securities consist of perpetual non-voting series B-2-RE preferred shares of Ayala Corporation amounting to ₱0.4 million. Also included are perpetual non-voting Series F preferred shares of First Gen Corporation amounting to ₱2.0 million and ₱1.6 million as at December 31, 2015 and 2014, respectively. Gain on changes in fair value of the investments amounted to ₱0.1 million in 2015.
- Cash and cash equivalents include regular savings and time deposits, which bear interest ranging from 1.25% to 3.47% per annum in 2016 and 2.5% in 2015.
- Loans and notes receivables consist of unquoted and unsecured term loans of SMART, a related party, amounting to ₱0.8 million and ₱1.0 million as at December 31, 2015 and 2014, respectively, and unsecured subordinated note of an unaffiliated company amounting to ₱2.6 million as at December 31, 2015 and 2014. The SMART term loans and the subordinated note bear interest of 6.26% and 6.73% per annum, respectively. The SMART term loans are due in 2022 while the subordinated note is due in 2016. Interest income on these loans and notes receivable amounted to ₱0.2 million in 2015 and 2014.



- Other financial assets held by the plan are primarily accrued interest income from cash and cash equivalents, investments in debt securities and investments in UITF.

The principal assumptions used to determine accrued retirement costs as at December 31, 2016 and 2015 are as follows:

	<b>2016</b>	<b>2015</b>
Discount rate	<b>4.86% - 5.33%</b>	4.59% - 5.17%
Salary increase rate	<b>5.00% - 7.00%</b>	5.00% - 7.00%

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as at December 31, 2016, assuming if all other assumptions were held constant:

		Increase (Decrease) in Defined Benefit Obligation
Discount rate	(Actual + 1.00%)	<b>₱202,628,249</b>
	(Actual - 1.00%)	<b>223,258,837</b>
Salary increase rate	(Actual + 1.00%)	<b>₱221,895,671</b>
	(Actual - 1.00%)	<b>202,957,194</b>

The management performed an Asset-Liability Matching Study annually. The overall investment policy and strategy of the Company's defined benefit plan is guided by the objective of achieving an investment return which, together with contributions, ensures that there will be sufficient assets to pay pension benefits as they fall due while also mitigating the various risk of the plans. The Company's current strategic investment strategy consists of 99.59% of debt instruments and 0.41% cash.

The average duration of the defined benefit obligation at December 31, 2016 and 2015 is 16.1 years and 17.1 years, respectively.

Shown below is the maturity analysis of the undiscounted benefit payments:

	<b>2016</b>	<b>2015</b>
Less than 1 year	<b>₱65,529,258</b>	₱57,735,275
More than 1 year to 5 years	<b>67,610,010</b>	51,661,661
More than 5 years to 10 years	<b>99,640,066</b>	96,152,179
More than 10 years to 15 years	<b>107,530,708</b>	93,265,034
More than 15 years to 20 years	<b>224,102,985</b>	212,800,115
More than 20 years	<b>427,204,958</b>	315,990,063



## 28. Interest Income

Sources of interest income follow:

	2016	2015
AFS financial assets (see Note 15)	<b>₱40,128,011</b>	₱53,776,152
Cash and cash equivalents and restricted cash (see Note 7)	<b>50,254,222</b>	38,503,705
Indemnification asset (see Note 16)	–	7,055,757
Others	<b>3,519,844</b>	983,943
	<b>₱93,902,077</b>	₱100,319,557

## 29. Interest Expense and Other Finance Costs

Details of interest expense and other finance costs follow:

	2016	2015
Interest expense on:		
Long-term debt (see Notes 19 and 34)	<b>₱1,154,983,089</b>	₱1,268,260,635
Provision for heavy maintenance (see Note 18)	<b>13,355,182</b>	11,939,461
Contingent liability (see Note 18)	–	15,136,484
Other finance costs:		
Amortization of debt issue costs (see Note 19)	<b>27,217,000</b>	32,411,842
Bank charges	<b>2,336,594</b>	7,894,650
Lenders' fees	<b>2,277,197</b>	6,263,996
Loan prepayment fees (see Note 19)	–	30,000,000
	<b>₱1,200,169,062</b>	₱1,371,907,068

## 30. Other Income

Details of other income follow:

	2016	2015
Reversal of contingent liability (see Note 18)	<b>₱152,955,420</b>	₱762,204,845
Dividend income (see Note 15)	<b>137,967,501</b>	144,642,687
Management fees (see Note 21)	<b>56,252,346</b>	56,252,346
Income from franchise fee (see Note 13)	–	28,954,826
Gain on sale of AFS financial assets (see Note 15)	<b>7,321,928</b>	2,032,346
Others (see Note 12)	<b>29,629,422</b>	18,628,202
	<b>₱384,126,617</b>	₱1,012,715,252



### 31. Income Taxes

The provision for current income tax consists of:

	2016	2015
Regular corporate income tax (RCIT)	₱1,141,095,679	₱949,581,001
Final tax on interest income	18,523,511	18,473,209
MCIT	86,421,056	30,409,064
	<b>₱1,246,040,246</b>	<b>₱998,463,274</b>

The components of the Company's net deferred tax liabilities follow:

	2016	2015
<b>Deferred Tax Liabilities</b>		
Present value of concession fees capitalized as service concession asset	₱5,565,180,409	₱4,606,265,918
Difference in amortization of service concession assets	823,993,360	783,906,171
Excess of fair values over book values arising from business combinations	441,303,637	364,378,782
Capitalized debt issue costs	54,267,314	56,951,240
Unamortized realized foreign exchange losses capitalized	18,702,313	19,592,899
Pension asset	423,947	3,769,272
Unrealized foreign exchange gains - net	73,649	743,146
Reimbursement rights	685,268	685,268
Unamortized PV of rental deposits	36,904	-
	<b>6,904,666,801</b>	<b>5,836,292,696</b>
<b>Deferred Tax Assets</b>		
Service concession fees payable	5,565,180,409	4,606,265,918
Provision for heavy maintenance	121,504,893	99,431,471
Provisions and accruals	43,886,956	48,641,560
MCIT	-	27,029,295
Long-term incentive plan payable	38,832,694	21,143,492
Unrealized foreign exchange loss – net	27,168,314	21,014,792
Allowance for impairment loss	24,077,449	20,844,490
Unamortized past service cost	7,036,469	8,710,551
Fair value changes on AFS financial assets	1,464,530	2,657,152
Unearned toll revenues	2,660,303	2,494,018
Accrued retirement costs	948,163	462,646
Unearned rent income	639,667	-
Unamortized deferred lease income	42,341	-
	<b>5,833,442,188</b>	<b>4,858,695,385</b>
Deferred tax liabilities - net	<b>₱1,071,224,613</b>	<b>₱977,597,311</b>

Reflected in the consolidated balance sheets as follows:

	2016	2015
Deferred tax assets - net	₱645,103	₱-
Deferred tax liabilities - net	(1,071,869,716)	(977,597,311)
	<b>(₱1,071,224,613)</b>	<b>(₱977,597,311)</b>



For tax purposes, NLEX Corp. used the UOP method of amortization for the civil work component of the service concession assets as approved by the BIR. CIC used the double declining balance method of amortization for R-1 Expressway while straight-line method for R-1 Expressway Extension as approved by the BIR.

MPTC, MPTDC, MSIHI, MHI, CWHI, LHI, CCLEC, MPT Vizmin and MPT South have the following temporary differences, NOLCO and MCIT for which no deferred tax assets have been recognized since management believes that it is more likely than not that these will not be realized in the future:

	2016	2015
NOLCO	<b>₱1,085,494,301</b>	₱751,709,126
Accrued expenses and provisions	<b>29,152,645</b>	176,288,744
MCIT	<b>15,081,627</b>	13,441,379
Unrealized foreign exchange loss	<b>122,915</b>	9,082,635
	<b>₱1,129,851,488</b>	₱950,521,884

As at December 31, 2016, MPTC, MPTDC, MSIHI, MHI, CWHI, LHI, CCLEC, MPT Vizmin and MPT South have MCIT that can be applied as tax credit against future income tax due under RCIT and NOLCO that can be claimed as deduction from future taxable income as follows:

Year Paid/Incurred	Expiration Date	MCIT	NOLCO
2014	December 31, 2017	₱2,707,520	₱272,119,307
2015	December 31, 2018	7,421,045	317,460,437
2016	December 31, 2019	4,953,062	495,914,557
		<b>₱15,081,627</b>	<b>₱1,085,494,301</b>

The movements in NOLCO are as follows:

	2016	2015
Balance at beginning of year	<b>₱751,709,126</b>	₱1,031,867,381
Additions	<b>495,914,557</b>	317,460,437
Applications	-	(520,800,999)
Expirations	<b>(162,129,382)</b>	(76,817,693)
Balance at end of year	<b>₱1,085,494,301</b>	₱751,709,126

The movements in MCIT are as follows:

	2016	2015
Balance at beginning of year	<b>₱40,470,674</b>	₱40,965,905
Additions	<b>4,953,062</b>	11,062,292
Application	<b>(27,029,295)</b>	-
Expirations	<b>(3,312,814)</b>	(11,557,523)
Balance at end of year	<b>₱15,081,627</b>	₱40,470,674



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 as follows:

	2016	2015
Income before income tax	<b>₱5,402,732,259</b>	₱4,347,762,894
Income tax computed at statutory tax rate of 30%	<b>₱1,620,819,678</b>	₱1,304,328,868
Add (deduct) tax effects of:		
Effect of optional standard deduction (OSD)	<b>(443,264,106)</b>	(228,405,535)
Equity in net earnings of an associate	<b>(137,884,424)</b>	(142,812,040)
Interest income subjected to final tax	<b>(27,719,289)</b>	(28,237,364)
Nondeductible expenses and others	<b>102,736,310</b>	95,357,791
Fair value adjustments	<b>11,653,717</b>	-
Transaction cost on the issuance of shares	<b>(34,419)</b>	-
Dividend income not subject to tax	<b>(41,390,252)</b>	-
Dividend income subject to tax	<b>67,193,151</b>	-
Application of NOLCO	-	120,333,654
Expired MCIT	-	8,388,271
Change in unrecognized deferred tax assets	<b>13,310,416</b>	119,867,172
Deferred tax adjustment	<b>8,346,916</b>	-
Movement in NOLCO	<b>118,296,097</b>	-
MCIT	<b>4,153,062</b>	7,421,045
Final tax on interest income	<b>18,523,511</b>	18,473,209
	<b>₱1,314,740,368</b>	₱1,274,715,071

On December 18, 2008, the BIR issued Revenue Regulation (RR) No. 16-2008, which implemented the provisions of RA No. 9504 on OSD, which allowed both individual and corporate tax payers to use OSD in computing their taxable income. For corporations, they may elect a standard deduction in an amount equivalent to 40% of gross income, as provided by law, in lieu of the itemized allowed deductions. NLEX Corp. opted to avail of the OSD for the taxable years 2016 and 2015.

The reconciliation of net deferred tax liabilities is summarized as follows:

	2016	2015
Balance at beginning of year	<b>₱977,597,311</b>	₱703,452,020
Provision for income tax during the year recognized		
in the consolidated statements of income	<b>68,700,122</b>	276,251,797
Application against excess MCIT	<b>27,086,755</b>	-
Income tax effect during the year recognized in the consolidated statements of comprehensive income	<b>(2,159,575)</b>	(2,106,506)
Balance at end of year	<b>₱1,071,224,613</b>	₱977,597,311



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## 32. Significant Contracts and Commitments

### PNCC Fee

In consideration of the assignment by PNCC of its usufructuary rights, interests and privileges under its franchise, PNCC is entitled to receive payment equivalent to 6% and 2% of the toll revenues from the NLEX and Segment 7, respectively. Any unpaid balance carried forward will accrue interest at the rate of the latest Philippine 91-day Treasury bill rate plus 1% per annum. This entitlement, as affirmed in the Amended and Restated Shareholders' Agreement (ARSA) dated September 30, 2004, 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, NLEX Corp. entered into a letter agreement with PNCC to set out the detailed procedure for payment.

The PNCC franchise expired in May 2007. However, since the payment is a continuing obligation under the ARSA, NLEX Corp. continues to accrue and pay the PNCC entitlement.

On December 2, 2010, NLEX Corp. received a letter from the TRB dated November 30, 2010, citing a decision of the Supreme Court (SC) dated October 19, 2010 directing NLEX Corp. to remit forthwith to the National Treasury, through TRB, all payments representing PNCC's percentage share of the toll revenues and dividends, if any, arising out of PNCC's participation in the NLEX. In the said decision, the SC ruled, among others, that after the expiration of the franchise of PNCC, its share/participation in the JVAs and STOA's, inclusive of its percentage share in toll fees collected by joint venture companies currently operating the expressways, shall accrue to the Philippine Government.

On April 12, 2011, the SC issued a resolution directing NLEX Corp. to remit PNCC's share in the net income from toll revenues to the National Treasury and the TRB, with the assistance of the Commission on Audit (COA), was directed to prepare and finalize the implementing rules and guidelines relative to the determination of the net income remittable by PNCC to the National Treasury.

In accordance with the TRB directive, 90% of the PNCC fee and dividends payable are to be remitted to the TRB, while the balance of 10% to PNCC. NLEX Corp. recorded PNCC fee amounting to ₱527.7 million and ₱482.1 million in 2016 and 2015, respectively (see Note 24).

### Construction of Segment 10 of Phase II of NLEX

On April 28, 2014, NLEX Corp. signed a target cost construction contract with Leighton Contractors (Asia) Ltd. (LCAL) for the construction of NLEX Segment 10. The target cost is approximately ₱10.0 billion (inclusive of VAT), with a completion period of 24 months from start date. The contract structure is collaborative in nature and provides a pain-sharing or gain-sharing mechanism if the actual construction cost exceeds or falls below the agreed target. LCAL's performance obligation under the contract is backed up by: (i) a bank-issued irrevocable stand-by letter of credit, (ii) cash retention, and (iii) a parent company guarantee issued by Leighton Asia Limited.

On May 8, 2014, NLEX Corp. issued the NTP to LCAL, signaling the start of the pre-construction activities. Pursuant to the contract, NLEX Corp. placed a reserve amount of ₱889.0 million in an escrow account on July 28, 2014 which is recognized under "Other non-current assets" account, to cover payment default leading to suspension of works (see Note 16).



On January 12, 2017, pursuant to the escrow agreement, NLEX Corp. exercised its option to reduce the escrow account balance to the new minimum balance of ₱669.0 million. The new minimum balance is the amount equal to the forecast of LCAL's maximum committed costs over any given seven (7) weeks from the relevant calculation date until the forecast completion date plus a reasonable contingency allowance as agreed upon by both parties. The reduction of ₱220.0 million was released to the Company on January 18, 2017.

Construction of the 5.65 km fully-elevated segment is now underway. Project is estimated to be completed in May 2018.

#### NLEX Widening Project

On February 22, 2016, NLEX Corp. signed a construction contract with First Balfour, Inc. and Haidee Construction and Development Corporation / 4B Construction Corporation for the NLEX lane widening covering the construction of an additional lane on each direction in Segment 2, portion of Phase 1 of NLEX (from Sta. Rita to San Fernando), and the expansion of the carriageway in Segment 3, portion of Phase 1 of NLEX (from Dau to Sta. Ines) from one by two to two by two lanes. It also covers the lane configuration of Candaba Viaduct from 2 to 3 lanes. The total project costs including civil works, independent design checking services, detailed engineering design and financing cost amounted to ₱2.4 billion for both Segment 2 and Segment 3. On December 2, 2016, the Segment 3 of the project has started commercial operations while Segment 2 of the project is expected to be completed by February 2017.

Unapplied advances payment to First Balfour, Inc. amounted to ₱195.5 million as at December 31, 2016 (see Note 9).

#### NLEX-SCTEX Integration Agreement

On February 5, 2015, NLEX Corp. and BCDA executed the Integration Agreement relating to the TCS integration of the NLEX-SCTEX that will involve the adoption of an advanced common transit ticket system which will make operations more efficient and enhance motorists' convenience. The total project cost including civil works, FOE design, supply and installation, and independent design checker and certification engineer amounted to ₱786.1 million and completed in March 2016.

#### Lease Contract

On January 1, 2016, NVC, as lessor, entered into a contract of lease with RDL Fuel Point, Inc, as lessee, covering a parcel of land adjacent to the NLEX and is presently the site of a service facility. The lease term shall be for 14 years starting from January 1, 2016, unless earlier terminated or otherwise extended by the parties in writing. The amount of the rent for the first 2 years shall be ₱3.6 million per year (inclusive of VAT). On the third year of the lease and every year thereafter, the rent shall be escalated by 5%. The lessee shall likewise pay the lessor additional fees based on the sales proceeds of the service facility.

Upon signing of the lease contract, the lessee paid an advance rent amounting to ₱7.2 million which shall be applied equally for the first 2 years. The lessee also paid security deposit amounting to ₱0.3 million which shall be returned to the lessee after the expiration or termination of the lease contract.

Unearned rental income related to the advance rent amounted to ₱2.1 million as at December 31, 2016.





As at December 31, 2016, the minimum lease receivables are as follows:

Within one year	₱3,214,286
After one year but not more than five years	18,649,005
After five years	35,071,297
	<u>₱56,934,588</u>

#### Construction of Feeder Roads

On October 20, 2011, CIC and CHI executed a MOA, wherein, CHI shall grant CIC a right-of-way to certain segments of the property CHI plans to reclaim to allow CIC to construct four feeder roads. The four feeder roads are estimated to cost ₱520.0 million where CHI shall be liable for approximately fifty percent (50%) of construction costs. Actual contribution of CHI amounting to ₱256.7 million was received by CIC in 2012 and presented as “Other noncurrent liabilities” as at December 31, 2016 and 2015. As at February 20, 2017, the construction of the feeder roads has not yet started.

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### **33. Financial Risk Management Objectives and Policies and Capital Management**

The Company’s principal financial instruments comprise long-term debt, proceeds of which were used to finance the construction of the projects. The Company has various other financial instruments such as cash and cash equivalents, receivables from trade debtors and payables to trade creditors, which arise directly from its operations. The Company also holds AFS financial assets.

The main risks arising from the Company’s financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk which are discussed in detail below. The BOD reviews and approves policies of managing each of these risks and they are enumerated below:

#### Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company’s exposure to interest rate risk relates primarily to the Company’s long-term debt obligations with floating interest rates. In accordance with its interest rate management policy, the Company converted most of its outstanding loans into fixed-rate debt, effectively locking in the interest rate on its loan obligations and reducing exposure to interest rate fluctuations.

To further reduce its cash flow interest rate risk exposure, the Company entered into a series of derivative transactions, in particular, interest rate swaps. The Company also constantly monitors fluctuations of interest rates in order to manage interest rate risks.



The following tables set out the principal amount, by maturity, of the Company's interest-bearing financial assets and liabilities:

December 31, 2016						
	Interest Rate	Within the Year ('000)	2-3 Years ('000)	4-5 Years ('000)	More than 5 Years ('000)	Total ('000)
<b>Fixed-rate financial assets:</b>						
Cash and cash equivalents and restricted cash <sup>(a)</sup>	0.10% - 4.00%	₱1,901,160	₱-	₱-	₱-	₱1,901,160
AFS financial assets	1.63% - 6.00%	683,705	311,230	520,000	565,100	2,080,035
Restricted cash <sup>(b)</sup>	1.00%	-	889,000	-	-	889,000
		<b>₱2,584,865</b>	<b>₱1,200,230</b>	<b>₱520,000</b>	<b>₱565,100</b>	<b>₱4,870,195</b>
<b>Fixed-rate financial liabilities:</b>						
Term-loan facilities	5.00% - 5.80%	₱436,250	₱1,304,500	₱1,842,500	₱8,588,000	₱12,171,250
Series A-7	7.27%	42,102	3,957,617	-	-	3,999,719
RCBC/BDO Loan	6.50%	152,500	915,000	1,830,000	2,745,000	5,642,500
Series 2010-1 Notes	12.00%	75,575	187,213	227,054	71,487	561,329
Series A-10	7.70%	10,000	20,000	920,000	-	950,000
Fixed-rate Bonds	5.07% - 5.50%	-	-	4,357,430	2,600,000	6,957,430
Service concession fees payable	5.60 - 7.09%	-	-	8,979,155	20,884,947	29,864,102
		<b>716,427</b>	<b>6,384,330</b>	<b>18,156,139</b>	<b>34,889,434</b>	<b>60,146,330</b>
Floating-rate loan - Thanachart Term Loan	Minimum lending Rate less 1.5%	319,126	921,510	849,069	-	2,089,705
		<b>₱1,035,553</b>	<b>₱7,305,840</b>	<b>₱19,005,208</b>	<b>₱34,889,434</b>	<b>62,236,035</b>

<sup>(a)</sup> Excluding cash on hand.

<sup>(b)</sup> Included under "Other noncurrent assets" account in the consolidated balance sheet.

December 31, 2015						
	Interest Rate	Within the Year ('000)	2-3 Years ('000)	4-5 Years ('000)	More than 5 Years ('000)	Total ('000)
<b>Fixed-rate financial assets:</b>						
Cash and cash equivalents and restricted cash <sup>(a)</sup>	0.25%-3.13%	₱4,318,275	₱-	₱-	₱-	₱4,318,275
AFS financial assets	1.63%-6.00%	200,000	449,260	300,000	815,100	1,764,360
Restricted cash <sup>(b)</sup>	1.00%	-	889,000	-	-	889,000
		<b>₱4,518,275</b>	<b>₱1,338,260</b>	<b>₱300,000</b>	<b>₱815,100</b>	<b>₱6,971,635</b>
<b>Fixed-rate financial liabilities:</b>						
Series A-5	6.54%	₱960,000	₱-	₱-	₱-	₱960,000
Series A-7	7.27%	42,102	3,999,719	-	-	4,041,821
Series A-10	7.70%	10,000	20,000	20,000	910,000	960,000
Fixed-rate Bonds	5.07% - 5.50%	-	-	-	6,957,430	6,957,430
Term-loan facilities	5.00% - 5.80%	81,250	753,750	1,471,500	7,946,000	10,252,500
RCBC/BDO Loan	6.50%	152,500	457,500	1,220,000	3,965,000	5,795,000
Series 2010-1 Notes	12.00%	69,569	159,031	193,304	178,964	600,868
Service concession fees payable	5.60%	-	-	4,368,000	17,472,000	21,840,000
		<b>₱1,315,421</b>	<b>₱5,390,000</b>	<b>₱7,272,804</b>	<b>₱37,429,394</b>	<b>₱51,407,619</b>

<sup>(a)</sup> Excluding cash on hand.

<sup>(b)</sup> Included under "Other noncurrent assets" account in the consolidated balance sheet.

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, except for certain term-loan facilities and the RCBC/BDO Loan which will be repriced after five (5) years from their initial drawdown dates. The other financial instruments of the Company that are not included in the above table are noninterest-bearing and are therefore not subject to cash flow interest rate risk.



Foreign Currency Risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Company’s exposure to foreign exchange currency risk relates mainly to CIC’s dollar denominated Series 2010-1 Notes amounting to \$13.7 million (₱657.7 million) and \$16.0 million (₱737.2 million) as at December 31, 2016 and 2015, respectively. The Company also has minimal foreign currency denominated cash and cash equivalents, short-term investments (included in “Other current assets” account in the consolidated balance sheets) and trade payables as at December 31, 2016 and 2015.

Payment for AIF’s loan which is denominated in Thai Baht is to be sourced from the dividends, also denominated in Thai Baht, to be declared by DMT (see Notes 10 and 19).

The Company’s practice is to refinance outstanding U.S. dollar loans with peso loans to reduce the exposure to foreign currency risk. The Company also enters into derivative transactions which allow the Company to fully hedge its exposure on variability in cash flows due to foreign currency exchange fluctuations. The Company also aims to minimize economic and material transactional exposures arising from currency movements against the peso.

The following table demonstrates the sensitivity of income to changes in foreign exchange rates with all other variables held constant. The estimates in the movement of the foreign exchange rates were based on the management’s annual financial forecast. There is no other impact on the Company’s equity other than those already affecting the consolidated statements of income:

	Increase/Decrease in Foreign Exchange Rates	Effect on Income Before Income Tax
<b>2016</b>	<b>+4%</b>	<b>(₱27,251,677)</b>
	<b>-4%</b>	<b>27,251,677</b>
2015	+4%	(₱29,488,669)
	-4%	29,488,669

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. Exposure to credit risk is managed through a credit review where an analysis of the obligors to meet their obligations is considered.

Receivables arose mainly from ESC when Easytrip tag-motorists ply in NLEX and those non-toll revenues in the form of advertising services particularly from SMART. The Company’s due from related parties are mainly from TMC. ESC, SMART and TMC are considered as low-risk counterparties as these are well-established companies. Moreover, the Company has payment obligations to TMC which far exceed the aggregate amount of receivables from TMC. Receivables also arose from motorists who cause accidental damage to NLEX property from day-to-day operations. Property damage claims are initially processed by TMC and are eventually turned over to NLEX Corp. The Company also has advances to DPWH, a Philippine government entity, which is covered by a Reimbursement Agreement.



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

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

The table below shows the maximum exposure to credit risk for the Company's financial assets, without taking account of any collateral, credit enhancements and other credit risk mitigation techniques:

	2016	2015
Cash and cash equivalents <sup>(a)</sup>	<b>₱1,429,591,834</b>	₱3,927,272,873
Restricted cash	<b>471,568,380</b>	391,001,929
Short-term deposits	<b>770,415,867</b>	1,225,420,748
Receivables <sup>(b)</sup>	<b>668,150,484</b>	757,424,626
Due from related parties	<b>40,041,201</b>	112,439,577
AFS financial assets <sup>(c)</sup>	<b>1,353,667,695</b>	1,715,128,246
Restricted cash <sup>(d)</sup>	<b>889,000,000</b>	889,000,000
Refundable deposits <sup>(d)</sup>	<b>8,117,415</b>	8,236,741
<b>Total credit risk exposure</b>	<b>₱5,630,552,876</b>	<b>₱9,025,924,740</b>

<sup>(a)</sup> Excluding cash on hand.

<sup>(b)</sup> Excluding advances to officers and employees.

<sup>(c)</sup> Excluding equity investments in club shares, CMMTC and PGOACI.

<sup>(d)</sup> Included in "Other noncurrent assets" account in the consolidated balance sheets.

The Company's cash and cash equivalents and AFS financial assets (including short-term deposits) are placed with reputable local and international banks and companies and the Philippine government which meet the standards of the Company's BOD.

As at December 31, 2016 and 2015, the aging analysis of past due but not impaired trade receivables follows. All other financial assets of the Company are neither past due nor impaired as at December 31, 2016 and 2015, except for the impaired trade receivables amounting to ₱3.1 million and ₱2.4 million as at December 31, 2016 and 2015, respectively.

	Neither Past Due nor Impaired	Past Due but not Impaired					Total	Total
		<31 Days	31-60 Days	61-90 Days	91-180 Days	181 days - 1 year		
2016	₱261,417,478	₱11,135,229	₱41,126,262	₱10,338,069	₱8,075,166	₱28,644,523	₱99,319,249	₱360,736,727
2015	248,866,172	54,219,711	1,069,731	975,781	746,254	5,660,899	62,672,376	311,538,548



The tables below show the credit quality of the Company's financial assets based on their historical experience with the corresponding third parties:

December 31, 2016				
	Neither Past Due nor Impaired - High-grade	Past Due but not Impaired	Impaired	Total
Cash and cash equivalents <sup>(a)</sup>	₱1,429,591,834	₱-	₱-	₱1,429,591,834
Restricted cash	471,568,380	-	-	471,568,380
Short-term deposits	770,415,867	-	-	770,415,867
Receivables				
Trade receivables	261,417,479	99,319,249	3,053,951	363,790,679
Advances to DPWH	180,361,049	-	-	180,361,049
Interest receivables	14,738,854	-	-	14,738,854
Dividend receivables	55,187,000	-	-	55,187,000
Other receivables	53,945,029	-	21,884,639	75,829,668
Due from related parties	40,041,201	-	-	40,041,201
AFS financial assets <sup>(b)</sup>	1,353,667,695	-	-	1,353,667,695
Restricted cash <sup>(c)</sup>	889,000,000	-	-	889,000,000
Refundable deposits <sup>(c)</sup>	8,117,415	-	-	8,117,415
	<b>₱5,528,051,803</b>	<b>₱99,319,249</b>	<b>₱24,938,590</b>	<b>₱5,652,309,642</b>

<sup>(a)</sup> Excluding cash on hand.

<sup>(b)</sup> Excluding equity investments in club shares, CMMTC and PGOACI

<sup>(c)</sup> Included in "Other noncurrent assets" account in the consolidated balance sheet.

December 31, 2015				
	Neither Past Due nor Impaired - High-grade	Past Due but not Impaired	Impaired	Total
Cash and cash equivalents <sup>(a)</sup>	₱3,927,272,873	₱-	₱-	₱3,927,272,873
Restricted cash	391,001,929	-	-	391,001,929
Short-term deposits	1,225,420,748	-	-	1,225,420,748
Receivables:				
Trade receivables	248,866,172	62,672,376	2,389,832	313,928,380
Advances to DPWH	202,883,464	-	-	202,883,464
Interest receivables	144,696,930	-	-	144,696,930
Dividend Receivables	53,807,325	-	-	53,807,325
Other receivables	44,498,359	-	11,772,227	56,270,586
Due from related parties	112,439,577	-	-	112,439,577
AFS financial assets <sup>(b)</sup>	1,715,128,246	-	-	1,715,128,246
Restricted cash <sup>(c)</sup>	889,000,000	-	-	889,000,000
Refundable deposits <sup>(c)</sup>	8,236,741	-	-	8,236,741
	<b>₱8,963,252,364</b>	<b>₱62,672,376</b>	<b>₱14,162,059</b>	<b>₱9,040,086,799</b>

<sup>(a)</sup> Excluding cash on hand.

<sup>(b)</sup> Excluding equity investments in club shares, CMMTC and PGOACI

<sup>(c)</sup> Included in "Other noncurrent assets" account in the consolidated balance sheet.

With the exception of the impaired portion and past due accounts, all of the Company's financial assets are considered high-grade receivables since these are receivables from counterparties who are not expected to default in settling their obligations. These counterparties include reputable local and international banks and companies and the Philippine government. Other counterparties 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 these counterparties against payments due to them.

### Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. The Company is not exposed to significant liquidity risk because of the nature of its operations which provides daily inflows of cash from toll collections. The Company is able to build up sufficient cash from operating revenues prior to the maturity of its payment obligations. The Company has arranged additional short-term lines to boost its ability to meet short-term liquidity needs. The Company has short-term credit lines amounting to



₱12,750.0 million and ₱2,450.0 million as at December 31, 2016 and 2015, respectively, and cash and cash equivalents amounting to ₱1,491.1 million and ₱3,989.2 million as at December 31, 2016 and 2015, respectively, that are allocated to meet the Company's short-term liquidity needs.

The table below summarizes the maturity profile of the Company's financial assets and financial liabilities as at December 31, 2016 and 2015 based on undiscounted payments:

December 31, 2016					
	Within the Year	2-3 Years	4-5 Years	More than 5 Years	Total
<b>Financial Assets</b>					
Cash and cash equivalents	₱1,429,591,834	₱-	₱-	-	₱1,429,591,834
Restricted cash	471,568,380	-	-	-	471,568,380
Short-term deposits	770,415,867	-	-	-	770,415,867
Receivables <sup>(a)</sup>	689,907,250	-	-	-	689,907,250
Due from related parties	40,041,201	-	-	-	40,041,201
AFS financial assets <sup>(b)</sup>	50,895,971	404,460,065	585,477,806	926,634,716	1,967,468,558
Restricted cash <sup>(c)</sup>	-	889,000,000	-	-	889,000,000
Refundable deposits <sup>(c)</sup>	-	-	-	8,117,415	8,117,415
	<b>₱3,452,420,503</b>	<b>₱1,293,460,065</b>	<b>₱585,477,806</b>	<b>₱934,752,131</b>	<b>₱6,266,110,505</b>

December 31, 2016					
	Within the Year	2-3 Years	4-5 Years	More than 5 Years	Total
<b>Financial Liabilities</b>					
Accounts payable and other current liabilities <sup>(d)</sup>	₱3,490,198,175	₱-	₱-	₱-	₱3,490,198,175
Due to related parties	5,079,996	-	-	-	5,079,996
Dividends payable	11,065,871	-	-	-	11,065,871
Long-term debt <sup>(e)</sup>	2,971,506,804	10,474,451,406	12,402,009,627	16,022,706,717	41,870,674,554
Service concession fees payable	-	-	8,979,154,581	20,884,946,605	29,864,101,186
	<b>₱6,477,850,846</b>	<b>₱10,474,451,406</b>	<b>₱21,381,164,208</b>	<b>₱36,907,653,322</b>	<b>₱75,241,119,782</b>

<sup>(a)</sup> Excluding advances to officers and employees.

<sup>(b)</sup> Including interest to be received.

<sup>(c)</sup> Included in "Other noncurrent assets" account in the consolidated balance sheet.

<sup>(d)</sup> Excluding statutory liabilities.

<sup>(e)</sup> Including interest to be paid.

December 31, 2015					
	Within the Year	2-3 Years	4-5 Years	More than 5 Years	Total
<b>Financial Assets</b>					
Cash and cash equivalents	₱3,989,193,032	₱-	₱-	₱-	₱3,989,193,032
Restricted cash	391,001,929	-	-	-	391,001,929
Short-term deposits	1,225,420,748	-	-	-	1,225,420,748
Receivables <sup>(a)</sup>	771,586,685	-	-	-	771,586,685
Due from related parties	112,439,577	-	-	-	112,439,577
AFS financial assets <sup>(b)</sup>	256,791,692	552,234,537	376,223,604	1,198,086,189	2,383,336,022
Restricted cash <sup>(c)</sup>	-	889,000,000	-	-	889,000,000
Refundable deposits <sup>(c)</sup>	-	-	-	8,236,741	8,236,741
	<b>₱6,746,433,663</b>	<b>₱1,441,234,537</b>	<b>₱376,223,604</b>	<b>₱1,206,322,930</b>	<b>₱9,770,214,734</b>

<b>Financial Liabilities</b>					
Accounts payable and other current liabilities <sup>(d)</sup>	₱2,673,014,195	₱-	₱-	₱-	₱2,673,014,195
Due to related parties	5,080,497	-	-	-	5,080,497
Dividends payable	1,276,599,879	-	-	-	1,276,599,879
Long-term debt <sup>(e)</sup>	3,095,945,570	8,604,961,997	5,493,948,961	22,604,621,025	39,799,477,553
Service concessions fees payable	-	-	4,368,000,000	17,472,000,000	21,840,000,000
	<b>₱7,050,640,141</b>	<b>₱8,604,961,997</b>	<b>₱9,861,948,961</b>	<b>₱40,076,621,025</b>	<b>₱65,594,172,124</b>

<sup>(a)</sup> Excluding advances to officers and employees.

<sup>(b)</sup> Including interest to be received.

<sup>(c)</sup> Included in "Other noncurrent assets" account in the consolidated balance sheet.

<sup>(d)</sup> Excluding statutory liabilities.

<sup>(e)</sup> Including interest to be paid.



### Capital Management

The primary objective of the Company's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximize shareholder value while complying with the financial covenants required by the lenders.

*NLEX Corp.* Under the loan agreements, NLEX Corp. is required a Maintenance DSCR of not less than 1.15 times and maintain a Debt to Equity Ratio (DER) not exceeding 3.0 times until the loan maturity. For the Fixed Rate Bonds, NLEX Corp. is required to maintain a Debt to Equity Ratio (DER) of not exceeding 3.0 times for the first three years after the date of the loan agreement and not exceeding 2.5 times after such period. The loan agreement provides that NLEX Corp. may incur new loans or declare dividends as long as the Pro-forma DSCR for the relevant year is not less than 1.3 times.

As at December 31, 2016 and 2015, NLEX Corp. has the capacity to incur additional long-term debt to build up its capital and in preparation for the financing of expansion projects.

*CIC.* Under the Support Agreement with the SPE and the Bank of New York Mellon, CIC shall not pay any dividends or make any other distribution in respect of its share capital so long as:

- i. An Early Amortization Event, a Cash Trapping Event or Repurchase Event (or any event that would be an Early Amortization Event, a Cash Trapping Event, or Repurchase Event with the expiration of any applicable grace period, the delivery of notice or both) exists;
- ii. Any Transaction Account is not fully funded;
- iii. Construction of the R-1 portion of the CAVITEX is not complete; or
- iv. The principal of the Series 2010-1 Notes has not commenced to amortize.

CIC has not paid any dividends in 2016 and 2015. Other than the restriction in dividends and distribution of its share capital, CIC is not subject to other externally imposed capital requirements.

Under the Amended and Restated Omnibus Agreement for the RCBC/BDO loan, CIC is required to maintain a DSCR of at least 1.05 times at all times until full payment of the long-term debt and at least 1.20 times for declaration of dividends and other distributions. CIC shall also maintain a maximum DER of 3.0 times at all times until full payment of the long-term debt. As also discussed in Note 19, CIC has issued supplemental disclosures and exceptions to its loan covenants to RCBC/BDO, which include among others, the exemption on meeting the required financial ratios as at December 31, 2016 and 2015.

*MPTDC.* Under the loan agreement, MPTDC is required to maintain a DER not exceeding 70:30 and a DSCR of not less than 1.3 times during the term of the loan.

*MPTC.* Under the loan agreement, MPTC is required to maintain a DER not exceeding 70:30 and a DSCR of not less than 1.3 times during the term of the loan.

*MPTC Group.* The Company manages its capital structure and adjusts 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, 2016 and 2015. The Company monitors capital on the basis of debt to equity ratio. Debt to equity ratio is calculated as long-term debt over equity.



During 2016, the Company's strategy, which was unchanged from 2015, was to maintain a sustainable debt to equity ratio. The debt to equity ratio as at December 31, 2016 and 2015 are:

	2016	2015
Long-term debt	<b>₱32,356,264,379</b>	₱29,574,255,800
Total equity	<b>28,714,633,931</b>	21,978,220,421
Total capital	<b>₱61,070,898,310</b>	₱51,552,476,221
DER	<b>1.13</b>	1.35

The Company continuously evaluates whether its capital structure can support its business strategy.

### 34. Financial Assets and Financial Liabilities

#### Fair Values

A comparison of carrying and fair values of all of the Company's financial instruments, other than those with carrying amounts that are reasonable approximations of fair values, by category as at December 31, 2016 and 2015 follows:

	2016		2015	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Financial Assets</b>				
AFS financial assets:				
UITF*	<b>₱770,415,867</b>	<b>₱770,415,867</b>	₱1,225,420,748	₱1,225,420,748
Investment in treasury bonds and notes	<b>802,356,695</b>	<b>802,356,695</b>	1,160,612,246	1,160,612,246
Investment in corporate bonds	<b>453,095,000</b>	<b>453,095,000</b>	456,921,000	456,921,000
Investment in LTNCD	<b>98,216,000</b>	<b>98,216,000</b>	97,595,000	97,595,000
Investment in club shares	<b>740,000</b>	<b>740,000</b>	740,000	740,000
	<b>₱2,124,823,562</b>	<b>₱2,124,823,562</b>	₱2,941,288,994	₱2,941,288,994
<b>Financial Liabilities</b>				
Other financial liabilities:				
Long-term debt	<b>₱32,356,264,379</b>	<b>₱32,429,768,073</b>	₱29,574,255,800	₱29,982,850,086
Service concession fees payable	<b>18,550,601,361</b>	<b>18,170,250,304</b>	15,354,219,727	15,106,193,625
	<b>₱50,906,865,740</b>	<b>₱50,600,018,377</b>	₱44,928,475,527	₱45,089,043,711

\*Presented as "Short-term deposits" in the consolidated balance sheet.

The management assessed that the fair values of cash and cash equivalents, restricted cash, receivables, due from related parties, short-term investments, accounts payable and other current liabilities, dividends payable and due to related parties approximate their carrying amounts largely due to the short-term maturities of these instruments.

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:

#### AFS Financial Assets

The fair value of investment in treasury bonds and notes, corporate bonds, LTNCD and club shares is based on the quoted market price of the financial instruments as at December 31, 2016 and 2015. The fair value of the UITF is based on the estimated fair market value of the assets of the fund based on prices supplied by independent sources as at December 31, 2016 and 2015.





### Long-term Debt

For both fixed rate and floating rate (repriced every six months) U.S. dollar-denominated debts and peso-denominated notes and loans, except the fixed-rate bonds where the fair value is based on its quoted market price as at December 31, 2016 and 2015, estimated fair value is based on the discounted value of future cash flows using the prevailing credit adjusted U.S. risk-free rates and prevailing peso interest rates. In 2016 and 2015, the prevailing credit adjusted U.S. interest rates and peso interest rates ranged from 3.0% and 10.1% and 3.4% to 10.0%, respectively.

### Service Concession Fees Payable

The estimated fair value of the service concession fees payable is based on the discounted value of future cash flows using the prevailing peso interest rates. In 2016, the prevailing peso interest rates ranged from 3.98% to 6.88%.

### Fair Value Hierarchy

The following table provides the fair value measurement hierarchy of the Company's assets and liabilities:

	December 31, 2016	Level 1	Level 2	Level 3
<b>Assets measured at fair value:</b>				
AFS financial assets:				
UITF	₱770,415,867	₱-	₱770,415,867	₱-
Investment in treasury bonds and notes	802,356,695	267,160,000	535,196,695	-
Investment in corporate bonds	453,095,000	453,095,000	-	-
Investment in LTNCD	98,216,000	98,216,000	-	-
Investment in club shares	740,000	740,000	-	-
	<b>₱2,124,823,562</b>	<b>₱819,211,000</b>	<b>₱1,305,612,562</b>	<b>₱-</b>
<b>Liabilities for which fair values are disclosed:</b>				
Other financial liability -				
Long-term debt	₱32,429,768,073	₱6,984,615,480	₱25,445,152,593	₱-
Service concession fees payable	18,170,250,304	-	-	18,170,250,304
	<b>₱50,600,018,377</b>	<b>₱6,984,615,480</b>	<b>₱25,445,152,593</b>	<b>₱18,170,250,304</b>
	December 31, 2015	Level 1	Level 2	Level 3
<b>Assets measured at fair value:</b>				
AFS financial assets:				
UITF	₱1,225,420,748	₱-	₱1,225,420,748	₱-
Investment in treasury bonds and notes	1,160,612,246	959,967,246	200,645,000	-
Investment in corporate bonds	456,921,000	456,921,000	-	-
Investment in LTNCD	97,595,000	97,595,000	-	-
Investment in club shares	740,000	740,000	-	-
	<b>₱2,941,288,994</b>	<b>₱1,515,223,246</b>	<b>₱1,426,065,748</b>	<b>₱-</b>
<b>Liabilities for which fair values are disclosed:</b>				
Other financial liability -				
Long-term debt	₱29,982,850,086	₱7,022,368,000	₱22,960,482,086	₱-
Service concession fees payable	15,106,193,625	-	-	15,106,193,625
	<b>45,089,043,711</b>	<b>7,022,368,000</b>	<b>22,960,482,086</b>	<b>15,106,193,625</b>



During the years ended December 31, 2016 and 2015, portions of the investment in treasury bonds and notes amounting to ₱524.0 million and ₱200.6 million was transferred from Level 1 to Level 2. These investments were proven to be inactively traded due to the lower average daily trading volume in December 2016 and 2015, as well as no availability of bid-offer on value date.

*Derivatives Accounted for Under Cash Flow Hedge Accounting*

PNB Term Loan

On March 11, 2011, NLEX Corp. entered into a pay-fixed, receive-floating interest rate swap contract to hedge the variability of cash flows pertaining to the floating rate PNB Term Loan effective March 14, 2011. Under the swap, NLEX Corp. will receive semi-annual interest equal to six-months PDST-F plus 0.50% per annum spread and pay semi-annual fixed interest of 5.9% per annum, based on the amortizing principal balance of the PNB Term Loan, starting from June 15, 2011 until December 15, 2015. The interest rate swap effectively fixed the floating rate of the said loan over the duration of the agreement at 5.9% per annum.

The swap was designated as cash flow hedge at trade date. As at June 30, 2011, the effectiveness ratio was only 58.05% and the hedging relationship failed to meet the 80.0% to 125.0% hedge effectiveness criterion of PAS 39. As a result, the hedge was de-designated by NLEX Corp. The ₱39.0 million (gross of ₱10.7 million tax) deferred in equity representing the negative fair value change of the swap up to March 31, 2011 (the last testing date when the hedge was still effective) is being amortized over the term of the hedged loan and recognized under “Interest expense and other finance costs” account. As at December 31, 2016 and 2015, the unamortized amount deferred in equity method amounted to nil (after amortization of ₱3.8 million in 2015).

Under cash flow hedge accounting, 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.

On December 28, 2012, NLEX Corp. issued a notice for early termination of the interest rate swap transaction with PNB effective December 15, 2012.

As at December 31, 2016 and 2015, there are no derivatives accounted for as cash flow hedges.

*Hedge Effectiveness of Cash Flow Hedges.* Movements of the Company’s cumulative translation adjustments on cash flow hedges under “Other comprehensive income (loss) reserve” account for the year ended December 31, 2015 follow:

Balance at beginning of year	(₱3,775,752)
Transferred to consolidated statements of income:	
Interest expense*	3,775,752
	-
Tax effects of items taken directly to equity	-
Balance at end of year	₱-
<b>Attributable To</b>	
Equity holders of the Parent	₱-
Non-controlling interests	-
	₱-

\* Included in “Interest expense on long-term debt” under “Interest expense and other finance costs” account (see Note 29).



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### 35. Contingencies

#### a. VAT

NLEX Corp. received the following VAT assessments from the BIR:

- The BIR issued a Formal Letter of Demand on March 16, 2009 requesting NLEX Corp. to pay deficiency VAT plus penalties amounting to ₱1,010.5 million for taxable year 2006.
- A Final Assessment Notice was received from the BIR dated November 15, 2009 assessing NLEX Corp. deficiency VAT plus penalties amounting to ₱557.6 million for taxable year 2007.
- The BIR issued a Notice of Informal Conference dated October 5, 2009 assessing NLEX Corp. for deficiency VAT plus penalties amounting to ₱470.9 million for taxable year 2008. On May 21, 2010, the BIR issued another notice increasing the deficiency VAT for taxable year 2008 to ₱1,209.2 million (including penalties). On June 11, 2010, NLEX Corp. filed its Position Paper with the BIR reiterating its claim that it is not subject to VAT on toll fees.
- The BIR issued a Notice of Informal Conference on May 21, 2010 assessing NLEX Corp. deficiency VAT plus penalties amounting to ₱1,026.6 million for taxable year 2009. On June 11, 2010, NLEX Corp. filed its Position Paper with the BIR reiterating its claim that it is not subject to VAT on toll fees.

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

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

#### b. NLEX Corp. and MPTDC are also a parties to certain claims and assessments relating to real property taxes (RPT) as follows:

In 2004, MPTDC has received RPT 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 Local Board of Assessment Appeals (LBAA) of Bataan and prayed for the cancellation of the assessment. In the said appeal, MPTDC invoked that the property is owned by the ROP, hence, exempt from RPT. The case is still pending before the LBAA of Bataan.

In July 2008 and April 2013, NLEX Corp. filed Petitions for Review under Section 226 of the Local Government Code with the Local Board of Assessment Appeals (LBAA) of the Province of Bulacan seeking to declare as null and void tax declarations issued by the Provincial Assessor of the Province of Bulacan. The said tax declarations were issued in the name of NLEX Corp. as owner/administrator/beneficial user of the NLEX and categorized the



NLEX as a commercial property subject to RPT. The LBAA has yet to conduct an ocular inspection to determine whether the properties, subject of the tax declarations, form part of the NLEX, which NLEX Corp. argues is property of the public dominion and exempt from RPT.

In September 2013, NLEX Corp. received notices of realty tax delinquencies for the years 2006 to 2012 and 2013 issued by the Provincial Treasurer of Bulacan stating that if NLEX Corp. fails to pay or remit the alleged delinquent taxes, the remedies provided for under the law for the collection of delinquent taxes shall be applied to enforce collection. In September 27, 2013, the Bureau of Local Government Finance of the Department of Finance (DOF-BLGF) wrote a letter to the Province of Bulacan advising it to hold in abeyance any further course of action pertaining to the alleged real property tax delinquency. In October 2013, the Provincial Treasurer of Bulacan has respected the directive from the DOF-BLGF to hold the enforcement of any collection remedies in abeyance.

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

c. Toll Rate Adjustments

- i. In June 2012, NLEX Corp., as petitioner-applicant, filed a Petition for Approval of Periodic Toll Rate Adjustment with the Toll Regulatory Board (TRB) praying for the adjustment of the toll rates for the North Luzon Expressway, effective January 1, 2013 (2012 Petition).

In addition, in September 2014, NLEX Corp., as petitioner-applicant, filed a Petition for Approval of Periodic Toll Rate Adjustment with the TRB praying for the adjustment of the toll rate for the NLEX, effective January 1, 2015 (2014 Petition).

On September 30, 2016, NLEX Corp. as petitioner-applicant, filed a Petition for Approval of Periodic Toll Rate Adjustment with the TRB praying for the adjustment of the toll rate for the NLEX and the SCTEX effective January 1, 2017 (2016 Petition).

On October 27, 2015, NLEX Corp. has been granted the right and obligation to manage, operate, and maintain the SCTEX under the terms of the BA between the Company and BCDA. Under the agreements covering the SCTEX, toll rate adjustment petitions shall be filed with the TRB yearly. Prior to October 27, 2015, the BCDA filed petitions for toll rate adjustment effective in 2012, 2013, 2014, and 2016. Thereafter, on September 29, 2016, NLEX Corp., as petitioner-applicant, filed a petition for toll rate adjustment effective January 1, 2017. The TRB approval of the foregoing SCTEX toll rate adjustment petitions remains pending.

NLEX Corp. has yet to receive regulatory approval for the 2012 Petition, 2014 Petition and 2016 Petition.

In August 2015, NLEX Corp. wrote the ROP, acting by and through the TRB, a Final Demand for Compensation based on overdue 2013 and 2015 Toll Rate Adjustments (Final Demand). In the letter, NLEX Corp. stated that the ROP's/TRB's inexcusable refusal to act on the 2012 Petition and 2014 Petition is in total disregard and a culpable violation of applicable laws and contractual provisions on the matter, to the great



prejudice of NLEX Corp., which has continuously relied in good faith on such contractual provisions as well as on the timely and proper performance of the ROP's/TRB's legal and contractual duties.

In view of the failure of the ROP/TRB to heed the Final Demand, NLEX Corp. sent a Notice of Dispute to the ROP/TRB dated September 11, 2015 invoking STOA Clause 19 (Settlement of Disputes). STOA Clause 19.1 states that the parties shall endeavor to amicably settle the dispute within sixty (60) calendar days. The TRB sent several letters to NLEX Corp. requesting the extension of the amicable settlement period. However, NLEX Corp. has not received any feasible settlement offer from the ROP/TRB.

Accordingly, on April 4, 2016, NLEX Corp. was compelled to issue a Notice of Arbitration and Statement of Claim (Notice of Arbitration) to the ROP, acting by and through the TRB, consistent with STOA Clause 19 in order to preserve its rights under the STOA. In the Notice of Arbitration, NLEX Corp. appointed retired SC Justice Jose C. Vitug as its nominee to the arbitral tribunal.

In a letter dated May 3, 2016, the ROP, acting by and through the Office of the Solicitor General (OSG), notified NLEX Corp. of its appointment of retired SC Chief Justice Reynato S. Puno as its nominee to the arbitral tribunal.

In a letter dated June 1, 2016, NLEX Corp. proposed that the arbitration be held in Singapore which is the seat of arbitration that the ROP has chosen for its various PPP projects, and proposed the Singapore International Arbitration Center as the Appointing Authority.

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

As of December 31, 2016 and 2015, total amount of compensation for TRB's inaction on lawful toll rate adjustments which were due since January 1, 2013 for NLEX, is approximately at ₱4.4 billion and ₱3.0 billion (VAT-exclusive), respectively.

- ii. CIC has a pending claim for compensation against the ROP, acting by and through the TRB, in the amount of ₱1.1 billion as of January 31, 2017. The Company's claim is based on TRB's inaction on lawful toll rate adjustments which were due in January 1, 2012, 2014, and 2015. CIC sent a demand letter in August 2015 to TRB seeking payment of the said amount. TRB disputed the demand letter and claimed that no compensation is due to CIC as the toll rate adjustment petitions have not yet been resolved. Subsequently, CIC sent a Notice of Dispute to the TRB in September 2015 pursuant to the dispute resolution provisions of the TOA. CIC filed a Petition for Periodic Toll Rate Adjustment on September 20, 2016. TRB replied, stating that they are studying the petition based on their Rule of Procedure. On November 16, 2016, CIC filed a Motion for Provisional Approval of Toll Rates under petition filed in 2014. As at February 20, 2017, TRB has not yet replied on the petition.

On February 7, 2017, the Company received a notice from the Permanent Court of Arbitration that Chelva Retnam Rajah has been designated the appointing authority who will appoint the chairperson of the Arbitration Panel. As at February 20, 2017, no presiding arbitrator has been designated yet.



- d. Garlitos, Jr. vs. Bases Conversion and Development Authority, Manila North Tollways Corporation and the Executive Secretary, SC (G.R. No. 217001)

Atty. Onofre G. Garlitos, Jr. filed with the SC a Petition for Prohibition and Mandamus with Prayer for Issuance of Temporary Restraining Order and/or Writ of Preliminary Injunction dated March 17, 2015 (Petition) against the BCDA, NLEX Corp., and the Executive Secretary. The Petition prays that (a) a writ of preliminary mandatory and prohibitory injunction be issued enjoining the BCDA, NLEX Corp., and Executive Secretary from proceeding with the SCTEX project and compelling the BCDA to rebid the SCTEX operation and maintenance project, and (b) an order be issued (i) annulling the bidding procedure, direct negotiations, and the Price Challenge conducted by the BCDA, and the Concession Agreement, Business and Operating Agreement, and all subsequent amendments and modifications thereto and (ii) compelling the BCDA to rebid the operation and maintenance of the SCTEX.

NLEX Corp. filed its comment praying that the Petition be denied. The BCDA, through the Office of the Government Corporate Counsel, and the Executive Secretary, through the OSG, also filed their respective Comment praying that the Petition be denied due course and dismissed for lack of merit. The case is pending as at February 16, 2017.

- e. NLEX Corp. and CIC are also parties to other cases and claims arising from the ordinary course of business filed by third parties which are either pending decisions by the courts or are subject to settlement agreements. The outcome of these claims cannot be presently determined. In the opinion of management and the Company's legal counsel, the eventual liability from these lawsuits or claims, if any, will not have a material adverse effect on the Company's financial position and financial performance.

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### 36. Supplemental Cash Flow Information

The following table shows the Company's significant non-cash investing and financing activities and corresponding transaction amounts for the years ended December 31, 2016 and 2015:

	2016	2015
Non-cash investing and financing activities:		
Additions to service concession asset and service concession fees payable pertaining to present value of concession fees recognized on effective date of the concession agreement (see Notes 11 and 20)	₱2,318,800,856	₱14,954,698,635
Additions to service concession asset and service concession fees payable pertaining to accretion of service concession fees payable (see Notes 11 and 20)	877,580,778	399,521,092
Additions to service concession asset pertaining to the transfer from deferred project cost (see Note 11)	132,205,353	-
Redemption of preferred shares by way of issuance of common shares (see Note 22)	-	6,771,600,000



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### 37. Standards Issued but Not Yet Effective

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

*Effective beginning on or after January 1, 2017*

- Amendment to PFRS 12, *Clarification of the Scope of the Standard* (Part of *Annual Improvements to PFRSs 2014 - 2016 Cycle*)

The amendments clarify that the disclosure requirements in PFRS 12, other than those relating to summarized financial information, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale.

- Amendments to PAS 7, *Statement of Cash Flows, Disclosure Initiative*

The amendments to PAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). On initial application of the amendments, entities are not required to provide comparative information for preceding periods. Early application of the amendments is permitted.

Application of amendments will result in additional disclosures in the 2017 consolidated financial statements of the Company.

- Amendments to PAS 12, *Income Taxes, Recognition of Deferred Tax Assets for Unrealized Losses*

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognized in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact. Early application of the amendments is permitted.

These amendments are not expected to have any impact on the Company.



*Effective beginning on or after January 1, 2018*

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

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

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and if other criteria are met. Early application of the amendments is permitted.

The Company is assessing the potential effect of the amendments on its consolidated financial statements.

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

The amendments address concerns arising from implementing PFRS 9, the new financial instruments standard before implementing the forthcoming insurance contracts standard. They allow entities to choose between the overlay approach and the deferral approach to deal with the transitional challenges. The overlay approach gives all entities that issue insurance contracts the option to recognize in other comprehensive income, rather than profit or loss, the volatility that could arise when PFRS 9 is applied before the new insurance contracts standard is issued. On the other hand, the deferral approach gives entities whose activities are predominantly connected with insurance an optional temporary exemption from applying PFRS 9 until the earlier of application of the forthcoming insurance contracts standard or January 1, 2021.

The overlay approach and the deferral approach will only be available to an entity if it has not previously applied PFRS 9.

The amendments are not applicable to the Company.

- PFRS 15, *Revenue from Contracts with Customers*

PFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under PFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in PFRS 15 provide a more structured approach to measuring and recognizing revenue.

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under PFRSs. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018.

The Company is currently assessing the impact of adopting the new revenue standard.





- PFRS 9, *Financial Instruments*

PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The adoption of PFRS 9 will have an effect on the classification and measurement of the Company's financial assets and impairment methodology for financial assets, but will have no impact on the classification and measurement of the Company's financial liabilities. The adoption will also have an effect on the Company's application of hedge accounting and on the amount of its credit losses. The Company is currently assessing the impact of adopting this standard.

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

The amendments clarify that an entity that is a venture capital organization, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. They also clarify that if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognized; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent. The amendments should be applied retrospectively, with earlier application permitted.

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

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

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

The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the nonmonetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or



receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. The interpretation may be applied on a fully retrospective basis. Entities may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognized on or after the beginning of the reporting period in which the entity first applies the interpretation or the beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

*Effective beginning on or after January 1, 2019*

▪ PFRS 16, *Leases*

Under the new standard, lessees will no longer classify their leases as either operating or finance leases in accordance with PAS 17, *Leases*. Rather, lessees will apply the single-asset model. Under this model, lessees will recognize the assets and related liabilities for most leases on their balance sheets, and subsequently, will depreciate the lease assets and recognize interest on the lease liabilities in their profit or loss. Leases with a term of 12 months or less or for which the underlying asset is of low value are exempted from these requirements.

The accounting by lessors is substantially unchanged as the new standard carries forward the principles of lessor accounting under PAS 17. Lessors, however, will be required to disclose more information in their financial statements, particularly on the risk exposure to residual value.

Entities may early adopt PFRS 16 but only if they have also adopted PFRS 15. When adopting PFRS 16, an entity is permitted to use either a full retrospective or a modified retrospective approach, with options to use certain transition reliefs.

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

*Deferred effectivity*

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

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

On January 13, 2016, the FRSC postponed the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board has completed its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

