Metro Pacific Tollways Corporation and Subsidiaries

(A Subsidiary of Metro Pacific Investments Corporation)

Consolidated Financial Statements
December 31, 2015 and 2014

and

Independent Auditors' Report

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

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Metro Pacific Tollways Corporation

We have audited the accompanying consolidated financial statements of Metro Pacific Tollways Corporation (a subsidiary of Metro Pacific Investments Corporation) and its subsidiaries, which comprise the consolidated balance sheets as at December 31, 2015 and 2014, and the consolidated statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Philippine Financial Reporting Standards, 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.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Metro Pacific Tollways Corporation and its subsidiaries as at December 31, 2015 and 2014, and their financial performance and their cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

Belinda T. Beng Hui

Belinda T. Beng Hui
Partner
CPA Certificate No. 88823
SEC Accreditation No. 0923-AR-1 (Group A),
March 25, 2013, valid until March 24, 2016
Tax Identification No. 153-978-243
BIR Accreditation No. 08-001998-78-2015,
June 26, 2015, valid until June 25, 2018
PTR No. 5321613, January 4, 2016, Makati City

February 18, 2016

METRO PACIFIC TOLLWAYS CORPORATION
(A Subsidiary of Metro Pacific Investments Corporation)
AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31	
	2015	2014
ASSETS		
Current Assets		
Cash and cash equivalents (Note 7)	**₱3,989,193,032**	₱3,823,671,657
Restricted cash (Note 7)	**391,001,929**	434,096,760
Short-term deposits (Notes 13 and 31)	**1,225,420,748**	4,789,522,429
Receivables (Note 8)	**767,649,994**	699,309,099
Inventories - at cost	**75,451,888**	50,193,651
Due from related parties (Note 19)	**112,439,577**	108,653,540
Available-for-sale financial assets (Notes 13 and 31)	**200,645,000**	255,591,000
Other current assets (Note 14)	**888,417,968**	426,906,641
Total Current Assets	**7,650,220,136**	10,587,944,777
Noncurrent Assets		
Investments in associates and a joint venture (Note 9)	**4,381,482,491**	273,106,317
Service concession assets (Note 10)	**52,987,320,615**	26,309,255,096
Property and equipment (Note 11)	**178,432,121**	181,671,231
Goodwill and other intangible assets (Notes 9 and 12)	**5,099,761,716**	5,108,027,308
Available-for-sale financial assets (Notes 13 and 31)	**1,843,469,772**	2,011,508,254
Pension asset (Note 24)	**12,055,764**	2,573,985
Other noncurrent assets (Note 14)	**1,309,061,197**	1,814,615,613
Total Noncurrent Assets	**65,811,583,676**	35,700,757,804
	₱73,461,803,812	₱46,288,702,581
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and other current liabilities (Notes 15 and 19)	**₱2,931,310,222**	₱2,536,093,243
Due to related parties (Note 19)	**5,080,497**	6,923,851
Unearned toll revenue	**9,960,218**	10,237,339
Long-term incentive plan payable (Note 24)	**–**	228,137,419
Dividends payable (Note 20)	**1,276,599,879**	294,123,710
Income tax payable	**271,035,295**	174,252,341
Provisions (Note 16)	**189,818,146**	158,910,771
Current portion of long-term debt (Notes 17 and 31)	**1,332,218,999**	1,220,323,835
Total Current Liabilities	**6,016,023,256**	4,629,002,509

(Forward)

	December 31	
	2015	2014
Noncurrent Liabilities		
Long-term debt - net of current portion (Notes 17 and 31)	**₱28,242,036,801**	₱25,455,639,233
Service concession fees payable (Notes 18 and 31)	**15,354,219,727**	–
Accrued retirement costs (Note 24)	**1,542,153**	2,000,212
Long-term incentive plan payable (Note 24)	**139,799,734**	–
Provisions (Note 16)	**495,664,409**	1,400,012,272
Deferred tax liabilities - net (Note 28)	**977,597,311**	703,452,020
Other noncurrent liabilities (Note 29)	**256,700,000**	256,700,000
Total Noncurrent Liabilities	**45,467,560,135**	27,817,803,737
Total Liabilities	**51,483,583,391**	32,446,806,246
Equity (Note 20)		
Capital stock	**12,684,255,959**	11,836,798,859
Additional paid-in capital	**13,719,905,514**	–
Equity adjustment on reverse acquisition	**(581,085,463)**	(581,085,463)
Retained earnings	**3,451,804,348**	3,190,241,790
Treasury shares	**(6,965,197,437)**	(193,597,437)
Other comprehensive income (loss) reserve (Notes 13, 24 and 31)	**(15,841,622)**	30,529,948
Other reserves (Notes 5, 23 and 24)	**(2,434,280,071)**	(2,437,982,510)
Total Equity Attributable to Equity Holders of the Parent	**19,859,561,228**	11,844,905,187
Non-controlling interests	**2,118,659,193**	1,996,991,148
Total Equity	**21,978,220,421**	13,841,896,335
	₱73,461,803,812	₱46,288,702,581

See accompanying Notes to Consolidated Financial Statements.

METRO PACIFIC TOLLWAYS CORPORATION
(A Subsidiary of Metro Pacific Investments Corporation)
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31	
	2015	2014
OPERATING REVENUES		
Toll fees (net of discounts amounting to ₱111,967,528 in 2015 and ₱79,048,588 in 2014)	**₱9,691,117,981**	₱8,641,226,420
Sales of magnetic cards	**13,482**	5,357
	9,691,131,463	8,641,231,777
COST OF SERVICES (Note 21)	**(3,829,609,928)**	(3,533,243,977)
GROSS PROFIT	**5,861,521,535**	5,107,987,800
CONSTRUCTION REVENUE (Note 10)	**3,434,261,102**	2,507,399,887
CONSTRUCTION COSTS (Note 10)	**(3,434,261,102)**	(2,507,399,887)
GENERAL AND ADMINISTRATIVE EXPENSES (Note 22)	**(1,302,646,383)**	(933,065,185)
INTEREST EXPENSE AND OTHER FINANCE COSTS (Note 26)	**(1,371,907,068)**	(1,213,762,918)
EQUITY IN NET EARNINGS OF ASSOCIATES AND A JOINT VENTURE (Note 9)	**476,040,134**	290,602,431
INTEREST INCOME (Note 25)	**100,319,557**	91,031,608
FOREIGN EXCHANGE LOSS – Net	**(31,042,117)**	(150,639)
OTHER INCOME (Note 27)	**1,170,828,858**	388,063,541
OTHER EXPENSES (Note 14)	**(555,351,622)**	–
INCOME BEFORE INCOME TAX	**4,347,762,894**	3,730,706,638
PROVISION FOR INCOME TAX (Note 28)		
Current	**998,463,274**	770,087,784
Deferred	**276,251,797**	181,675,477
	1,274,715,071	951,763,261
NET INCOME	**₱3,073,047,823**	₱2,778,943,377
Attributable to		
Equity holders of the Parent	**₱2,279,663,153**	₱2,062,361,422
Non-controlling interests	**793,384,670**	716,581,955
	₱3,073,047,823	₱2,778,943,377

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

	Years Ended December 31	
	2015	2014
NET INCOME	**₱3,073,047,823**	₱2,778,943,377
OTHER COMPREHENSIVE INCOME (LOSS)		
Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:		
Net gain on cash flow hedges (Note 31)	**3,775,752**	8,935,147
Income tax effect (Note 28)	**(1,132,726)**	(2,680,544)
	2,643,026	6,254,603
Gain (loss) on fair value change in available-for-sale financial assets (Note 13)	**(78,828,116)**	21,117,971
Income tax effect (Note 28)	**5,483,894**	6,088,358
	(73,344,222)	27,206,329
	(70,701,196)	33,460,932
Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods:		
Share in other comprehensive income (loss) of an associate (Note 9)	**2,984,028**	(3,658,107)
Remeasurement gains (losses) on defined benefit retirement plan (Note 24)	**7,482,179**	(3,214,494)
Income tax effect (Note 28)	**(2,244,662)**	964,349
	5,237,517	(2,250,145)
	8,221,545	(5,908,252)
TOTAL OTHER COMPREHENSIVE INCOME (LOSS)	**(62,479,651)**	27,552,680
TOTAL COMPREHENSIVE INCOME	**₱3,010,568,172**	₱2,806,496,057
Attributable to:		
Equity holders of the Parent	**₱2,233,291,583**	₱2,082,787,117
Non-controlling interests	**777,276,589**	723,708,940
	₱3,010,568,172	₱2,806,496,057

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, 2015 and 2014

	Attributable to Equity Holders of the Parent									
	Capital Stock (Note 20)	Additional paid-in capital (Note 20)	Equity Adjustment on Reverse Acquisition (Note 20)	Retained Earnings (Note 20)	Treasury Shares (Note 20)	Other Comprehensive Income (Loss) Reserve (Note 20)	Other Reserves (Note 20)	Total	Non-controlling Interests	Total Equity
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 20)	**847,457,100**	**13,724,142,800**	**–**	**–**	**–**	**–**	**–**	**14,571,599,900**	**–**	**14,571,599,900**
Transaction costs (Note 20)	**–**	**(4,237,286)**	**–**	**–**	**–**	**–**	**–**	**(4,237,286)**	**–**	**(4,237,286)**
Redemption of preferred shares	**–**	**–**	**–**	**–**	**(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 20)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(655,608,544)**	**(655,608,544)**
Cost of share-based payment (Note 23)	**–**	**–**	**–**	**–**	**–**	**–**	**3,702,439**	**3,702,439**	**–**	**3,702,439**
	12,684,255,959	**13,719,905,514**	**(581,085,463)**	**1,172,141,195**	**(6,965,197,437)**	**30,529,948**	**(2,434,280,071)**	**17,626,269,645**	**1,341,382,604**	**18,967,652,249**
Net income	**–**	**–**	**–**	**2,279,663,153**	**–**	**–**	**–**	**2,279,663,153**	**793,384,670**	**3,073,047,823**
Other comprehensive loss	**–**	**–**	**–**	**–**	**–**	**(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	**₱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**
At January 1, 2014	₱11,836,798,859	₱–	(₱581,085,463)	₱2,348,739,683	(₱193,597,437)	₱9,929,547	₱2,233,510	₱13,423,018,699	₱2,469,906,069	₱15,892,924,768
Cash dividends - ₱24.52 per share (Note 20)	–	–	–	(1,220,859,315)	–	–	–	(1,220,859,315)	–	(1,220,859,315)
Cash dividends of a subsidiary - ₱122.20 per share (Note 20)	–	–	–	–	–	–	–	–	(529,546,368)	(529,546,368)
Cost of share-based payment (Note 23)	–	–	–	–	–	–	8,540,433	8,540,433	–	8,540,433
Acquisition of non-controlling interest (Note 5)	–	–	–	–	–	174,706	(2,448,756,453)	(2,448,581,747)	(667,077,493)	(3,115,659,240)
	11,836,798,859	–	(581,085,463)	1,127,880,368	(193,597,437)	10,104,253	(2,437,982,510)	9,762,118,070	1,273,282,208	11,035,400,278
Net income	–	–	–	2,062,361,422	–	–	–	2,062,361,422	716,581,955	2,778,943,377
Other comprehensive income (Note 20)	–	–	–	–	–	20,425,695	–	20,425,695	7,126,985	27,552,680
Total comprehensive income for the year	–	–	–	2,062,361,422	–	20,425,695	–	2,082,787,117	723,708,940	2,806,496,057
At December 31, 2014	₱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

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

	Years Ended December 31	
	2015	2014
OPERATING ACTIVITIES		
Income before income tax	**₱4,347,762,894**	₱3,730,706,638
Adjustments to reconcile income before tax to net cash flows:		
Interest expense and other finance costs (Note 26)	**1,371,907,068**	1,213,762,918
Amortization of service concession assets (Notes 10 and 21)	**747,970,935**	646,196,117
Reversal of indemnification asset (Note 14)	**555,351,622**	–
Equity in net earnings of associates and a joint venture (Note 9)	**(476,040,134)**	(290,602,431)
Movements in:		
Provisions	**(900,516,433)**	(199,951,393)
Pension asset/Accrued retirement costs	**(2,457,659)**	(3,131,564)
Dividend income (Note 27)	**(144,642,687)**	(65,548,348)
Interest income (Note 25)	**(100,319,557)**	(91,031,608)
Long-term incentive plan expense (Note 24)	**117,434,785**	85,304,965
Depreciation of property and equipment (Notes 11, 21 and 22)	**57,435,213**	47,169,716
Amortization of other intangible assets (Notes 12, 21 and 22)	**13,844,244**	9,117,673
Executive stock option plan expense (Notes 23 and 24)	**3,702,439**	8,540,433
Unrealized foreign exchange loss – net	**35,194,285**	7,565,227
Deferred toll revenue realized	**(10,237,339)**	(7,109,512)
Gain on disposals of available-for-sale financial assets (Notes 13 and 27)	**(2,032,346)**	(1,169,267)
Gain on disposals of property and equipment (Note 11)	**(506,685)**	(798,304)
Working capital changes:		
Decrease (increase) in:		
Restricted cash	**43,094,831**	197,977,998
Receivables	**115,899,245**	(444,827,480)
Inventories	**(25,258,237)**	95,811
Due from related parties	**(3,786,037)**	(1,001,617)
Other current assets	**(468,932,372)**	21,413,641
Increase (decrease) in:		
Accounts payable and other current liabilities	**341,904,484**	629,617,735
Due to related parties	**(1,844,254)**	(628,877)
Long-term incentive plan payable (Note 24)	**(205,772,470)**	–
Unearned toll revenue	**9,960,218**	10,237,339
Income tax paid	**(894,259,275)**	(787,288,881)
Net cash flows from operating activities	**4,524,856,778**	4,714,616,929

(Forward)

	Years Ended December 31	
	2015	2014
INVESTING ACTIVITIES		
Increase in rental deposits and other noncurrent assets	**(₱77,106,344)**	(₱915,860,790)
Dividends received (Notes 9 and 13)	**454,426,802**	360,224,348
Interest received	**91,151,614**	65,748,159
Acquisition of:		
Available-for-sale financial assets (Note 13)	**(5,407,332,256)**	(4,050,556,145)
Associates and a joint venture (Note 9)	**(4,121,264,081)**	(103,000,000)
Additions to:		
Service concession assets (Notes 10)	**(12,116,046,298)**	(2,505,935,782)
Property and equipment (Note 11)	**(56,717,975)**	(66,149,441)
Other intangible assets (Note 12)	**(5,578,652)**	(118,376,531)
Proceeds from:		
Sale of property and equipment (Note 11)	**3,028,557**	2,407,170
Sale of available- for-sale financial assets (Note 13)	**8,955,539,952**	866,641,317
Maturity in investment in bonds (Note 13)	**250,000,000**	–
Net cash flows used in investing activities	**(12,029,898,681)**	(6,464,857,695)
FINANCING ACTIVITIES		
Proceeds from:		
Long-term debt (Note 17)	**7,200,000,000**	10,207,430,000
Issuance of new shares (Note 20)	**7,798,388,514**	–
Payments of:		
Dividends to stockholders (Note 20)	**(1,156,025,802)**	(1,220,715,710)
Dividends to non-controlling stockholders (Note 20)	**(535,207,168)**	(647,352,000)
Long-term debt	**(4,306,419,042)**	(1,189,021,236)
Interest	**(1,312,311,766)**	(1,030,282,237)
Debt issue costs (Note 17)	**(11,255,976)**	(95,505,143)
Acquisition of non-controlling interests (Note 5)	**–**	(3,115,659,241)
Net cash flows from financing activities	**7,677,168,760**	2,908,894,433
NET INCREASE IN CASH AND CASH EQUIVALENTS	**172,126,857**	1,158,653,667
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**(6,605,482)**	(1,126,487)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR (Note 7)	**3,823,671,657**	2,666,144,477
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 7)	**₱3,989,193,032**	₱3,823,671,657

See accompanying Notes to Consolidated Financial Statements.

METRO PACIFIC TOLLWAYS CORPORATION
(A Subsidiary of Metro Pacific Investments Corporation)
AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 52.1% and 55.8% owned by Metro Pacific Holdings, Inc. (MPHI) as at December 31, 2015 and 2014, respectively. 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 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 MPTC 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 Board of Directors (BOD) on February 18, 2016, 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, Manila North Tollways Corporation (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 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 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 MNTC. Thereafter, MNTC 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 the second quarter of 2017. 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 18, 2016.

Subic-Clark-Tarlac Expressway (SCTEX). As discussed in Note 2, pursuant to the Toll Operation Certificate (TOC) received from the TRB and agreements covering the SCTEX, MNTC 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 (4)-lane divided highway, traversing the provinces of Bataan, Pampanga and Tarlac.

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 South Luzon Expressway (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 18, 2016.

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 Manila-Cavite Toll Expressway Project (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.

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 (then FPIDC) 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 MNTC, including the design, funding and rehabilitation of the NLEX, and installation of the appropriate collection system therein. MPTDC (then FPIDC) 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 MNTC, 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 MNTC (Concessionaire) executed the STOA for the NLEX, whereby the ROP granted MNTC the rights, obligations and privileges including the authority to finance, design, construct, operate and maintain the project roads as toll roads (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 29, MNTC pays a certain amount to PNCC.

Also, under the STOA, MNTC 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, MNTC shall hand-over the project roads to the Grantor without cost, free from any and all liens and encumbrances and fully operational and in good working condition, including any and all existing land required, works, toll road facilities and equipment found therein directly related to and in connection with the operation of the toll road facilities.

In October 2008, in consideration of the construction of Segment 8.1, TRB approved MNTC'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, MNTC obtained TRB's approval for certain amendments to the STOA 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; and (d) modification of alignments of Phase II Segments 9 and 10 - February 2010.

Agreements covering the SCTEX

On February 26, 2015, MNTC and the Bases Conversion and Development Authority (BCDA) entered into the Business Agreement (BA) covering the assignment by BCDA to MNTC of its rights, interest and obligations under the TOA relating to the management, 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, MNTC 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, 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 effective date (October 27, 2015), until October 30, 2043, and may be extended subject to mutual agreement of MNTC 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 MNTC on May 22, 2015, in order to fully allow MNTC to exercise its rights and interests under the BA.

In consideration for the assignment by BCDA to MNTC of its rights to and interests in SCTEX, MNTC paid BCDA an upfront cash of ₱3.5 billion (inclusive of value-added tax or VAT) upon effectivity of the BA (the Upfront Payment). MNTC 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. MNTC shall gross up the concession fees by the 12% VAT. In 2015, MNTC recorded concession fees of ₱132.1 million included under “Cost of services” account in the consolidated statement of income (see Note 21).

MNTC 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 MNTC to BCDA from time to time.

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

<u>CALAX Concession Agreement</u>
On May 26, 2015, after a competitive bidding, the Department of Public Works and Highways (DPWH) announced MHI as the winning bidder to implement the CALAX. The CALAX will be undertaken using the Build-Operate-Transfer (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 50th 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.

Design and Construction. Pursuant to the Concession Agreement, MHI shall undertake the construction works of the CALAX in conformance with the design criteria of the Minimum Performance Standards and Specifications (MPSS). MPSS establish the minimum requirements that MHI must comply with regard to the design, construction, O&M of the CALAX.

The DPWH shall determine if MHI has fully complied with the requirements for the completion of the CALAX before issuing the Certificate of Final Completion.

O&M. The MPSS also sets out key performance indicators that measure MHI's performance and imposes penalties for non-performance. The performance requirements are categorized as (i) operation requirements that include the toll collection system, traffic safety and control system and power and water supply; and (ii) maintenance requirements that include the maintenance of expressway structures, toll plazas and buildings and operating equipment and utilities. As indicated in the MPSS, MHI shall preserve the asset so it handled back to DPWH in a manner that complies with the pavement performance standards specified in MPSS. 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.

Ownership of the CALAX. 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.

Subject to the limits and conditions under the BOT Law, the DPWH is responsible for the payment of all applicable real property taxes on the CALAX throughout the concession period. In the event that the relevant Government Authority assesses MHI of the real property taxes for the CALAX, the DPWH shall, upon prior notice and submission by MHI of the subject assessments, pay directly the relevant Government Authority the amount of such assessed real property taxes. Conversely, MHI may advance the payment of such real property taxes, which payment shall be fully reimbursed by the DPWH within thirty (30) days after receipt of written request from reimbursement from MHI.

<u>TOA for the CAVITEX</u>
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.

On August 17, 2015, the TRB has issued a conditional Notice to Proceed (NTP) for Segment 3A-1 of the C-5 South Link Expressway Project. The effectivity of the NTP shall be subject to the fulfillment of the conditions precedent as stated in the TOA. As at February 18, 2016, CIC is in the process of completing the conditions. CIC is scheduled to start the construction of the project, which runs from C-5 Road in Taguig City to Merville Villages in Sucat, Parañaque, by the second quarter of 2016.

3. Significant Accounting Policies

Basis of Preparation
The consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments and available-for-sale (AFS) financial assets 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 of the Company have been prepared in compliance with Philippine Financial Reporting Standards (PFRS) 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, 2015 and 2014.

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 Group 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 MNTC 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:

			December 31, 2015			December 31, 2014		
	Activity	Country of incorporation and operation	**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
Luzon Tollways Corporation (LTC) (dormant)	Tollway Operations	Philippines	–	**100.0**	**100.0**	–	100.0	100.0
CIC and subsidiaries (see Notes 1and 2)	Tollway Operations	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
MNTC (see Notes 1, 2 and 5)	Tollway Operations	Philippines	–	**71.0**	**75.6**	–	71.0	75.6
NLEX Ventures Corporation (NVC)[a]	Real estate	Philippines	–	**100.0**	**100.0**	–	–	–
MSIHI (see Note 1)	Holding Company	Philippines	**57.0**	–	**57.0**	57.0	–	57.0

[a] *Incorporated on September 23, 2015.*

Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of new and amended PFRS which were adopted as at January 1, 2015. The adoption of the new and amended PFRS did not have any significant impact on the consolidated financial statements.

- Amendments to Philippine Accounting Standards (PAS) 19, *Employee Benefits – Defined Benefit Plans: Employee Contributions*

- Annual Improvements to PFRSs (2010-2012 cycle)
  - PFRS 2, *Share-based Payment – Definition of Vesting Condition*
  - PFRS 3, *Business Combinations – Accounting for Contingent Consideration in a Business Combination*
  - PFRS 8, *Operating Segments – Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets*

- PAS 16, *Property, Plant and Equipment* and PAS 38*, Intangible Assets – Revaluation Method – Proportionate Restatement of Accumulated Depreciation and Amortization*
- PAS 24*, Related Party Disclosures – Key Management Personnel*

- Annual Improvements to PFRSs (2011-2013 cycle)
  - PFRS 3, *Business Combinations – Scope Exceptions for Joint Arrangements*
  - PFRS 13, *Fair Value Measurement – Portfolio Exception*
  - PAS 40, *Investment Property*

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, measured at acquisition date fair value, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of previously held equity 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.

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.

<u>Current versus Noncurrent Classification of Assets and Liabilities</u>
The Company presents assets and liabilities in the consolidated balance sheet based on current/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.

<u>Cash and Cash Equivalents</u>
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 Liabilities

Initial Recognition and Measurement
The Company recognizes a financial asset or a financial liability when it becomes a party to the contractual provisions of the instrument. Financial assets are classified 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. The Company determines the classification of its financial assets at initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year-end.

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

All regular way purchases and sales of financial assets are recognized on the trade date, which is the date that the Company commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

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

The Company has no financial assets and liabilities at FVPL and HTM investments as at December 31, 2015 and 2014.

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 carried at amortized cost using the effective interest rate method less any allowance on impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and includes fees that are integral part of the effective interest rate and transaction costs. Gains and losses are recognized in the consolidated statement of income when the loans and receivables are derecognized or impaired, as well as through the amortization process.

Loans and receivables include cash and cash equivalents, restricted cash - current, receivables, due from related parties, short-term investments (included in “Other current assets” account in the consolidated balance sheet) and restricted cash - noncurrent and refundable deposits (included in “Other noncurrent assets” account in the consolidated balance sheet) (see Notes 7, 8, 14 and 19).

b. AFS Financial Assets

AFS financial assets are non-derivative financial assets that are designated as such or do not qualify to be classified in any of the other categories. 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 effective interest rate. Dividends earned on holding AFS financial assets are recognized in the consolidated statement of income when the right of payment has been established.

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

As at December 31, 2015 and 2014, 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), Philippine Long Distance Telephone Company (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 13).

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 effective interest rate 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 15, 17, 18 and 19).

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 effective interest rate method.

Debt issue costs are amortized over the life of the debt instrument using the effective interest rate 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 a currently 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 since 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 when 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 it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

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 expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate.

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 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 amount is 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. Also, fair values of financial instruments measured at amortized cost are disclosed in Note 31.

Fair value is the estimated 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. All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described, as follows, based on the lowest-level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities

- Level 2 — Valuation techniques for which the lowest-level input that is significant to the fair value measurement is directly or indirectly observable

- Level 3 — Valuation techniques for which the lowest-level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the 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.

<u>Inventories</u>
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.

<u>Advances to Contractors and Consultants</u>
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.

<u>Service Concession Arrangements</u>
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, and upfront fees payments on the concession agreements. 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 routinary 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 depreciated 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.

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.

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

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.

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 of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples quoted share prices for publicly traded companies 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 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 MNTC, 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 amount of the revenue can be measured reliably, regardless of when the payment is made. Revenue is measured at fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding tax or duty. 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, is 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 facilities, toll service facilities (TSF) and advertising, included in "Other income" account in the consolidated statement of income, are recognized in accordance with the terms of the agreement.

- 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 effective interest rate 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 disposal of property and equipment, and reversals of excess provisions payable, contingent liabilities and allowance for doubtful accounts.

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.

Operating 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. Leases where the lessor retains substantially all the risks and benefits of ownership of the assets are classified as operating leases. Operating lease payments are recognized as an expense in the consolidated statement of income on a straight-line basis over the term of the lease.

Foreign Currency-denominated Transactions and Translations
The consolidated financial statements are presented in Philippine peso, which is the Parent Company's functional and presentation 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 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).

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 under the higher of the defined benefit obligation relating to the minimum guarantee and the obligation arising from the defined contribution plan.

For the defined benefit minimum guarantee plan, the liability is determined based on the present value of the excess of the projected defined benefit obligation over the projected defined contribution obligation at the end of the reporting period. The defined benefit obligation is calculated annually by a qualified independent actuary using the projected unit credit method. The Parent Company and MPTDC determine 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. MNTC 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.

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.

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.

Determination of Functional Currency. Based on the economic substance of the underlying circumstances relevant to the Parent Company and its subsidiaries, the functional currency of the Parent Company and its subsidiaries has been determined to be the Philippine peso. The Philippine peso is the currency that mainly influences the selling prices for the Company's services and the currency that influences labor and other costs of providing services.

Service Concession Arrangement. Philippine Interpretation IFRIC 12, *Service Concession Arrangements*, 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, CALAX and CAVITEX 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, *Construction Contracts*. It measures contract revenue at the fair value of the consideration received or receivable. Given that MNTC, CIC and MHI 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 ₱3,434.3 million and ₱2,507.4 million for the years ended December 31, 2015 and 2014, respectively (see Note 10).

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 ₱354.4 million and ₱272.4 million as at December 31, 2015 and 2014, respectively (see Note 16).

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.

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, 2015 and 2014 amounted to ₱114.6 million and ₱105.8 million, respectively (see Note 9).

Potential Voting Rights on Exchangeable Bonds. As also discussed in Note 9, MPTC acquired exchangeable bonds from Ho Chi Minh City Infrastructure Investment Joint Stock Company (CII) on March 11 and September 14, 2015. These exchangeable bonds will be mandatorily exchanged into the shares of CII Bridges and Roads Investment Joint Stock Company (CII B&R, a subsidiary of CII) in March and September 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 ₱4,104.5 million as at December 31, 2015 (see Note 9).

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.

Rental expense amounted to ₱3.8 million and ₱2.8 million for the years ended December 31, 2015 and 2014, respectively (see Note 22).

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, 2015 and 2014 (see Note 13).

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 2015 and 2014.

Receivables (net of allowance for doubtful accounts of ₱14.2 million and ₱9.9 million as at December 31, 2015 and 2014, respectively) amounted to ₱767.6 million and ₱699.3 million as at December 31, 2015 and 2014, respectively (see Note 8).

Due from related parties amounted to ₱112.4 million and ₱108.7 million as at December 31, 2015 and 2014, respectively (see Note 19).

Estimating NRV of Inventories. Inventories are presented at the lower of cost or NRV. Estimates of NRV are based on the most reliable evidence available at the time the estimates are made of the amount the inventories are expected to be realized. A review of the items of inventories is performed at each balance sheet date to reflect the accurate valuation of inventories in the consolidated financial statements.

There was no write-down of inventories recognized in the consolidated financial statements for the years ended December 31, 2015 and 2014. Inventories amounted to ₱75.5 million and ₱50.2 million as at December 31, 2015 and 2014, respectively.

Estimated Useful Lives. The useful life of each of the Company's item of property and equipment and other intangible assets are estimated based on the period over which the assets are expected to be available for use by the Company. Such estimation is based on a collective assessment of similar businesses, internal technical evaluation and experience with similar assets. The estimated useful life of each asset is reviewed periodically and updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the asset. It is possible, however, that future results of operations could be materially affected by changes in the amounts and timing of recorded expenses brought about by changes in the factors mentioned above. An increase in the estimated useful life of any item of property and equipment and other intangible assets would decrease the recorded depreciation expense and amortization expense.

There were no changes in the estimated useful lives of property and equipment and other intangible assets in 2015 and 2014. The carrying values of nonfinancial assets subject to depreciation and amortization as at December 31, 2015 and 2014 are as follows:

	2015	2014
Property and equipment (see Note 11)	**₱178,432,121**	₱181,671,231
Software cost (see Note 12)	**20,515,838**	28,781,430

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 2015 and 2014, the Company reported amortization of service concession assets amounting to ₱748.0 million and ₱646.2 million, respectively (see Note 21). The total carrying values of service concession assets subject to amortization amounted to ₱32,089.1 million and ₱26,309.3 million as at December 31, 2015 and 2014, respectively (see Note 10).

Impairment of AFS Financial Assets. The Company treats AFS financial assets as impaired where there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires judgment. The Company treats "significant" generally as 20% or more and "prolonged" as greater than twelve months for quoted equity securities. In addition, the Company evaluates other factors, including normal volatility in share price for quoted equities and future cash flows and the discount factors for unquoted equities.

For debt instruments classified as AFS financial assets, the Company considers loss events that has an impact on the estimated future cash flows of the financial asset, among others, the issuer is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization. Other observable data may 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.

No impairment loss was recognized in 2015 and 2014. The carrying values of AFS financial assets, including short-term deposits, amounted to ₱3,269.5 million and ₱7,056.6 million as at December 31, 2015 and 2014, respectively (see Note 13).

Impairment of Nonfinancial Assets. Impairment review for nonfinancial assets (investments in associates and a joint venture, service concession assets that are available for use, property and equipment, software costs and other noncurrent assets) is performed when certain impairment indicators are present. The intangible asset (franchise cost) with indefinite useful life and service concession assets that has not yet been brought into use are subject to annual impairment testing. Determining the fair value of assets requires the estimation of cash flows expected to be generated from the continued and ultimate disposition of such assets. 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 price less incremental costs for disposing the asset. If no such transactions can be identified, an appropriate valuation model is used.

No impairment loss was recognized in the consolidated financial statements for the years ended December 31, 2015 and 2014.

The carrying values of nonfinancial assets reviewed for indicators of impairment follows:

	2015	2014
Investments in associates and joint venture (see Note 9)	**₱4,381,482,491**	₱273,106,317
Service concession assets (see Note 10)	**32,089,085,069**	26,309,255,096
Property and equipment (see Note 11)	**178,432,121**	181,671,231
Software costs (see Note 12)	**20,515,838**	28,781,430
Other noncurrent assets (see Note 14)	**411,824,456**	917,417,070

There is no impairment testing performed for the above assets for the years ended December 31, 2015 and 2014 as there were no indicators of impairment.

The carrying values of nonfinancial assets subject to impairment testing, irrespective of whether there are any indications of impairment follows:

	2015	2014
Service concession asset – CALAX (see Note 10)	**₱20,898,235,546**	₱–
Franchise costs (see Note 12)	**100,000,000**	100,000,000

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 2015 and 2014. The carrying amount of goodwill amounted to ₱4,979.2 million as at December 31, 2015 and 2014 (see Note 12).

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 ₱4,858.7 million and ₱368.3 million as at December 31, 2015 and 2014, respectively (see Note 28).

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 ₱950.5 million and ₱638.5 million as at December 31, 2015 and 2014, respectively (see Note 28).

Share-based Payments. The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payments requires determining the most appropriate valuation model for a grant of equity instruments, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payments are disclosed in Note 23.

Total cost arising from share-based payments recognized by the Company, included in "Salaries and employee benefits" account under "General and administrative expenses", amounted to ₱3.7 million and ₱8.5 million for the years ended December 31, 2015 and 2014, respectively (see Notes 23 and 24).

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, mortality rates, and future pension increases. 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 24.

Pension asset under the defined benefit plan amounted to ₱12.1 million and ₱2.6 million as at December 31, 2015 and 2014, respectively. Accrued retirement costs under the defined benefit plan amounted to ₱1.5 million and ₱2.0 million as at December 31, 2015 and 2014, respectively (see Note 24).

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, 2015 and 2014 (see Note 24). LTIP payable as at December 31, 2015 and 2014 amounted to ₱139.8 million and ₱228.1 million, respectively (see Note 24).

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 ₱685.5 million and ₱1,558.9 million as at December 31, 2015 and 2014, respectively (see Note 16).

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 32).

5. Acquisition of Non-controlling Interests

On December 23, 2013, MPTDC and Egis Projects SA (Egis) entered into a Share Purchase Agreement (SPA) for the sale and transfer of common shares of MNTC held by Egis representing 3.9% of the total issued and outstanding capital stock of MNTC to MPTDC on January 10, 2014 (closing date). The consideration or purchase price paid by MPTDC to Egis is ₱1,424.5 million. The carrying value of the net assets on the acquisition date was ₱2,344.2 million.

On July 18, 2014, MPTDC, Egis and Egis Investment Partners Philippines, Inc. (EIPPI) entered into a SPA for EIPPI's acquisition of MNTC shares, representing 10.0% of the issued and outstanding shares of MNTC, held by Egis for a total consideration of ₱3,652.7 million or ₱2,056.68 per share. Egis' receivable from EIPPI as a result of the sale of the MNTC shares amounted to ₱3,652.7 million ("Egis Receivable"). The business activity of EIPPI, which is owned by MPTDC at 46.0% and by Egis at 54.0%, was restricted to consist exclusively of holding the acquired MNTC shares. This transaction effectively provided MPTDC an additional 4.6% economic interest in MNTC for a total consideration of ₱1,691.1 million representing substantially the amount paid for the assignment by Egis of 46.0% of the Egis' Receivable to MPTDC. The carrying value of the net assets on the acquisition date was ₱2,453.6 million.

After the abovementioned transactions, MPTDC's effective ownership in MNTC increased from 67.1% to 75.6%. The increase in effective ownership in MNTC is accounted for as an equity transaction with the premium of ₱2,448.8 million recognized in equity (see Note 20). The premium represents the difference between the carrying value of the additional interest acquired and the total consideration paid.

Total cash consideration paid to Egis	₱3,115,659,241
Carrying value of the additional interest acquired in MNTC	666,902,788
Difference recognized in "Other reserves" account	₱2,448,756,453

6. Material Partly-Owned Subsidiary

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

	2015	2014
Proportion of equity interest held by non-controlling interests	**24.4%**	24.4%
Accumulated balances of material non-controlling interests	**₱1,966,572,355**	₱1,843,161,484
Net income during the year allocated to material non-controlling interests	**730,627,496**	688,499,366
Dividends paid to material non-controlling interests	**535,207,168**	647,352,000

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

Summarized Consolidated Balance Sheets

	As at December 31	
	2015	2014
Current assets	**₱5,479,489,670**	₱9,043,408,189
Noncurrent assets	**25,405,510,628**	19,671,627,065
Current liabilities	**(5,165,264,490)**	(4,619,070,506)
Noncurrent liabilities	**(17,586,097,280)**	(16,468,108,480)
Total equity	**₱8,133,638,528**	₱7,627,856,268
Attributable to:		
Equity Holders of the Parent	**₱6,167,066,173**	₱5,784,694,784
Non-controlling interests	**1,966,572,355**	1,843,161,484
	₱8,133,638,528	₱7,627,856,268

Summarized Consolidated Statements of Comprehensive Income

	Years Ended December 31	
	2015	2014
Operating revenues	**₱8,453,393,815**	₱7,516,592,258
Cost of services	**(3,420,625,851)**	(3,146,485,760)
General and administrative expenses	**(708,962,366)**	(552,082,087)
Interest expense and other finance costs	**(622,295,149)**	(601,214,207)
Other income (including construction revenue)	**3,565,123,643**	2,612,585,385
Construction costs	**(3,328,364,819)**	(2,425,272,471)
Income before income tax	**3,938,269,273**	3,404,123,118
Provision for income tax	**945,139,130**	838,682,061
Net income	**2,993,130,143**	2,565,441,057
Other comprehensive income (loss)	**(66,016,726)**	31,323,086
Total comprehensive income	**₱2,927,113,417**	₱2,596,764,143
Attributable to non-controlling interests	**₱714,519,415**	₱695,626,350

Summarized Consolidated Cash Flow Information

	Years Ended December 31	
	2015	2014
Operating	**₱4,146,601,128**	₱3,949,088,743
Investing	**(2,725,931,162)**	(6,523,388,375)
Financing	**(1,707,704,608)**	4,027,137,210
Net increase (decrease) in cash and cash equivalents	**(₱287,034,642)**	₱1,452,837,578

The ability of MNTC 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 MNTC'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.

7. Cash and Cash Equivalents and Restricted Cash

Cash and cash equivalents consist of:

	2015	2014
Cash on hand and in banks	**₱829,576,359**	₱1,232,465,011
Short-term deposits as cash equivalents	**3,159,616,673**	2,591,206,646
	₱3,989,193,032	₱3,823,671,657

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 ₱340.2 million and ₱192.2 million as at December 31, 2015 and 2014, 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 17.

Restricted Cash
Restricted cash comprise revenue and debt service reserve and payment accounts amounting to ₱391.0 million and ₱434.1 million as at December 31, 2015 and 2014, 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 17).

Interest earned from cash and cash equivalents and restricted cash amounted to ₱38.5 million and ₱25.6 million for the years ended December 31, 2015 and 2014, respectively (see Note 25).

As at December 31, 2015, MNTC has available ₱2.0 billion undrawn committed term loan facility from PNB.

8. Receivables

This account consists of:

	2015	2014
Trade receivables (see Note 19)	**₱313,928,380**	₱463,872,735
Advances to DPWH	**202,883,464**	173,678,456
Advances to officers and employees (see Note 19)	**10,225,368**	11,441,758
Interest receivables	**144,696,930**	14,264,115
Dividend receivable (see Note 13)	**53,807,325**	–
Other receivables	**56,270,586**	45,935,232
	781,812,053	709,192,296
Less allowance for doubtful accounts	**14,162,059**	9,883,197
	₱767,649,994	₱699,309,099

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

Advances made to DPWH is pursuant to the Reimbursement Agreement entered into by MNTC with DPWH in 2013 where DPWH requested these advances in order to fast track the acquisition of right-of-way for the construction of Phase II Segment 9. The balance also includes direct advances to certain Segment 9 landowners as consideration for the grant of immediate right-of-way possession to MNTC 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 MNTC in consideration for the direct advances received from MNTC. These advances to DPWH are noninterest-bearing and are collectible within a year.

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

Interest receivables are collectible within three (3) months to one (1) year.

Other receivables are noninterest-bearing and are collectible within a year. As at December 31, 2015 and 2014, other receivables include those receivables from motorists who caused accidental damage to NLEX property from day-to-day operations amounting to ₱33.2 million and ₱30.2 million, respectively.

Movements in the allowance for individually assessed impaired receivables in 2015 and 2014 are as follows:

		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 22)	**151,641**	**4,127,221**	**4,278,862**
Balance at end of year	**₱2,389,832**	**₱11,772,227**	**₱14,162,059**

	2014		
	Trade Receivables	Other Receivables	Total
Balance at beginning of year	₱–	₱5,544,087	₱5,544,087
Provision for doubtful accounts (see Note 22)	2,238,191	2,100,919	4,339,110
Balance at end of year	₱2,238,191	₱7,645,006	₱9,883,197

9. **Investments in Associates and a Joint Venture**

This account consists of:

	Relationship	**2015**	2014
CII B&R	Associate	**₱4,104,481,754**	₱–
Tollways Management Corporation (TMC)	Associate	**162,446,746**	167,278,041
ESC	Joint Venture	**114,553,991**	105,828,276
		₱4,381,482,491	₱273,106,317

Details of the Company's investment in CII B&R, a 44.9% owned associate, investment in TMC, a 46.0% owned associate and investment in ESC, a 50% joint venture, are as follows:

	2015	2014
Acquisition cost:		
Balance at beginning of year	**₱120,480,000**	₱17,480,000
Additions during the year	**4,121,264,081**	103,000,000
Balance at end of year	**4,241,744,081**	120,480,000
Accumulated equity in net earnings:		
Balance at beginning of year	**162,161,305**	166,234,874
Equity in net earnings for the year	**476,040,134**	290,602,431
Dividends received	**(491,912,069)**	(294,676,000)
Balance at end of year	**146,289,370**	162,161,305
Share in remeasurements of defined benefit retirement plan:		
Balance at beginning of year	**(9,534,988)**	(5,876,881)
Remeasurements of defined benefit retirement plan during the year	**2,984,028**	(3,658,107)
Balance at end of year	**(6,550,960)**	(9,534,988)
	₱4,381,482,491	₱273,106,317

CII B&R

MPTC has 44.94% voting interest in CII B&R as at December 31, 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, 2015, CII B&R has investments in the following companies:

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

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.

The Company's exchangeable bonds from CII will be accounted for under PAS 28, *Investments in Associates and Joint Ventures.* The potential voting rights from the exchangeable bonds give MPTC additional access to the returns of CII B&R through the interest income to be received from CII. Also, the number of MPTC's representation in the board of CII B&R will remain unchanged even after exchange of the first and second tranche exchangeable bonds. The interest income from the exchangeable bonds amounting to VND61.7 billion (₱128.3 million) was treated as a deduction against the cost of investment in CII B&R

Based on the initial purchase price allocation, the difference of ₱637.9 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 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 VND2,045.3 billion (₱4,245.2 million) as at December 31, 2015.

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 19.

Cash Dividends. TMC's BOD approved the declaration of cash dividends aggregating to ₱654.3 million and ₱640.6 million in 2015 and 2014, respectively. The Company's share in the dividends declared amounted to ₱301.0 million and ₱294.7 million in 2015 and 2014, respectively.

On February 17, 2016, TMC's BOD approved the declaration of cash dividends amounting to ₱311.7 million, payable on or before April 30, 2016.

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.

On June 30, 2014, MPTDC, EESSA and ESC executed an SPA whereby MPTDC acquired an equity interest equivalent to 50% plus one share of the capital stock of ESC through a combination of subscription to a total of 87,000 new shares of ESC and purchase of 13,001 shares from EESSA. The total consideration is ₱1,030 average price per share or a total of ₱103.0 million. Subscription payment for new shares was fully paid on June 30, 2014 while the purchase price for acquired shares from EESSA was paid on July 31, 2014, upon completion of the relevant conditions precedent.

The acquisition will allow MPTDC and EESSA to combine their expertise in managing and expanding the business of ESC. However, the acquisition is not expected to significantly impact the business and financial condition of MPTDC.

Based on the purchase price allocation, the difference of ₱92.4 million between the Company's share on the total fair value of ESC's specific 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 a joint venture.

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

	2015			2014	
	CII B&R	**TMC**	**ESC**	TMC	ESC
Current assets	**₱4,311,675,708**	**₱874,121,023**	**₱392,931,942**	₱940,088,015	₱506,739,138
Noncurrent assets	**13,719,920,583**	**142,537,241**	**38,464,912**	123,038,365	40,879,245
Current liabilities	**(2,642,092,678)**	**(663,513,164)**	**(383,692,570)**	(689,440,012)	(518,984,407)
Noncurrent liabilities	**(7,675,679,553)**	**–**	**(3,380,214)**	(10,038,453)	(1,761,336)
Equity	**7,713,824,060**	**353,145,100**	**44,324,070**	363,647,915	26,872,640
Proportion of the Company's ownership	**44.94%**	**46%**	**50%**	46%	50%
Share in equity of the investees	**3,466,592,533**	**162,446,746**	**22,162,035**	167,278,041	13,436,320
Goodwill	**637,889,221**	**–**	**92,391,956**	–	92,391,956
Carrying amount of the investment	**₱4,104,481,754**	**₱162,446,746**	**₱114,553,991**	₱167,278,041	₱105,828,276

	Years Ended December 31				
	2015			2014	
	CII B&R	**TMC**	**ESC**	TMC	ESC
Operating revenues	**₱278,422,909**	**₱2,018,093,331**	**₱113,284,813**	₱2,086,013,694	₱90,508,974
Cost of sales	**(189,314,281)**	**(1,029,084,784)**	**(18,742,919)**	(962,693,296)	(13,668,535)
General and administrative expenses	**(172,544,001)**	**(240,003,211)**	**(71,050,219)**	(273,966,899)	(55,369,731)
Other income (expenses) – net	**492,369,823**	**77,642,165**	**1,059,525**	(12,092,785)	1,336,066
Income before income tax	**408,934,450**	**826,647,501**	**24,551,200**	837,260,714	22,806,774
Provision for income tax	**(21,412,560)**	**(189,338,627)**	**(7,099,771)**	(211,664,725)	(8,220,736)
Net income	**387,521,890**	**637,308,874**	**17,451,429**	625,595,989	14,586,038
Other comprehensive income (loss)	**–**	**6,487,017**	**–**	(7,952,406)	–
Total comprehensive income	**₱387,521,890**	**₱643,795,891**	**₱17,451,429**	₱617,643,583	₱14,586,038
Company's share of:					
Net income	**₱174,152,337**	**₱293,162,082**	**₱8,725,715**	₱287,774,155	₱2,828,276*
Total comprehensive income	**174,152,337**	**296,146,110**	**8,725,715**	284,116,048	2,828,276*

** This pertains to the Company's share in ESC's net income/total comprehensive income from July 31, 2014 (acquisition date) to December 31, 2014 which amounted to ₱5,656,551.*

10. **Service Concession Assets**

The movements in the service concession assets follow:

	NLEX	SCTEX	CALAX	CAVITEX	Total
Cost:					
At January 1, 2014	₱20,375,658,787	₱–	₱–	₱9,683,480,891	₱30,059,139,678
Additions	2,425,272,472	–	–	82,127,415	2,507,399,887
At December 31, 2014	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**
Accumulated amortization:					
At January 1, 2014	₱5,454,380,384	₱–	₱–	₱156,707,968	₱5,611,088,352
Amortization (see Note 21)	483,626,911	–	–	162,569,206	646,196,117
At December 31, 2014	5,938,007,295	–	–	319,277,174	6,257,284,469
Amortization (see Note 21)	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**
Carrying value:					
At December 31, 2015	**₱19,627,555,020**	**₱3,166,191,500**	**₱20,898,235,546**	**₱9,295,338,549**	**₱52,987,320,615**
At December 31, 2014	16,862,923,964	–	–	9,446,331,132	26,309,255,096

NLEX
Additions during 2015 and 2014 pertain mainly to the civil works construction on Segments 9 and 10 and fixed operating equipment (FOE) design, supply and installation for the toll collection system (TCS) migration on Segment 8.1 and Phase I of the NLEX. Additions also include the pre-construction costs of Segment 8.2 of Phase II of the NLEX.

Borrowing costs capitalized amounted to ₱383.0 million and ₱335.9 million for the years ended December 31, 2015 and 2014, respectively. The interest rate used to determine the amount of borrowing costs eligible for capitalization ranges from 5.0% to 5.8% in 2015 and 2014.

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, 2015 and 2014, the remaining concession term is 22 years and 23 years, respectively.

SCTEX
On October 27, 2015, MNTC took over from BCDA the management, O&M of the SCTEX. Additions during 2015 include an upfront fee payment amounting to ₱3.1 billion and other directly attributable costs of the project.

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

CALAX
On July 10, 2015, MHI was granted the concession to design, finance, construct, operate and maintain the CALAX. 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.

Borrowing cost capitalized amounted to ₱399.5 million for the year ended December 31, 2015. 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, 2015, the remaining concession term for CALAX is 34.5 years.

Impairment Testing of Service Concession Asset - CALAX
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*, MHI has performed the analysis by comparing the recoverable amount and the carrying amount of the service concession asset as at December 31, 2015 (valuation date). The service concession asset's recoverable amount is based on FVLCD. In particular, the fair value of the service concession asset was determined using multi-period excess earnings method (MEEM) while the costs of disposal are assumed to be minimal at 1% based on MHI's best estimate of directly attributable costs related to an exit position for a similar asset. The key assumption used by MHI to which the recoverable amount is most sensitive to is discount rate due to the profile of cash flows where a significant outflow related to construction is expected to be incurred from 2016 to 2020 before start of commercial operations. Together with other key assumptions, these are discussed as follows:

- *Forecast horizon*. The forecast period used in the valuation analysis is 34.5 years, which represents the 30-year operations period from July 2020 to July 2050 and the remaining construction and development period from valuation date to operations start date in July 2020.
- *Traffic volume*. Average traffic volume growth rates used are 2.6% to 7.7% and 2.1% to 6.8% for Cavite and Laguna segments, respectively, starting from the expected completion of the project in 2020 until end of concession period in 2050.
- *Discount rate.* The discount rate applied in the valuation analysis is 8.2%, which was based on the weighted average cost of capital (WACC) using 12.7% cost of equity, 4.8% after-tax cost of debt and an industry capital structure of approximately 60:40 debt-equity ratio.
- *Contributory asset charges*. MHI determined that the most significant contributory asset is assembled workforce (AWF), which is estimated to have a total cost of hiring, recruiting and training of ₱2.4 million as of valuation date. The assumed market rate of return is equal to the 8.2% discount rate. Applying a charge of 8.2% to the projected annual toll revenues, the Company determined a contributory asset charge rate that is less than 1% of toll revenues per year. For other assets with lower base amounts than AWF, MHI believes that their contributory asset charges will not materially affect the estimate of fair value.
- *Cost of disposal*. Costs of disposal, as previously discussed, are assumed to be minimal at 1% based on MHI's best estimate of directly attributable costs related to an exit position for a similar asset.

Based on the impairment testing analysis, MHI did not identify an impairment loss for this service concession asset when FVLCD is compared to the extent of the investment that MHI has spent as of valuation date. The FVLCD of the service concession asset is classified under Level 3 of the fair value hierarchy.

<u>CAVITEX</u>
Additions during 2015 and 2014 pertain mainly to the civil works construction of the Modified Zapote Interchange, part of Segment 4 of R-1 Expressway Extension and FOE design, supply and installation for the TCS migration of Segment 1 of R-1 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, 2015, the remaining concession terms for R-1 Expressway and R-1 Expressway Extension are 18 years and 30 years, respectively.

11. **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, 2014	₱97,083,175	₱101,569,163	₱139,446,560	₱338,098,898
Additions	411,644	26,093,825	39,643,972	66,149,441
Disposals	(498,288)	(16,127,671)	(1,315,287)	(17,941,246)
At December 31, 2014	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**
Accumulated depreciation:				
At January 1, 2014	₱30,619,129	₱50,598,799	₱92,580,598	₱173,798,526
Depreciation (see Notes 21 and 22)	4,953,267	17,520,510	24,695,939	47,169,716
Disposals	(498,288)	(14,571,415)	(1,262,677)	(16,332,380)
At December 31, 2014	35,074,108	53,547,894	116,013,860	204,635,862
Depreciation (see Notes 21 and 22)	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**
Net book value:				
At December 31, 2015	**₱58,416,307**	**₱51,993,508**	**₱68,022,306**	**₱178,432,121**
At December 31, 2014	61,922,423	57,987,423	61,761,385	181,671,231

Proceeds from the sale of property and equipment amounted to ₱3.0 million in 2015 and ₱2.4 million in 2014. Gain on disposals of property and equipment included in "Others" under "Other income" account in the consolidated statements of income amounted to ₱0.5 million and ₱0.8 million in 2015 and 2014, respectively (see Note 27).

The gross carrying amounts of fully depreciated property and equipment that are still in use amounted to ₱160.0 million and ₱130.3 million as at December 31, 2015 and 2014, respectively.

12. **Goodwill and Other Intangible Assets**

The movements in goodwill and other intangible assets follow:

	Goodwill	Franchise Cost	Software Cost	Total
Cost:				
At January 1, 2014	₱4,979,245,878	₱–	₱87,830,291	₱5,067,076,169
Additions	–	100,000,000	18,376,531	118,376,531
At December 31, 2014	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**
Accumulated amortization:				
At January 1, 2014	₱–	₱–	₱68,307,719	₱68,307,719
Amortization (see Notes 21 and 22)	–	–	9,117,673	9,117,673
At December 31, 2014	–	–	77,425,392	77,425,392
Amortization (see Notes 21 and 22)	–	–	13,844,244	13,844,244
At December 31, 2015	**₱–**	**₱–**	**₱91,269,636**	**₱91,269,636**
Carrying value:				
At December 31, 2015	**₱4,979,245,878**	**₱100,000,000**	**₱20,515,838**	**₱5,099,761,716**
At December 31, 2014	4,979,245,878	100,000,000	28,781,430	5,108,027,308

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 Memorandum of Agreement (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 ₱29.0 million for the year ended December 31, 2015 and recorded in "Other income" account in the 2015 consolidated statement of income (see Note 27).

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, 2015 and 2014 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, 2015 and 2014, average traffic volume growth rates used are 1.8% to 8.0% and 3.4% to 5.3%, respectively, for R-1 Expressway and R-1 Expressway Extension. The discount rates applied were 8.2% and 8.1% in 2015 and 2014, 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 18 years and 19 years for the R-1 Expressway for 2015 and 2014, respectively, and 30 years and 31 years for R-1 Expressway, in 2015 and 2014, respectively. 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, 2015 and 2014, 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.

13. **Available-for-Sale Financial Assets**

This account consists of:

	2015	2014
Current:		
UITF*	**₱1,225,420,748**	₱4,789,522,429
Investment in quoted treasury bonds	**200,645,000**	255,591,000
	1,426,065,748	5,045,113,429
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	**456,921,000**	441,740,500
Investment in quoted treasury bonds and notes	**959,967,246**	1,140,781,228
Investment in quoted LTNCD	**97,595,000**	100,000,000
Investment in quoted club shares	**740,000**	740,000
	1,843,469,772	2,011,508,254
	₱3,269,535,520	₱7,056,621,683

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

The movements in this account follow:

	2015	2014
Balance at beginning of year	**₱7,056,621,683**	₱3,844,947,567
Additions	**5,407,332,256**	4,050,556,145
Maturity	**(250,000,000)**	–
Sale of AFS financial assets	**(8,865,590,303)**	(860,000,000)
Gain (loss) on AFS financial assets during the year	**(78,828,116)**	21,117,971
Balance at end of year	**₱3,269,535,520**	₱7,056,621,683

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 2015 and 2014 amounted to ₱144.6 million and ₱65.5 million, respectively (see Note 27). The Company's dividend receivable amounted to ₱53.8 million as at December 31, 2015 (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:

		2015		2014	
Maturity Date	Interest Rates	**Fair Value**	**Principal Amount**	Fair Value	Principal Amount
UITF					
Short-term		**₱1,225,420,748**	**₱1,220,988,850**	₱4,789,522,429	₱4,730,364,789
ROP Retail Treasury Bonds					
March 12, 2015	5.00%	–	–	50,767,000	50,000,000
August 19, 2015	5.88%	–	–	204,824,000	200,000,000
March 3, 2016	6.00%	**150,870,000**	**150,000,000**	156,741,000	150,000,000
August 15, 2023	3.25%	**525,712,530**	**565,100,000**	544,095,233	565,100,000
		676,582,530	**715,100,000**	956,427,233	965,100,000
Fixed Rate Treasury Notes					
April 25, 2016	1.63%	**49,775,000**	**50,000,000**	49,584,500	50,000,000
May 23, 2018	2.13%	**434,254,716**	**449,260,000**	390,360,495	399,260,000
		484,029,716	**499,260,000**	439,944,995	449,260,000
LTNCD					
PNB - June 12, 2020	4.13%	**49,460,000**	**50,000,000**	50,000,000	50,000,000
Metrobank - November 21, 2021	4.25%	**48,135,000**	**50,000,000**	50,000,000	50,000,000
		97,595,000	**100,000,000**	100,000,000	100,000,000
Corporate Bonds					
FMIC - August 10, 2019	5.75%	**52,745,000**	**50,000,000**	51,114,500	50,000,000
Meralco - December 12, 2020	4.38%	**202,142,000**	**200,000,000**	192,254,000	200,000,000
PLDT - February 6, 2021	5.23%	**202,034,000**	**200,000,000**	198,372,000	200,000,000
		456,921,000	**450,000,000**	441,740,500	450,000,000
		₱2,940,548,994	**₱2,985,348,850**	₱6,727,635,157	₱6,694,724,789

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 (NAV) 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, 2015 and 2014. 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, 2015 and 2014 follow:

	2015	2014
Balance at beginning of year	**₱41,574,562**	₱20,178,038
Changes in fair value	**11,121,533**	27,759,214
Reclassification to profit or loss*	**(89,949,649)**	(6,641,243)
Acquisition of non-controlling interests (see Note 5)	–	278,553
Balance at end of year	**(37,253,554)**	41,574,562
Tax effects of items taken directly in equity (see Note 28)	**2,657,152**	(2,826,742)
	(₱34,596,402)	₱38,747,820
Attributable to:		
Equity holders of the Parent	**(₱26,086,913)**	₱29,361,319
Non-controlling interests	**(8,509,489)**	9,386,501
	(₱34,596,402)	₱38,747,820

* *Includes gain on sale of UITF deducted from borrowing costs capitalized to service concession assets amounting to ₱87,917,303 and ₱5,471,976 in 2015 and 2014, respectively.*

Interest earned from AFS financial assets amounted to ₱53.8 million and ₱50.1 million for the years ended December 31, 2015 and 2014, respectively (see Note 25).

14. Other Current and Noncurrent Assets

Other current assets consist of:

	2015	2014
Input VAT	**₱467,068,064**	₱57,258,365
Creditable taxes	**113,432,540**	102,807,564
Short-term investments	–	17,846,800
Advances to contractors and consultants (see Notes 19 and 29)	**104,294,446**	130,374,330
Advances to suppliers	**2,918,681**	8,766,467
Prepaid expenses	**42,630,819**	57,550,956
Others	**173,453,879**	67,682,620
	903,798,429	442,287,102
Less allowance for unusable creditable taxes	**15,380,461**	15,380,461
	₱888,417,968	₱426,906,641

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

Other noncurrent assets consist of:

	2015	2014
Restricted cash (see Note 29)	**₱889,000,000**	₱889,000,000
Deferred project costs	**171,343,434**	140,313,130
Sinking fund	**157,090,681**	139,090,681
Advances to contractors and consultants	**64,487,310**	65,013,285
Refundable deposits	**8,236,741**	8,198,543
Reimbursement right - retirement	**2,284,226**	2,284,226
Indemnification asset	–	548,295,865
Others	**16,618,805**	22,419,883
	₱1,309,061,197	₱1,814,615,613

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. Monthly fund contributions amounted to ₱1.5 million as agreed under the O&M Agreement (see Note 2).

Reimbursement right - retirement pertains to the pre-termination values from a group pension plan purchased by CIC for all of its regular employees. The proceeds from the pension plan shall form part of the settlement of CIC's retirement liability (see Note 24). 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 and 2014 amounting to ₱7.1 million and ₱15.3 million arose from the passage of time (see Note 25).

15. Accounts Payable and Other Current Liabilities

This account consists of:

	2015	2014
Trade payables (see Note 19)	**₱961,505,711**	₱741,593,178
Accrued expenses (see Note 19)	**1,064,671,934**	954,168,808
Retention payable	**239,537,108**	240,401,475
Interest payable	**201,940,957**	165,158,651
Payable to CHI	**163,428,840**	163,467,012
Output VAT	**141,938,965**	124,796,771
Withholding taxes payable	**115,873,728**	101,453,828
Others	**42,412,979**	45,053,520
	₱2,931,310,222	₱2,536,093,243

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 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:

	2015	2014
Operator's fees (see Notes 19 and 21)	**₱348,001,841**	₱435,556,766
Construction costs	**242,072,135**	302,730,298
Advertising and marketing expenses	**84,522,105**	–
Concession fees (see Note 2)	**78,025,151**	–
Salaries and employee benefits (see Note 24)	**75,304,286**	47,875,131
PNCC fees (see Note 29)	**47,895,086**	47,899,188
Professional fees	**26,573,663**	13,104,208
Repairs and maintenance	**24,658,260**	10,246,764
Filing fees	**22,500,000**	–
Outside services	**20,613,003**	24,292,771
Insurance	**10,670,039**	–
Transaction costs on long-term debt	**–**	46,929,123
Others	**83,836,365**	25,534,559
	₱1,064,671,934	₱954,168,808

16. **Provisions**

The movements in this account follow:

	Heavy Maintenance	Contingent Liability	Others	Total
At January 1, 2014	₱433,516,255	₱1,142,154,163	₱141,696,565	₱1,717,366,983
Additions (see Notes 21 and 22)	251,612,341	–	32,805,176	284,417,517
Accretion (see Note 26)	11,978,840	29,528,612	–	41,507,452
Reversals	(123,085,717)	–	–	(123,085,717)
Payments	(301,616,361)	–	(59,666,831)	(361,283,192)
At December 31, 2014	272,405,358	1,171,682,775	114,834,910	1,558,923,043
Additions (see Notes 21 and 22)	168,917,285	–	15,951,846	184,869,131
Accretion (see Note 26)	11,939,461	15,136,484	–	27,075,945
Reversals (see Note 27)	–	(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**
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**
	₱354,449,358	**₱232,374,869**	**₱98,658,328**	**₱685,482,555**
At December 31, 2014:				
Current	₱69,522,031	₱–	₱89,388,740	₱158,910,771
Noncurrent	202,883,327	1,171,682,775	25,446,170	1,400,012,272
	₱272,405,358	₱1,171,682,775	₱114,834,910	₱1,558,923,043

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.

In 2014, CIC reversed its excess provision for heavy maintenance as result of an updated study conducted by an independent engineer. Portion of the reversal amounting to ₱4.9 million was deducted against the sinking fund while the remaining ₱118.2 million was recorded as reversal of provisions and included in "Other income" account in the consolidated statement of income (see Note 27).

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 and 2014, the contingent liability amounted to ₱232.4 million and ₱1,171.7 million, respectively. The remaining contingent liability as at December 31, 2015 is net of portions that have been settled and/or have expired (see Note 27). 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.

17. **Long-term Debt**

This account consists of borrowings of MPTC, MPTDC, MNTC and CIC:

	2015	2014
Peso-denominated Notes, Loans and Bonds:		
Term Loan Facilities	**₱10,252,500,000**	₱6,201,250,000
Series A Notes	**5,961,821,615**	6,023,923,925
Rizal Commercial Banking Corporation and BDO Unibank, Inc. (RCBC/BDO) Loan	**5,838,461,583**	5,997,122,417
Fixed-rate Bonds	**6,957,430,000**	6,957,430,000
PNB Loan	**–**	892,500,000
	29,010,213,198	26,072,226,342
Dollar-denominated Notes:		
Series 2010-1 Notes	**737,216,736**	792,389,563
	29,747,429,934	26,864,615,905
Less unamortized debt issue costs	**173,174,134**	188,652,837
	29,574,255,800	26,675,963,068
Less current portion of long-term debt - net of unamortized debt issue costs of ₱22,099,551 in 2015 and ₱24,511,051 in 2014	**1,332,218,999**	1,220,323,835
	₱28,242,036,801	₱25,455,639,233

The unamortized debt issue costs incurred in connection with the availment of long-term debt amounting to ₱173.2 million and ₱188.7 million as at December 31, 2015 and 2014, respectively, were deducted against the long-term debt. The movements in debt issue costs are as follows:

	2015	2014
Balance at beginning of year	**₱188,652,837**	₱125,004,006
Amortization during the year* (see Note 26)	**(41,734,679)**	(31,856,312)
Debt issue costs incurred during the year	**26,255,976**	95,505,143
Balance at end of year	**₱173,174,134**	₱188,652,837

**Includes amortization of debt issue costs capitalized to service concession assets amounting to ₱9,322,837 and ₱6,936,156 in 2015 and 2014, 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. 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. 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, 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 MNTC from Egis 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 Philippine Dealing System Treasury 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, 2015 and 2014, MPTDC is in compliance with the required financial ratios and other loan covenants.

MNTC

Series A Notes
On April 15, 2011, MNTC 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.

PNB Loan
On March 16, 2009, MNTC entered into a seven-year term loan agreement for a facility amount of ₱2.1 billion with PNB to finance the project cost of Segment 8.1. Interest rate on the PNB Loan is initially fixed at 9.61% per annum. On November 22, 2010, the interest rate of the PNB Loan was amended from fixed to floating rate based on the six-month PDST-F rate plus a spread of 0.50%.

On March 11, 2011, MNTC entered into an interest rate swap transaction with PNB to convert the floating-rate PNB loan to fixed rate effective March 14, 2011. The interest rate swap effectively fixed the floating rate of the said loan over the remaining tenor at 5.9% per annum.

On April 15, 2011, MNTC entered into an Amended and Restated Loan Agreement with PNB to amend certain commercial terms of the 2009 PNB Loan, incorporate the interest rate conversion from fixed to floating rate, release the security and align the loan covenants with that of the Series A Notes.

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

As at December 31, 2015, the loan facility has already matured.

Term Loan Facilities
The Insular Life Assurance Company, Ltd. (Insular) and the Philippine American Life and General Insurance Company (Philam). On December 12, 2011, MNTC 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 interest 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, MNTC issued a notice of prepayment effective on December 15, 2015 for the Term Loan Facility Agreement from Insular and Philam, amounting to ₱500.0 million each, dated December 12, 2011. The prepayment penalty amounting to ₱30.0 million was recognized as part of "Interest expense and other finance costs" (see Note 26).

Sun Life of Canada (Philippines) Inc. (Sun Life). On October 8, 2013, MNTC 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, MNTC 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, MNTC 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 MNTC.

PNB. On December 4, 2015, MNTC 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, MNTC made its initial drawdown amounting to ₱3.0 billion. The undrawn amount can be availed on December 1, 2016 and March 1, 2017 at ₱1.0 billion each. 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.

<u>Fixed-rate Bonds</u>
On March 31, 2014, MNTC 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 in the availment of the loan 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 MNTC to partially fund the construction cost of Segment 10.1 of the

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, 2015 and 2014, MNTC is in compliance with the required financial ratios and other loan covenants. MNTC's long-term debts are unsecured as at December 31, 2015 and 2014.

CIC and Subsidiaries

RCBC/BDO Loan
On December 16, 2013, CIC entered into an Amended and Restated Omnibus Agreement with Cavitex 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.

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.

<u>Compliance with Loan Covenants</u>
As at December 31, 2015 and 2014, CIC is in compliance with its loan covenants.

18. Service Concession Fees Payable

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

	Amount
At January 1, 2015	₱–
Additions	14,954,698,635
Accretion	399,521,092
At December 31, 2015	**₱15,354,219,727**

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, 2015, 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

19. 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 27)	Income from Utility Facilities (see Note 27)	Income from Advertising (see Note 27)	Operator's Fee (see Note 21)	Repairs and Maintenance (see Note 21)	Outside Services (see Note 21)	Rentals (see Note 22)
TMC	Associate	**2015**	**₱56,252,346**	**₱–**	**₱–**	**₱1,741,674,430**	**₱5,524,377**	**₱2,741,250**	**₱–**
		2014	55,796,889	–	–	1,710,956,357	3,230,823	–	–
ESC	Joint Venture	**2015**	**–**	**–**	**60,000**	**–**	**–**	**71,347,727**	**–**
		2014	–	–	620,000	–	–	56,769,031	–
SMART Communications, Inc. (SMART)	Associate of FPC	**2015**	**–**	**342,350**	**72,850,000**	**–**	**–**	**–**	**–**
		2014	–	327,608	58,492,000	–	–	–	–
PLDT	Associate of FPC	**2015**	**–**	**2,423,099**	**–**	**–**	**–**	**–**	**1,913,098**
		2014	–	1,889,481	–	–	–	–	2,222,329
Digitel Mobile Philippines, Inc. (Digitel)	Associate of FPC	**2015**	**–**	**–**	**7,579,000**	**–**	**–**	**–**	**–**
		2014	–	–	10,880,000	–	–	–	–
Total		**2015**	**₱56,252,346**	**₱2,765,449**	**₱80,489,000**	**₱1,741,674,430**	**₱5,524,377**	**₱74,088,977**	**₱1,913,098**
		2014	55,796,889	2,217,089	69,992,000	1,710,956,357	3,230,823	56,769,031	2,222,329

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 14)	Accounts payable and other current liabilities[1] (see Note 15)	Due from Related Parties[2]	Due to Related Parties	Terms	Conditions
MPIC	Parent Company	**2015**	**₱–**	**₱–**	**₱–**	**₱2,061,896**	**₱1,425,259**	On demand; noninterest-bearing	Unsecured; no impairment
		2014	–	–	–	2,061,896	1,703,105		
Neo Oracle Holdings, Inc.	Under common control with MPIC	**2015**	**–**	**–**	**–**	**–**	**–**	On demand; noninterest-bearing	Unsecured; no impairment
		2014	–	–	–	–	1,565,508		
TMC	Associate	**2015**	**25,455**	**58,000**	**482,235,549**	**110,270,510**	**–**	(1) 30-45 days; noninterest-bearing	Unsecured; no impairment
		2014	–	15,000	436,291,284	105,641,596	–	(2) On demand; noninterest-bearing	
ESC	Joint Venture	**2015**	**233,920,886**	**–**	**62,173,873**	**107,171**	**–**	(1) 7 days; noninterest-bearing	Unsecured; no impairment
		2014	408,500,486	–	44,151,770	107,171	–	(2) On demand; noninterest-bearing	
PLDT	Associate of FPC	**2015**	**892,697**	**–**	**538,011**	**–**	**–**	30-45 days; noninterest-bearing	Unsecured; no impairment
		2014	478,297	–	473,736	–	–		
SMART	Associate of FPC	**2015**	**24,727,200**	**–**	**128,697**	**–**	**–**	30-45 days; noninterest-bearing	Unsecured; no impairment
		2014	42,732,473	–	245,574	–	–		
Digitel	Associate of FPC	**2015**	**8,286,880**	**–**	**–**	**–**	**–**	30-45 days; noninterest-bearing	Unsecured; no impairment
		2014	4,297,440	–	3,532	–	–		
Indra Philippines, Inc. (Indra)	Associate of MPIC	**2015**	**–**	**425,045**	**18,010,626**	**–**	**–**	Within one year; noninterest-bearing	Unsecured; no impairment
		2014	–	–	18,010,626	–	–		
Others	Other Related Party	**2015**	**–**	**–**	**–**	**–**	**3,655,238**	On demand; noninterest-bearing	Unsecured; no impairment
		2014	–	–	–	842,877	3,655,238		
Total		**2015**	**₱267,853,118**	**₱483,045**	**₱563,086,756**	**₱112,439,577**	**₱5,080,497**		
		2014	456,008,696	15,000	499,176,522	108,653,540	6,923,851		

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 2015 and 2014, MPIC billed MPTC for various operating expenses paid in behalf of MPTC.
- In 2015 and 2014, MPTDC billed MPIC for certain expenses paid in behalf of MPIC.

Transactions with an Associate

O&M of NLEX

- TMC provides services to MNTC as operator to the Phase 1 of the existing NLEX and Segment 7 under the O&M Agreement entered into by MNTC 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, MNTC 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, MNTC and TMC agreed to extend the O&M Agreement to cover Segment 8.1 from June 1, 2010 until December 31, 2037. Consequently, MNTC 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, MNTC 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, MNTC 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, MNTC 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, MNTC 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, MNTC 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, MNTC 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 consumer price index (CPI) values issued in July 2011, with different commodity grouping compared with those stipulated in the O&M Agreement, MNTC 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. MNTC 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, MNTC engaged TMC to operate and maintain Segment 9, portion of Phase II of NLEX, for a proposed annual fee of ₱32.6 million until December 31, 2037. The terms for the O&M of Segment 9 is still being finalized as at February 18, 2016.

O&M of SCTEX

- On May 27, 2015, in view of the forthcoming turn-over of the management, O&M of the SCTEX to MNTC by the BCDA (see Note 2), MNTC 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 18, 2016.

<u>Transactions with a Joint Venture</u>

ESC

NLEX

- On December 5, 2007, MNTC engaged the services of ESC to assist MNTC in increasing the usage of the ETC facility along the NLEX which ended on April 30, 2010. On November 24, 2010, MNTC 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, MNTC 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. MNTC 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 and ₱4 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 MNTC arising from the use of Easytrip tags in the NLEX shall be remitted by ESC to the designated MNTC 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 MNTC 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. The Company 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.

<u>Transactions with Other Related Parties</u>

Indra

- On December 27, 2012, MNTC entered into a Contract Agreement with Egis Projects Philippines, Inc. (EPPI) and Indra (associate of MPIC) Consortium for the FOE Design, Supply and Installation for the TCS Migration Project of Phase I and Segment 8.1, portion of Phase II of NLEX. The total contract price of €6.2 million (₱365.3 million) shall be fixed lump sum, inclusive of VAT. The migration was completed in August 2014.

- On June 14, 2013, MNTC entered into a Contract Agreement with 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, MNTC 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, MNTC 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 target completion of the works shall be within the second quarter of 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:

Period Covered	**2015**	2014
Not later than one year	**₱1,880,201**	₱1,764,760
More than one year and not later than five years	**7,259,691**	–

- On March 17, 2010, MNTC 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 MNTC 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 is effective for a period of 20 years from April 15, 2010 and may be renewed or extended upon mutual agreement by MNTC and PLDT.

- On January 5, 2011, MNTC and SMART (a subsidiary of PLDT) signed a Utility Facilities Contract where MNTC 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 MNTC and SMART. As at February 18, 2016, MNTC and SMART are in the process of renewing the contract.

- On March 26, 2012, MNTC 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 on April 1, 2012 until April 30, 2017, unless pre-terminated or renewed by mutual written agreement of the parties.

- In 2015 and 2014, MNTC entered into advertising arrangements with SMART and Digitel (a subsidiary of PLDT) related to various advertising mediums which include rental, material production, installation and maintenance at several locations along NLEX.

Other Transactions

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

	2015	2014
Short-term employee benefits	**₱206,087,752**	₱194,701,742
Retirement costs (see Note 24)	**25,575,240**	17,607,222
ESOP expense (see Notes 23 and 24)	**3,702,439**	8,540,433
LTIP expense (see Note 24)	**117,434,785**	85,304,965
	₱352,800,216	₱306,154,362

- 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 ₱1.0 million in 2015 and 2014 recorded under "General and administrative expenses" account in the consolidated statement of income (see Note 22).

- Total advances to officers and employees amounted to ₱10.2 million and ₱11.4 million as at December 31, 2015 and 2014, 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.

20. **Equity**

Capital Stock
As at December 31, 2015 and 2014 the capital stock of the Parent Company consists of:

	2015	2014
Issued capital stock:		
Common shares	**₱5,912,532,037**	₱5,065,074,937
7% Preferred shares	**6,771,600,000**	6,771,600,000
	12,684,132,037	11,836,674,937
Subscribed capital stock	**495,690**	495,690
Less subscriptions receivable	**371,768**	371,768
	123,922	123,922
	₱12,684,255,959	₱11,836,798,859

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

	2015		2014	
	Number of Shares			
	Common Shares	**Preferred Shares**	Common Shares	Preferred Shares
Authorized - ₱100 par value:				
Balance at beginning of year	**54,000,000**	**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**	54,000,000	70,000,000
Issued and outstanding:				
Balance at beginning of year	**50,650,749**	**67,716,000**	50,650,749	67,716,000
Issuance during the year	**8,474,571**	–	–	–
	59,125,320	**67,716,000**	50,650,749	67,716,000
Treasury shares	**(870,202)**	**(67,716,000)**	(870,202)	–
Balance at end of year	**58,255,118**	–	49,780,547	67,716,000
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, 2015 and 2014, 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.

<u>APIC</u>
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.

The transaction cost on the issuance of the common shares amounting to ₱4.2 million was deducted against APIC.

As at December 31, 2015, APIC amounted to ₱13,720.0 million.

<u>Equity Adjustment on Reverse Acquisition</u>
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 FPII, 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 2015 and 2014:

Declaration Date	Record Date	Payment Date	Cash Dividend per Share	Total
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**
February 20, 2014	March 6, 2014	April 1, 2014	14.90	741,859,315
August 1, 2014	August 15, 2014	September 12, 2014	9.62	479,000,000

As at December 31, 2015 and 2014, the unpaid cash dividends to common stockholders of the Parent Company amounted to ₱864.7 million and ₱2.6 million, respectively.

On February 18, 2016, the Parent Company's BOD declared cash dividends of ₱11.24 per share or total amount of ₱637.0 million to common stockholders of record as at March 4, 2016 payable on or before April 1, 2016.

The Company's BOD declared the following cash dividends to a preferred stockholder in 2015:

Declaration Date	Record Date	Payment Date	Cash Dividend per Share	Total
February 13, 2015	February 27, 2015	February 27, 2015	₱8.17	₱553,014,000
October 23, 2015	October 23, 2015	February 22, 2016	5.68	384,404,252

As at December 31, 2014, total cumulative dividends on preferred shares not yet declared by the Company amounted to ₱553.0 million.

Cash dividends declared by MNTC and MSIHI to non-controlling stockholders in 2015 and 2014 amounted to ₱655.6 million and ₱529.5 million, respectively. In 2015 and 2014, MNTC paid cash dividends to non-controlling stockholders amounting to ₱535.2 million and ₱647.4 million, respectively. As at December 31, 2015 and 2014, MNTC and MSIHI have unpaid dividends to non-controlling stockholders amounting to ₱411.6 million and ₱291.2 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, 2015 and 2014, 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 ₱2,781.2 million and ₱3,039.2 million as at December 31, 2015 and 2014, respectively, which are not currently available for dividend distribution.

Other Comprehensive Income (Loss) Reserve

	Cash Flow Hedge	Income Tax Related to Cash Flow Hedge	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, 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 31)	**3,775,752**	**(1,132,726)**	**–**	**–**	**–**	**–**	**–**	**2,643,026**	**1,998,127**	**644,899**
Change in fair value of AFS financial assets (see Note 13)	**–**	**–**	**(78,828,116)**	**5,483,894**	**–**	**–**	**–**	**(73,344,222)**	**(55,448,231)**	**(17,895,991)**
Remeasurement gain (see Note 24)	**–**	**–**	**–**	**–**	**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)**
Balance at January 1, 2014	(₱12,710,899)	₱3,813,270	₱20,178,038	(₱8,915,100)	₱23,019,954	(₱6,905,986)	(₱5,876,881)	₱12,602,396	₱9,929,547	₱2,672,849
Net movement in cash flow hedge (see Note 31)	8,935,147	(2,680,544)	–	–	–	–	–	6,254,603	4,565,532	1,689,071
Change in fair value of AFS financial assets (see Note 13)	–	–	21,117,971	6,088,358	–	–	–	27,206,329	21,246,781	5,959,548
Remeasurement loss (see Note 24)	–	–	–	–	(3,214,494)	964,349	(3,658,107)	(5,908,252)	(5,386,618)	(521,634)
Acquisition of non-controlling interest (see Note 5)	(847,643)	254,293	278,553	–	699,290	(209,787)	–	174,706	174,706	–
Balance at December 31, 2014	(₱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

Other Reserves

As at December 31, 2015 and 2014 other reserves of the Company consists of:

	2015	2014
Long-term incentive plan reserves (see Note 24)	**₱23,100,000**	₱23,100,000
Executive stock option plan reserves (see Note 23)	**25,234,382**	21,531,943
Premium paid on acquisition of non-controlling interests (see Note 5)	**(2,448,756,453)**	(2,448,756,453)
Transaction costs on issuance of preferred shares	**(33,858,000)**	(33,858,000)
	(₱2,434,280,071)	(₱2,437,982,510)

21. Cost of Services

This account consists of:

	2015	2014
Operator's fee (see Note 19)	**₱1,875,012,078**	₱1,842,823,911
Amortization of service concession assets (see Note 10)	**747,970,935**	646,196,117
PNCC fee (see Note 29)	**482,149,955**	442,714,079
Provision for heavy maintenance (see Note 16)	**150,819,004**	224,653,876
Repairs and maintenance (see Note 19)	**132,198,328**	117,187,659
Concession fees (see Note 2)	**132,146,972**	–
Outside services (see Note 19)	**74,459,531**	56,769,031
Insurance	**69,472,459**	64,774,769
Salaries and employee benefits (see Note 24)	**53,303,999**	43,603,408
Communication, light and water	**21,127,258**	20,956,575
Toll collection and medical services	**17,636,666**	15,612,000
Depreciation of property and equipment (see Note 11)	**15,632,528**	5,120,175
Cost of inventories	**6,790**	6,675
Others (see Note 12)	**57,673,425**	52,825,702
	₱3,829,609,928	₱3,533,243,977

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

22. General and Administrative Expenses

This account consists of:

	2015	2014
Salaries and employee benefits (see Notes 19, 23 and 24)	**₱490,107,678**	₱417,372,715
Advertising and marketing expenses	**425,539,667**	130,457,298
Taxes and licenses	**113,928,803**	67,964,549
Professional fees	**66,711,892**	89,210,137
Depreciation of property and equipment (see Note 11)	**41,802,685**	42,049,541
Representation and travel	**38,369,649**	36,007,628
Outside services	**25,946,423**	27,903,807
Provisions (see Note 16)	**15,951,846**	26,944,534
Communication, light and water	**11,899,162**	14,538,722
Amortization of other intangible assets (see Note 12)	**10,954,057**	6,056,952
Repairs and maintenance	**7,754,083**	7,480,759
Training and development costs	**7,661,048**	5,476,645
Office supplies	**4,292,916**	7,155,190
Provisions for doubtful accounts (see Note 8)	**4,278,862**	4,339,110
Rentals (see Note 19)	**3,827,446**	2,793,122
Directors' fees (see Note 19)	**999,663**	1,040,000
Donations and contributions	**40,000**	3,962,421
Miscellaneous	**32,580,503**	42,312,055
	₱1,302,646,383	₱933,065,185

23. 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 5.0% of the shares in issue from time to time. The maximum number of shares in respect of which options may be granted under the Plan shall not exceed 5.0% of the issued shares of MPIC on June 14, 2007 or the date when an event of any change in the corporate structure or capitalization affecting MPIC's shares occurred, as the case may be.

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 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.

MPIC has granted on July 2, 2010 options in respect of 94,300,000 common shares of MPIC to new directors and senior management officers of MPIC and to selected management committee members of MPIC subsidiaries (includes MPTC). The stock options will expire on July 2, 2015. With respect to the stock options granted to MPIC subsidiaries, said stock options vested as follows: 30.0% on July 2, 2011; 35.0% on July 2, 2012; and 35.0% on July 2, 2013.

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, 2015 and 2014 follows:

	2010 Grant		2013 Grant	
	Number of Shares	Exercise Price	Number of Shares	Exercise Price
Outstanding at January 1, 2014	1,375,000	₱2.73	14,000,000	₱4.60
Exercised during the year	(1,375,000)	2.73	–	–
Outstanding at December 31, 2014	–	–	14,000,000	4.60
Exercised during the year	–	–	–	–
Outstanding at December 31, 2015	**–**	**₱–**	**14,000,000**	**₱4.60**
Exercisable at:				
December 31, 2015	**–**	**₱–**	**14,000,000**	**₱4.60**
December 31, 2014	–	–	7,000,000	4.60

The weighted average remaining contractual life for the 2010 share options outstanding as at December 31, 2014 is 6 months. The weighted average remaining contractual life for the 2013 share options outstanding as at December 31, 2015 and 2014 is 2.8 years and 3.8 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.*

The following tables list the inputs to the model used for the ESOP in 2010:

	30.0% vesting on July 2, 2011	35.0% vesting on July 2, 2012	35.0% vesting on July 2, 2013
Grant date		July 2, 2010	
Spot price	₱2.65	₱2.65	₱2.65
Exercise price	₱2.73	₱2.73	₱2.73
Risk-free rate	4.61%	5.21%	5.67%
Expected volatility*	69.27%	67.52%	76.60%
Term to vesting (in days)	365	731	1,096
Call price	₱0.73	₱1.03	₱1.39

** 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 ₱3.7 million and ₱8.5 million in 2015 and 2014, respectively (see Notes 19, 22 and 24).

Carrying value of the ESOP, recognized under "Other reserves" in the consolidated statements of changes in equity, amounted to ₱25.2 million and ₱21.5 million as at December 31, 2015 and 2014, respectively (see Note 20).

24. Personnel Cost and Employee Benefits

This account consists of:

	2015	2014
Salaries expense	**₱360,816,086**	₱309,940,475
LTIP expense	**117,434,785**	85,304,965
ESOP expense (see Note 23)	**3,702,439**	8,540,433
Retirement costs	**28,757,532**	23,633,952
Other employee benefits	**32,700,835**	33,556,298
	₱543,411,677	₱460,976,123
Cost of services (see Note 21)	**₱53,303,999**	₱43,603,408
General and administrative expenses (see Note 22)	**490,107,678**	417,372,715
	₱543,411,677	₱460,976,123

<u>LTIP</u>

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. The Company's LTIP is aimed at providing a competitive level of financial incentives for eligible employees to encourage them to achieve performance targets consistent with the Company's long-term business plans; recognizing and rewarding the contribution of eligible employees to the overall profitability and performance of the Company; and attracting and retaining talented employees to ensure the sustained growth and success of the Company. 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 Company's cumulative consolidated core income target for the 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 2015 and 2014 included in "Salaries and employee benefits" account under "General and administrative expenses" in the consolidated statements of income amounted to ₱117.4 million and ₱85.3 million, respectively (see Notes 19 and 22).

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, 2015 and 2014, representing MPIC's share in the LTIP cost of the Company as per 2010 to 2012 LTIP (see Note 20).

The carrying value of the other LTIP amounting to ₱139.8 million and ₱228.1 million was presented as LTIP payable in the current and noncurrent liability section of the consolidated balance sheets as at December 31, 2015 and 2014, 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, 2015 and 2014, 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
MNTC 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, 2015 by certified actuaries.

The funds of MNTC and CIC are administered by trustee banks. Subject to the specific instructions provided by MNTC and CIC in writing, MNTC 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 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)

Changes in accrued retirement costs (pension asset) of the Company in 2014 are as follows:

	Present Value of Defined Benefit Obligation	Fair Value of Plan Assets	Accrued Retirement Costs (Pension Asset)
At January 1, 2014	₱156,756,488	₱157,413,191	(₱656,703)
Net benefit cost in consolidated statement of income:			
Current service cost	23,642,294	–	23,642,294
Net interest	6,410,247	6,418,589	(8,342)
	30,052,541	6,418,589	23,633,952
Benefits paid	(4,257,778)	(4,257,778)	–
Remeasurements in OCI:			
Return on plan assets (excluding amount included in net interest)	–	2,874,579	(2,874,579)
Actuarial changes arising from changes in financial assumptions	(2,337,403)	–	(2,337,403)
Actuarial changes due to experience adjustments	8,426,476	–	8,426,476
	6,089,073	2,874,579	3,214,494
Contributions	–	26,765,516	(26,765,516)
At December 31, 2014	₱188,640,324	₱189,214,097	(₱573,773)
Pension asset			(₱2,573,985)
Accrued retirement costs			2,000,212
			(₱573,773)

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 ₱1.9 million in 2015 and ₱9.3 million in 2014.

MNTC and CIC expect to contribute ₱12.0 million to their defined benefit retirement plans in 2016. MPTC and MPTDC expect to contribute ₱9.0 million to their defined contribution retirement plans in 2016.

The major categories of plan assets follow:

	2015		2014	
	Amount	**Percentage**	Amount	Percentage
Investments in:				
Government securities	**₱105,753,533**	**53.97%**	₱103,360,967	54.63%
Debt securities	**47,496,858**	**24.24%**	38,312,086	20.25%
UITF	**18,449,449**	**9.42%**	19,902,550	10.52%
Equity securities	**2,362,088**	**1.21%**	2,004,113	1.06%
Cash and cash equivalents	**16,707,567**	**8.52%**	20,463,572	10.81%
Loans/notes receivable	**3,367,109**	**1.72%**	3,600,774	1.90%
Receivables and others	**1,811,526**	**0.92%**	1,570,035	0.83%
	₱195,948,130	**100.00%**	₱189,214,097	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, 2015 and 2014, 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 2015 and 2.13% to 9.42% in 2014 and have maturities from 2015 to 2037.
- 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 and 2014.
- Cash and cash equivalents include regular savings and time deposits, which bear interest of 2.5% per annum in 2015 and 2014.
- 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, 2015 and 2014 are as follows:

	2015	2014
Discount rate	**4.59% - 5.17%**	4.09% - 4.71%
Salary increase rate	**5.00% - 7.00%**	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, 2015, assuming if all other assumptions were held constant:

		Increase (Decrease) in Defined Benefit Obligation
Discount rate	(Actual + 1.00%)	(₱177,057,047)
	(Actual - 1.00%)	195,106,957
Salary increase rate	(Actual + 1.00%)	194,380,082
	(Actual - 1.00%)	(177,376,378)

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, 2015 and 2014 is 17.1 years and 18.2 years, respectively.

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

	2015	2014
Less than 1 year	**₱57,735,275**	₱57,111,370
More than 1 year to 5 years	**51,661,661**	62,895,682
More than 5 years to 10 years	**96,152,179**	76,091,645
More than 10 years to 15 years	**93,265,034**	92,969,211
More than 15 years to 20 years	**212,800,115**	181,499,043
More than 20 years	**315,990,063**	324,022,828

25. Interest Income

Sources of interest income follow:

	2015	2014
AFS financial assets (see Note 13)	**₱53,776,152**	₱50,136,496
Cash and cash equivalents and restricted cash (see Note 7)	**38,503,705**	25,604,523
Indemnification asset (see Note 14)	**7,055,757**	15,290,589
Others	**983,943**	–
	₱100,319,557	₱91,031,608

26. Interest Expense and Other Finance Costs

Details of interest expense and other finance costs follow:

	2015	2014
Interest expense on:		
Long-term debt (see Notes 17 and 31)	**₱1,268,260,635**	₱1,142,722,955
Contingent liability (see Note 16)	**15,136,484**	29,528,612
Provision for heavy maintenance (see Note 16)	**11,939,461**	11,978,840
Other finance costs:		
Amortization of debt issue costs (see Note 17)	**32,411,842**	24,920,156
Bank charges	**7,894,650**	2,818,982
Lenders' fees	**6,263,996**	1,793,373
Loan prepayment fees (see Note 17)	**30,000,000**	–
	₱1,371,907,068	₱1,213,762,918

27. **Other Income**

Details of other income follow:

	2015	2014
Reversal of contingent liability (see Note 16)	**₱762,204,845**	₱–
Dividend income (see Note 13)	**144,642,687**	65,548,348
Income from advertising (see Note 19)	**120,363,761**	95,112,651
Management fees (see Note 19)	**56,252,346**	55,796,889
Income from toll service facilities	**32,661,844**	21,540,542
Income from franchise fee (see Note 12)	**28,954,826**	–
Income from utility facilities (see Note 19)	**5,088,001**	2,354,089
Gain on sale of AFS financial assets (see Note 13)	**2,032,346**	1,169,267
Reversal of provision for heavy maintenance (see Note 16)	**–**	118,232,432
Others	**18,628,202**	28,309,323
	₱1,170,828,858	₱388,063,541

28. **Income Taxes**

The provision for current income tax consists of:

	2015	2014
Regular corporate income tax (RCIT)	**₱949,581,001**	₱742,156,676
Final tax on interest income	**18,473,209**	13,135,136
MCIT	**30,409,064**	14,795,972
	₱998,463,274	₱770,087,784

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

	2015	2014
Deferred Tax Liabilities		
Present value of concession fees capitalized as service concession asset	**₱4,606,265,918**	₱–
Difference in amortization of service concession assets	**783,906,171**	742,656,162
Excess of fair values over book values arising from business combinations	**364,378,782**	237,093,079
Capitalized debt issue costs	**56,951,240**	67,264,794
Unamortized realized foreign exchange losses capitalized	**19,592,899**	20,483,486
Fair value changes on AFS financial assets	**–**	2,826,741
Pension asset	**3,769,272**	772,195
Unrealized foreign exchange gains - net	**743,146**	–
Reimbursement rights	**685,268**	685,268
	5,836,292,696	1,071,781,725

(Forward)

	2015	2014
Deferred Tax Assets		
Service concession fees payable	**₱4,606,265,918**	₱–
Provision for heavy maintenance	**99,431,471**	77,501,032
Provisions and accruals	**48,641,559**	20,538,180
MCIT	**27,029,295**	31,776,319
Long-term incentive plan payable	**21,143,492**	36,000,004
Unrealized foreign exchange loss - net	**21,014,792**	14,090,734
Allowance for impairment loss	**20,844,490**	17,897,605
Unamortized past service cost	**8,710,551**	9,630,966
Fair value changes on AFS financial assets	**2,657,153**	–
Unearned toll revenues	**2,494,018**	3,026,501
Accrued retirement costs	**462,646**	495,339
Fair value changes on derivatives deferred in equity	**–**	1,132,725
NOLCO	**–**	156,240,300
	4,858,695,385	368,329,705
Deferred tax liabilities - net	**₱977,597,311**	₱703,452,020

For tax purposes, MNTC 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 and LHI 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:

	2015	2014
NOLCO	**₱751,709,126**	₱511,066,383
Accrued expenses	**176,288,744**	118,137,407
MCIT	**13,441,379**	9,189,586
Unrealized foreign exchange loss	**9,082,635**	115,910
	₱950,521,884	₱638,509,286

As at December 31, 2015, MPTC, MPTDC, MSIHI, MHI, CWHI, LHI and CIC 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
2013	December 31, 2016	₱14,612,410	₱162,129,382
2014	December 31, 2017	14,795,972	272,119,307
2015	December 31, 2018	11,062,292	317,460,437
		₱40,470,674	₱751,709,126

The movements in NOLCO are as follows:

	2015	2014
Balance at beginning of year	**₱1,031,867,381**	₱918,187,028
Additions	**317,460,437**	272,119,307
Applications	**(520,800,999)**	(126,123,763)
Expirations	**(76,817,693)**	(32,315,191)
Balance at end of year	**₱751,709,126**	₱1,031,867,381

The movements in MCIT are as follows:

	2015	2014
Balance at beginning of year	**₱40,965,905**	₱27,289,188
Additions	**11,062,292**	14,795,972
Expirations	**(11,557,523)**	(1,119,255)
Balance at end of year	**₱40,470,674**	₱40,965,905

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:

	2015	2014
Income before income tax	**₱4,347,762,894**	₱3,730,706,638
Income tax computed at statutory tax rate of 30%	**₱1,304,328,868**	₱1,119,211,991
Add (deduct) tax effects of:		
Effect of optional standard deduction (OSD)	**(228,405,535)**	(175,204,186)
Equity in net earnings of an associate	**(142,812,040)**	(87,180,729)
Interest income subjected to final tax	**(28,237,364)**	(24,204,505)
Nondeductible expenses and others	**95,357,791**	46,494,259
Application of NOLCO	**120,333,654**	–
Expired MCIT	**8,388,271**	–
Change in unrecognized deferred tax assets	**119,867,172**	56,803,775
MCIT	**7,421,045**	2,707,520
Final tax on interest income	**18,473,209**	13,135,136
	₱1,274,715,071	₱951,763,261

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. MNTC opted to avail of the OSD for the taxable years 2015 and 2014.

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

	2015	2014
Balance at beginning of year	**₱703,452,020**	₱526,148,706
Provision for income tax during the year recognized in the consolidated statements of income	**276,251,797**	181,675,477
Income tax effect during the year recognized in the consolidated statements of comprehensive income	**(2,106,506)**	(4,372,163)
Balance at end of year	**₱977,597,311**	₱703,452,020

29. 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, MNTC 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, MNTC continues to accrue and pay the PNCC entitlement.

On December 2, 2010, MNTC received a letter from the TRB dated November 30, 2010, citing a decision of the Supreme Court (SC) dated October 19, 2010 directing MNTC 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 STOAs, 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 MNTC 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. MNTC recorded PNCC fee amounting to ₱482.1 million and ₱442.7 million in 2015 and 2014, respectively (see Note 21).

NLEX-SLEX Connector Road Project
On June 5, 2010, the DPWH accepted MPTDC's unsolicited proposal for the NLEX to SLEX Connector Road Project ("the Connector Road Project"), subject to submission of requested additional documents and further discussion with DPWH. MPTDC submitted the additional documents and subsequently was granted the "original proponent" status for the Connector Road Project in April 2011. The Connector Road Project is approximately 8-km elevated 2x2 toll road extending the NLEX southward from the end of Segment 10 in C3 Road Caloocan City to PUP Sta. Mesa and connects to the Common Alignment of Skyway Stage 3, and traversing mostly along the PNR rail tracks.

In September 2013, MPTDC was requested by the ROP to consider undertaking the Connector Road Project either through a new joint venture with PNCC, or under the existing joint venture between PNCC and MPTDC and pursuant to the existing STOA amongst PNCC, MNTC and the TRB dated April 30, 1998. Accordingly, the NEDA Board approved that the Connector Road Project proposed by MPTDC will be implemented: (i) through a joint venture between MPTDC and PNCC, or (ii) to the extent possible, through an amendment or extension of the existing joint venture of PNCC and MPTDC and/or STOA pursuant to PD No. 1894.

In a letter dated November 7, 2013, DPWH informed MPTDC that it would defer further consideration and processing of the Connector Road Project as a BOT unsolicited proposal to allow TRB to pursue the implementation of the same project as an amendment or extension of the existing STOA. Consequently, MNTC as the existing joint venture company, was requested to consider undertaking the Connector Road Project as an extension of Segment 10 of the NLEX under the existing STOA from C3 Road in Caloocan to Polytechnic University of the Philippines Sta. Mesa, Manila utilizing the same PNR right-of-way covered by the BOT unsolicited proposal.

On November 20, 2013, MNTC submitted to TRB an Investment Proposal for the implementation of the Connector Road Project as the new Segment 10.2 of the NLEX through an amendment or extension of the STOA, particularly the existing Phase II Segment 10, pursuant to a Grantor-initiated request under Clause 8.2 of the STOA.

On January 10, 2014, MNTC and MPTDC entered into a letter agreement with PNCC, as shareholder of MNTC, and joint venture partner of MPTDC for the NLEX, confirming the agreement to implement Segment 10.2 as an extension or linkage of Phase II Segment 10 of the NLEX pursuant to PD No. 1894, and as an integral portion of NLEX subject to prior approval of the TRB. Conformably to the provisions of the JVA and the ARSA, and upon TRB approval of the implementation of Segment 10.2, PNCC will be entitled (a) to receive 6% of the gross toll revenue collected by MNTC from the O&M of Segment 10.2 upon its completion in addition to its share in the gross toll revenues collected by MNTC from the toll roads as provided in the ARSA, and (b) to all dividends accruing on its shares of stock in MNTC.

However, on July 7, 2014, the DOJ issued an opinion which stated, among others, that the NEDA Board approval dated September 11, 2013 to implement Connector Road Project by way of an amendment or extension of the existing joint venture of PNCC under PD No. 1894 appears to have been issued beyond its powers and without justification. Hence, it should be interpreted as merely recommendatory. In addition, it stated that the DPWH, under the BOT Law, could proceed with the consideration of the Unsolicited Proposal for the Connector Road Project.

Consequently, the TRB advised MNTC on August 8, 2014 that it will desist from processing Segment 10.2 Project under the joint venture mode and give DPWH a free hand as implementing agency of the Unsolicited Proposal. While MPTDC continued discussions with DPWH as the Original Proponent of the Unsolicited Proposal under the BOT Law, it was advised that the ROP intends to clarify the legal framework to implement the project under the joint venture mode.

Considering that the Connector Road Project can be implemented faster and the benefits that the road users will derive from a considerable reduction in toll rates if the Connector Road Project will be implemented as Segment 10.2 of the NLEX, MPTDC and MNTC sent a letter to Department of Transportation and Communications/TRB dated October 29, 2014, stating that they prefer the implementation of the Connector Road Project as a joint venture through an amendment or extension of the NLEX STOA under PD No. 1894 following the NEDA Board approval via ad referendum.

In February 2015, the NEDA Board has confirmed the re-approval of the Connector Road Project through an unsolicited mode subject to Swiss Challenge. During 2015, the DPWH, NEDA and MPTDC and its subsidiaries, as original proponent, continue to negotiate in preparation for the Swiss Challenge. On December 18, 2015, the NEDA Board confirmed and approved the revised terms negotiated by the DPWH and MPTDC and its subsidiaries in order to proceed with the Swiss Challenge.

As at February 18, 2016, the preparations for the Swiss Challenge are still on-going.

Construction of Segment 9 of Phase II of NLEX

On May 3, 2013, MNTC, under a competitive bidding, has awarded the Civil Works contract to EEI Corporation. The Civil Works Construction Agreement was executed by MNTC and EEI Corporation in relation to the construction of the 2.4 km Segment 9 (part of Phase II of NLEX), a four-lane expressway that links the SMART Connect Interchange to McArthur Highway. Total civil works construction contract was set at ₱1,145.4 million, as may be adjusted from time to time pursuant to the terms of the agreement.

The Construction Notice to Proceed was issued by MNTC to EEI Corporation in May 2013 and mobilization works commenced in May 2013. The construction works for Segment 9 were substantially completed in March 2015.

Unapplied mobilization advances to EEI Corporation, included as part of "Advances to contractors and consultants" in the consolidated balance sheets, amounting to ₱71.0 million as at December 31, 2014 was already applied against payments in 2015.

Construction of Segment 10 of Phase II of NLEX

On April 28, 2014, MNTC 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, MNTC issued the notice to proceed to LCAL, signaling the start of the pre-construction activities. Pursuant to the contract, MNTC 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 14).

NLEX-SCTEX Integration Agreement

On February 5, 2015, MNTC 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 project cost is estimated at ₱650.0 million and expected to be completed within the second quarter of 2016.

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 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, 2015 and 2014. As at February 18, 2016, the construction of the feeder roads has not yet started.

Cebu-Cordova Bridge Project

In January 2015, MPTDC procured the original proponent status for the Cebu-Cordova Bridge Project from Cebu City and the Municipality of Cordova.

On December 23, 2015, MPTDC has received the Notices of Award from both the City of Cebu and the Municipality of Cordova for the financing, design, construction, implementation, O&M of an 8.25 km toll bridge that will link the island of Mactan to mainland Cebu ("the Cebu-Cordova Bridge Project").

The Notices of Award were issued by the City of Cebu and the Municipality of Cordova in favour of MPTDC after not having received any Expression of Interest to submit comparative proposals on or before December 7, 2015, the deadline indicated in the duly published Invitation to Bid and Submit Comparative Proposals for the Project.

The Cebu Cordova Bridge Project, which will be implemented through an unincorporated joint venture among MPTDC, the City of Cebu and Municipality of Cordova, is envisioned to decongest the traffic in the two existing bridges (Marcelo Fernan Bridge and Mandaue Bridge) between Mactan and Cebu, due to the worsening traffic condition in the area. It includes the construction of the connections to Cebu City and Cordova, the main bridge structure, viaduct, causeway, roadway and toll facilities. It is located around 7.5 km south of the Mandaue Bridge and will take off from the Cebu South Coastal Road crossing the Mactan channel to Mactan Island. The Cebu Cordova Bridge Project is estimated to cost ₱27.9 billion. The construction of the project is targeted to start in 2017 and is estimated to be completed by 2020.

30. **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 Company also enters into derivative transactions, particularly interest rate swaps and cross currency swaps, to manage the interest rate and foreign currency risks arising from its operations and sources of finances.

The main risks arising from the Company's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The BOD reviews and approves policies of managing each of these risks and they are summarized below.

<u>Interest Rate Risk</u>

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 enters 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, 2015				
	Interest Rate	Within the Year ('000)	2–3 Years ('000)	4–5 Years ('000)	More than 5 Years ('000)	Total ('000)
Fixed-rate financial assets:						
Cash and cash equivalents and restricted cash [a]	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[b]	1.00%	–	889,000	–	–	889,000
		₱4,518,275	₱1,338,260	₱300,000	₱815,100	₱6,971,635
Fixed-rate financial liabilities:						
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
		₱1,315,421	₱5,390,000	₱7,272,804	₱37,429,394	₱51,407,619

[a] *Excluding cash on hand.*
[b] *Included under "Other noncurrent assets" account in the consolidated balance sheet.*

		December 31, 2014				
	Interest Rate	Within the Year ('000)	2–3 Years ('000)	4–5 Years ('000)	More than 5 Years ('000)	Total ('000)
Fixed-rate financial assets:						
Cash and cash equivalents and restricted cash [a]	0.10%–2.50%	₱4,219,583	₱–	₱–	₱–	₱4,219,583
AFS financial assets	1.63%–6.00%	250,000	200,000	449,260	1,065,100	1,964,360
Short-term investments[b]	2.00%	17,847	–	–	–	17,847
Restricted cash[c]	1.00%	–	889,000	–	–	889,000
		₱4,487,430	₱1,089,000	₱449,260	₱1,065,100	₱7,090,790
Fixed-rate financial liabilities:						
Series A-5	6.54%	₱10,000	₱960,000	₱–	₱–	₱970,000
Series A-7	7.27%	42,102	84,205	3,957,617	–	4,083,924
Series A-10	7.70%	10,000	20,000	20,000	920,000	970,000
Fixed-rate Bonds	5.07% - 5.50%	–	–	–	6,957,430	6,957,430
Term-loan facilities	5.03% - 7.50%	48,750	162,500	552,500	5,437,500	6,201,250
RCBC/BDO Loan	6.50%	152,500	305,000	915,000	4,575,000	5,947,500
Series 2010-1 Notes	12.00%	49,063	134,145	168,461	268,639	620,308
		312,415	1,665,850	5,613,578	18,158,569	25,750,412
Floating-rate loan -						
PNB Loan	PDST-F + 0.50% Margin	892,500	–	–	–	892,500
		₱1,204,915	₱1,665,850	₱5,613,578	₱18,158,569	₱26,642,912

[a] *Excluding cash on hand.*
[b] *Included in "Other current assets" account in the consolidated balance sheet.*
[c] *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.

The following table demonstrates the sensitivity of income to changes in interest rates with all other variables held constant. The management expects that interest rates will move by ±50 basis points within the next reporting period. There is no other impact on the Company's equity other than those already affecting the consolidated statement of income:

	Increase/Decrease in Basis Points	Effect on Income Before Income Tax
2014	+50	(₱4,462,500)
	-50	4,462,500

As at December 31, 2015, there were no floating rate loans.

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 $16.0 million (₱737.2 million) and $17.9 million (₱792.4 million) as at December 31, 2015 and 2014, 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, 2015 and 2014.

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
2015	**+4%**	**(₱29,488,669)**
	-4%	**29,488,669**
2014	+5%	(39,619,478)
	-5%	39,619,478

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 MNTC. 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:

	2015	2014
Cash and cash equivalents[(a)]	**₱3,927,272,873**	₱3,785,486,188
Restricted cash	**391,001,929**	434,096,760
Short-term deposits	**1,225,420,748**	4,789,522,429
Receivables[(b)]	**757,424,626**	687,867,341
Due from related parties	**112,439,577**	108,653,540
Short-term investments[(c)]	**–**	17,846,800
AFS financial assets[(d)]	**1,715,128,246**	1,938,852,728
Restricted cash[(e)]	**889,000,000**	889,000,000
Refundable deposits[(e)]	**8,236,741**	8,198,543
Total credit risk exposure	**₱9,025,924,740**	₱12,659,524,329

(a) *Excluding cash on hand.*
(b) *Excluding advances to officers and employees.*
(c) *Included in "Other current assets" account in the consolidated balance sheets.*
(d) *Excluding equity investments in club shares, CMMTC and PGOACI.*
(e) *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, 2015 and 2014, 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, 2015 and 2014, except for the impaired trade receivables amounting to ₱2.4 million and ₱2.2 million as at December 31, 2015 and 2014, respectively.

	Neither Past Due nor Impaired	**Past Due but not Impaired**						
		<31 Days	**31–60 Days**	**61–90 Days**	**91–180 Days**	**181 days – 1 year**	**Total**	**Total**
2015	**₱248,866,172**	**₱54,219,711**	**₱1,069,731**	**₱975,781**	**₱746,254**	**₱5,660,899**	**₱62,672,376**	**₱311,538,548**
2014	423,517,069	756,560	22,550,213	3,438,431	844,454	10,527,817	38,117,475	461,634,544

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, 2015			
	Neither Past Due nor Impaired - High-grade	**Past Due but not Impaired**	**Impaired**	**Total**
Cash and cash equivalents[(a)]	**₱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[(b)]	**1,715,128,246**	–	–	**1,715,128,246**
Restricted cash[(c)]	**889,000,000**	–	–	**889,000,000**
Refundable deposits[(c)]	**8,236,741**	–	–	**8,236,741**
	₱8,963,252,364	**₱62,672,376**	**₱14,162,059**	**₱9,040,086,799**

[(a)] *Excluding cash on hand.*
[(b)] *Excluding equity investments in club shares, CMMTC and PGOACI*
[(c)] *Included in "Other noncurrent assets" account in the consolidated balance sheet.*

	December 31, 2014			
	Neither Past Due nor Impaired - High-grade	Past Due but not Impaired	Impaired	Total
Cash and cash equivalents[(a)]	₱3,785,486,188	₱–	₱–	₱3,785,486,188
Restricted cash	434,096,760	–	–	434,096,760
Short-term deposits	4,789,522,429	–	–	4,789,522,429
Receivables:				
Trade receivables	423,517,069	38,117,475	2,238,191	463,872,735
Advances to DPWH	173,678,456	–	–	173,678,456
Interest receivables	14,264,115	–	–	14,264,115
Other receivables	38,290,226	–	7,645,006	45,935,232
Due from related parties	108,653,540	–	–	108,653,540
Short-term investments[(b)]	17,846,800	–	–	17,846,800
AFS financial assets[(c)]	1,938,852,728	–	–	1,938,852,728
Restricted cash[(d)]	889,000,000	–	–	889,000,000
Refundable deposits[(d)]	8,198,543	–	–	8,198,543
	₱12,621,406,854	₱38,117,475	₱9,883,197	₱12,669,407,526

[(a)] *Excluding cash on hand.*
[(b)] *Included in "Other current assets" account in the consolidated balance sheet.*
[(c)] *Excluding equity investments in club shares, CMMTC and PGOACI.*
[(d)] *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 ₱2,450.0 million and ₱2,825.0 million as at December 31, 2015 and 2014, respectively, and cash and cash equivalents amounting to ₱3,989.2 million and ₱3,823.7 million as at December 31, 2015 and 2014, 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, 2015 and 2014 based on undiscounted payments:

	December 31, 2015				
	Within the Year	**2–3 Years**	**4–5 Years**	**More than 5 Years**	**Total**
Financial Assets					
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[(a)]	**771,586,685**	**–**	**–**	**–**	**771,586,685**
Due from related parties	**112,439,577**	**–**	**–**	**–**	**112,439,577**
AFS financial assets[(b)]	**256,791,692**	**552,234,537**	**376,223,604**	**1,198,086,189**	**2,383,336,022**
Restricted cash[(c)]	**–**	**889,000,000**	**–**	**–**	**889,000,000**
Refundable deposits[(c)]	**–**	**–**	**–**	**8,236,741**	**8,236,741**
	₱6,746,433,663	**₱1,441,234,537**	**₱376,223,604**	**₱1,206,322,930**	**₱9,770,214,734**
Financial Liabilities					
Accounts payable and other current liabilities[(d)]	**₱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[(e)]	**3,095,945,570**	**8,604,961,997**	**5,493,948,961**	**22,604,621,025**	**39,799,477,553**
Service concession fees payable	**–**	**–**	**4,368,000,000**	**17,472,000,000**	**21,840,000,000**
	₱7,050,640,141	**₱8,604,961,997**	**₱9,861,948,961**	**₱40,076,621,025**	**₱65,594,172,124**

[(a)] *Excluding advances to officers and employees.*
[(b)] *Including interest to be received.*
[(c)] *Included in "Other noncurrent assets" account in the consolidated balance sheet.*
[(d)] *Excluding statutory liabilities.*
[(e)] *Including interest to be paid.*

	December 31, 2014				
	Within the Year	2–3 Years	4–5 Years	More than 5 Years	Total
Financial Assets					
Cash and cash equivalents	₱3,823,671,657	₱–	₱–	₱–	₱3,823,671,657
Restricted cash	434,096,760	–	–	–	434,096,760
Short-term deposits	4,789,522,429	–	–	–	4,789,522,429
Receivables[(a)]	697,750,538	–	–	–	697,750,538
Due from related parties	108,653,540	–	–	–	108,653,540
Short-term investments[(b)]	17,846,800	–	–	–	17,846,800
AFS financial assets[(c)]	323,135,542	309,742,588	541,944,099	1,490,436,316	2,665,258,545
Restricted cash[(d)]	–	889,000,000	–	–	889,000,000
Refundable deposits[(d)]	–	–	–	8,198,543	8,198,543
	₱10,194,677,266	₱1,198,742,588	₱541,944,099	₱1,498,634,859	₱13,433,998,812

(Forward)

	December 31, 2014				
	Within the Year	2–3 Years	4–5 Years	More than 5 Years	Total
Financial Liabilities					
Accounts payable and other current liabilities[(e)]	₱2,309,452,546	₱–	₱–	₱–	₱2,309,452,546
Due to related parties	6,923,851	–	–	–	6,923,851
Dividends payable	294,123,710	–	–	–	294,123,710
Long-term debt[(f)]	2,798,495,909	4,662,013,698	8,010,710,297	21,386,112,782	36,857,332,686
	₱5,408,996,016	₱4,662,013,698	₱8,010,710,297	₱21,386,112,782	₱39,467,832,793

[(a)] *Excluding advances to officers and employees.*
[(b)] *Included in "Other current assets" account in the consolidated balance sheet.*
[(c)] *Including interest to be received.*
[(d)] *Included in "Other noncurrent assets" account in the consolidated balance sheet.*
[(e)] *Excluding statutory liabilities.*
[(f)] *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.

MNTC. Under the loan agreements, MNTC is required a Maintenance Debt Service Coverage Ration (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, MNTC 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 MNTC 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.

MNTC also ensures that its DER is in line with the requirements of the Board of Investments (BOI). BOI requires MNTC to comply with a 75:25 DER as proof of capital build-up. As at December 31, 2015 and 2014, MNTC 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 2015 and 2014. 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 17, 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, 2015 and 2014.

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.

MHI. Pursuant to the Concession Agreement of MHI with the Philippine government, MHI shall maintain a leverage ratio not exceeding eighty percent (80%) from the signing date (July 10, 2015) for a period of three (3) years after the issuance of the Certificate of Final Completion by the DPWH. From the date of issuance of the Certificate of Final Completion until three (3) years thereafter, the accumulated deficit of MHI may be excluded from the equity for purposes of computing the leverage ratio.

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, 2015 and 2014. 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 2015, the Company's strategy, which was unchanged from 2014, was to maintain a sustainable debt to equity ratio. The debt to equity ratio as at December 31, 2015 and 2014 are:

	2015	2014
Long-term debt	**₱29,574,255,800**	₱26,675,963,068
Total equity	**21,978,220,421**	13,841,896,335
Total capital	**₱51,552,476,221**	₱40,517,859,403
DER	**1.35**	1.93

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

31. **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, 2015 and 2014 follows:

	2015		2014	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Financial Assets				
AFS financial assets:				
UITF*	**₱1,225,420,748**	**₱1,225,420,748**	₱4,789,522,429	₱4,789,522,429
Investment in treasury bonds and notes	**1,160,612,246**	**1,160,612,246**	1,396,372,228	1,396,372,228
Investment in corporate bonds	**456,921,000**	**456,921,000**	441,740,500	441,740,500
Investment in LTNCD	**97,595,000**	**97,595,000**	100,000,000	100,000,000
Investment in club shares	**740,000**	**740,000**	740,000	740,000
	₱2,941,288,994	**₱2,941,288,994**	₱6,728,375,157	₱6,728,375,157
Financial Liabilities				
Other financial liabilities:				
Long-term debt	**₱29,574,255,800**	**₱29,982,850,086**	₱26,675,963,068	₱27,333,688,440
Service concession fees payable	**15,354,219,727**	**15,106,193,625**	–	–
	₱44,928,475,527	**₱45,089,043,711**	₱26,675,963,068	₱27,333,688,440

**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, 2015 and 2014. 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, 2015 and 2014.

Long-term Debt

For both fixed rate and floating rate (repriceable 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, 2015 and 2014, 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 2015 and 2014, the prevailing credit adjusted U.S. interest rates and peso interest rates ranged from 3.4% to 10.0% and 3.1% % to 10.2%, 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 2015, the prevailing peso interest rates ranged from 5.4% to 6.0%.

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

	December 31, 2015	**Level 1**	**Level 2**	**Level 3**
Assets measured at fair value:				
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**	**–**	**–**
	₱2,941,288,994	**₱1,515,223,246**	**₱1,426,065,748**	**₱–**
Liabilities for which fair values are disclosed:				
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**
	₱45,089,043,711	**₱7,022,368,000**	**₱22,960,482,086**	**₱15,106,193,625**

	December 31, 2014	Level 1	Level 2	Level 3
Assets measured at fair value:				
AFS financial assets:				
UITF	₱4,789,522,429	₱–	₱4,789,522,429	₱–
Investment in treasury bonds and notes	1,396,372,228	1,396,372,228	–	–
Investment in corporate bonds	441,740,500	441,740,500	–	–
Investment in LTNCD	100,000,000	100,000,000	–	–
Investment in club shares	740,000	740,000	–	–
	₱6,728,375,157	₱1,938,852,728	₱4,789,522,429	₱–
Liabilities for which fair values are disclosed:				
Other financial liability -				
Long-term debt	₱27,333,688,440	₱6,853,040,200	₱20,480,648,240	₱–

During the year ended December 31, 2015, a portion of the investment in treasury bonds and notes amounting to ₱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 2015, as well as no availability of bid-offer on value date. For the year ended December 31, 2014, there were no transfers between Level 1 and Level 2 fair value measurements and no transfers into and out of Level 3 fair value measurements.

Derivatives Accounted for Under Cash Flow Hedge Accounting

PNB Term Loan
On March 11, 2011, MNTC 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, MNTC 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 MNTC. 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, 2015 and 2014, the unamortized amount deferred in equity amounted to nil (after amortization of ₱3.8 million) and ₱3.8 million (gross of ₱1.1 million tax) after amortization of ₱8.9 million, respectively.

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.

As mentioned in Note 17, this swap was pre-terminated on December 28, 2012.

As at December 31, 2015 and 2014, 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 years ended December 31, 2015and 2014 follow:

	2015	2014
Balance at beginning of year	**(₱3,775,752)**	(₱12,710,899)
Transferred to consolidated statements of income:		
Interest expense*	**3,775,752**	8,935,147
	–	(3,775,752)
Tax effects of items taken directly to equity	–	1,132,726
Balance at end of year	**₱–**	(₱2,643,026)
Attributable To		
Equity holders of the Parent	**₱–**	(₱1,998,128)
Non-controlling interests	–	(644,898)
	₱–	(₱2,643,026)

** Included in "Interest expense on long-term debt" under "Interest expense and other finance costs" account (see Note 26).*

32. Contingencies

a. VAT

When RA No. 9337 took effect, the BIR issued RR No. 16-2005 on September 1, 2005, which, for the first time, expressly subjected gross receipts from toll road operations to VAT. This notwithstanding the BIR issued VAT Ruling No. 078-99 on August 9, 1999 where it categorically ruled that MNTC, as assignee of the PNCC franchise, is entitled to the tax exemption privileges of PNCC and is therefore exempt from VAT on its gross receipts from the operation of the NLEX.

MNTC, together with other tollway operators, continued to discuss the issue of VAT with the concerned government agencies from 2005 to 2011. The BIR continuously upheld its position that the tollway operators are subject to VAT and issued several Revenue Memorandum Circulars (RMCs) for the imposition of the VAT. The BIR also continuously issued VAT assessments to MNTC. On the other hand, the TRB continued to direct the tollway companies (including MNTC) to defer the imposition of the VAT.

To fully implement the imposition of the VAT on toll fees, the BIR issued RMC No. 63-2010 dated July 19, 2010, stating among others, that VAT shall be imposed on the gross receipts of tollway operators from all types of vehicles starting August 16, 2010 and that the accumulated input VAT account of the toll companies shall have a zero balance on August 16, 2010. Any input VAT that will thenceforth be reflected in the books of accounts and other accounting records of tollway operators should be for purchases of goods and services delivered/rendered and invoiced/receipted on or after August 16, 2010. More importantly, RMC No. 63-2010 allowed tollway operators with prior VAT assessments to apply for abatement of tax liability, surcharge, interest and penalties under Section 204 of the National Internal Revenue Code (NIRC).

Thus, on August 4, 2010, notwithstanding legal basis on its claim for VAT exemption, MNTC, in accordance with RMC No. 63-2010, applied for abatement of alleged VAT liabilities for taxable years 2006 and 2007.

The BIR was not able to immediately resolve the application for abatement of MNTC because of a temporary restraining order (TRO) issued by the SC on August 13, 2010 on the imposition VAT on tollway operators. On July 19, 2011, however, the matter was resolved when the SC upheld the legality of RMC No. 63-2010 issued by the BIR on July 19, 2010, in relation to Section 108 of the NIRC that imposes VAT on all services for a fee.

Following the SC decision, the BIR issued RMC No. 39-2011, dated August 31, 2011, fully implementing VAT on the gross receipts of tollway operators from all types of vehicles beginning October 1, 2011. The notable provisions of RMC No. 39-2011 are as follows:

i. Tollway operators who have been assessed VAT liabilities on gross receipts from toll fees prior to October 1, 2011 can apply for Abatement of the assessed tax liability, surcharge and interest under Section 204 of the NIRC and RR No. 13-2001.

ii. The accumulated input VAT account of the toll companies shall have a zero balance on October 1, 2011. Any input VAT that will henceforth be reflected in the books of accounts and other accounting records of tollway operators will have to be for purchases of goods delivered and invoiced on or after October 1, 2011. Whereas, for services, it should be for purchases of services which will be rendered and receipted on or after October 1, 2011.

iii. No future claims for tax credit or refunds shall be allowed for any VAT passed-on to the tollway operators on any of their purchases made prior to October 1, 2011.

iv. All tollway operators are required to comply with the invoice/receipt format prescribed under RMC No. 40-2005.

In view of RMC No. 39-2011, MNTC started imposing VAT on toll fees from motorists and correspondingly started recognizing VAT liability on October 1, 2011. MNTC also reduced its accumulated input VAT to zero as at September 30, 2011.

Through all the years that the issues of VAT are being discussed, MNTC received the following VAT assessments:

- The BIR issued a Formal Letter of Demand on March 16, 2009 requesting MNTC to pay deficiency VAT plus penalties amounting to ₱1,010.5 million for taxable year 2006. MNTC filed a protest letter with the BIR in May 2009. In July of 2009, MNTC filed a supplement to the protest letter stating that its May 2009 submission should be considered its complete submission of documents for the purpose of counting the BIR's 180-day period to decide the protest pursuant to the Tax Code. However, the BIR did not act upon the protest letter. In March 2012, MNTC filed a position paper with the BIR regarding the treatment of deferred input VAT from the purchase of capital goods and services in relation to its above application for abatement. The BIR has yet to resolve the application for abatement of MNTC.

- A Final Assessment Notice was received from the BIR dated November 15, 2009, assessing MNTC deficiency VAT plus penalties amounting to ₱557.6 million for taxable year 2007. MNTC filed a protest letter with the BIR in December 2009. In February 2010, MNTC filed a supplement to the protest letter stating that its December 2009 submission should be considered as its complete submission of documents for the purpose of counting the BIR's 180-day period to decide the protest pursuant to the Tax Code. In March 2010, MNTC received the decision of the BIR denying the protest (the "Disputed Decision"). Within 30 days from the receipt of the Disputed Decision or in April 2010, MNTC filed a petition for review with the Court of Tax Appeals (CTA) to appeal the denial by the BIR of its protest. MNTC filed its memorandum in July 2013 and a supplemental memorandum in August 2013. The case is now considered submitted for decision.

- The BIR issued a Notice of Informal Conference from the BIR dated October 5, 2009, assessing MNTC 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, MNTC 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 MNTC deficiency VAT plus penalties amounting to ₱1,026.6 million for taxable year 2009. On June 11, 2010, MNTC 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 MNTC'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 MNTC, ROP, acting by and through the TRB, and PNCC, provides MNTC with legal recourse in order to protect its lawful interests in case there is a change in existing laws which makes the performance by MNTC of its obligations materially more expensive.

b. MNTC 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.

On July 15, 2008, MNTC filed a petition for review under Section 226 of the Local Government Code ("LGC") with the LBAA to annul and set aside the action of the provincial assessor of the province of Bulacan, in *motu proprio* issuing five (5) assailed tax declarations under the name of MNTC as administrator/beneficial user and classifying and categorizing the NLEX as a commercial property subject to RPT. In August 2008, the respondent provincial assessor filed its answer with motion to dismiss. In September 2008, MNTC filed the corresponding reply with opposition. The LBAA scheduled an ocular inspection of the subject real properties on May 7, 2009 to determine whether said properties in fact covers portions of the NLEX, which MNTC argues are part of public land exempt from RPT. The ocular inspection however was reset due to the unavailability of some of the members of the LBAA. The LBAA has yet to re-schedule the ocular inspection as of date. The case is still pending before the LBAA of the Province of Bulacan.

In April 2013, MNTC filed a petition for review under Section 226 of the LGC with the LBAA to declare as null and void the assailed assessment and the assailed thirty-four (34) tax declarations *motu proprio* issued by the provincial assessor of the province of Bulacan in the name of MNTC as owner of the NLEX and categorizing the NLEX as a commercial property, subject to RPT, and the corresponding notice of assessment dated January 10, 2013 for RPT against MNTC over the said properties pursuant to Section 204 of the LGC. In June 2013, the LBAA issued an order denying due course to the petition. In July 2013, MNTC filed a motion for reconsideration praying that the order be reconsidered and that MNTC's petition be given due course. In September 2013, MNTC received an order from the LBAA setting the date for the hearing on MNTC's motion for reconsideration on September 25, 2013. In September 2013, MNTC received the province of Bulacan's comment to MNTC's motion for reconsideration. Since MNTC learned of the September 25, 2013 hearing only after it received the order on September 26, 2013, MNTC filed a manifestation and motion praying that (i) MNTC be given until October 16, 2013 within which to file its reply to the comment, and (ii) the hearing on the motion for reconsideration be reset to October 22, 2013. During the hearing on November 20, 2013, the province requested for time to file its rejoinder. The LBAA also ordered the Respondents to submit samples of the tax declarations in question. The LBAA then set another hearing on December 11, 2013. The LBAA submitted the Motion for Reconsideration for resolution during the December 11, 2013 hearing. As at February 18, 2016, the LBAA has not yet resolved the motion.

On September 18, 2013, MNTC received Notices of Realty Tax Delinquencies for the years 2006 to 2013 issued by the Provincial Treasurer of Bulacan, which state that, if after fifteen (15) days from MNTC's receipt of the Notices, MNTC fails to pay or remit the alleged delinquent RPT due in the amount of ₱304.9 million, the remedies provided for under the law for the collection of delinquent taxes shall be applied to enforce collection. On September 27, 2013, the Bureau of Local Government Finance (BLGF) wrote a letter to the LGU advising it to hold in abeyance any further course of action pertaining to the RPT delinquency covering the subject 34 tax declarations. On October 3, 2013, MNTC received another notice dated October 1, 2013 from the Provincial Treasurer, alleging that since the period given in the Notices has already elapsed, the Province may apply "the remedies under the law for the collection of delinquent taxes". On October 4, 2013, the Provincial Treasurer withdrew the October 3, 2013 notice to respect the directive from the Department of Finance-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 the Company's consolidated financial statements. Management and its legal counsel also believes that the STOA also provides MNTC with legal recourse in order to protect its lawful interests in case there is a change in existing laws which makes the performance by MNTC of its obligations materially more expensive.

c. Toll Rate Adjustments

(i) On August 26, 2015, MNTC 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, MNTC stated that, the ROP's/TRB's inexcusable refusal to act on the Petitions for Approval of Periodic Toll Rate Adjustment effective January 1, 2013 (2012 Petition) and January 1, 2015 (2014 Petition) is in total disregard and a culpable violation of applicable laws and contractual provisions to the great prejudice of MNTC, 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.

Thus, as of July 31, 2015, the value of the compensation due to MNTC amounts to ₱2.3 billion (exclusive of VAT) and ₱0.2 billion (exclusive of VAT) under the 2012 and 2014 Petitions, respectively.

In view of the failure of the ROP/TRB to heed the Final Demand, MNTC sent a Notice of Dispute to the ROP/TRB dated September 11, 2015 invoking STOA Clause 19 (Settlement of Disputes) that require the parties to reach an amicable settlement within 60 calendar days. The TRB sent several letters to MNTC requesting the extension of the amicable settlement period, the latest letter of which, requests that the amicable settlement period be further extended to April 12, 2016.

(ii) CIC has a pending claim for compensation against the ROP, acting by and through the TRB, in the amount of ₱802.3 million (exclusive of VAT). CIC's claim is based on TRB's inaction on lawful toll rate adjustments which were due on 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. TRB has since sought several extension of the amicable settlement period under the TOA.

d. MNTC 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.

33. Supplemental Cash Flow Information

The following table shows the Company's significant non-cash investing and financing activities and corresponding transaction amounts for the year ended December 31, 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 10 and 18)	₱14,954,698,635
Additions to service concession asset and service concession fees payable pertaining to accretion of service concession fees payable (see Notes 10 and 18)	399,521,092
Redemption of preferred shares by way of issuance of common shares (see Note 20)	6,771,600,000

34. Standards Issued but Not Yet Effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below. The Company intends to adopt these standards, if applicable, when they become effective. Adoption of these standards and interpretations are not expected to have any significant impact on the financial statements of the Company, except for the adoption of PFRS 9, *Financial Instruments*, International Financial Reporting Standards (IFRS) 15, *Revenue from Contracts with Customers,* and IFRS 16, *Leases.* The nature of the impending changes in accounting policy on adoption of PFRS 9, IFRS 15 and IFRS 16 are described below.

No definite adoption date prescribed by the SEC and FRSC

- Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*

Effective January 1, 2016

- PAS 1, *Presentation of Financial Statements - Disclosure Initiative* (Amendments)
- PAS 16, *Property, Plant and Equipment*, and PAS 38, *Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortization* (Amendments)
- PAS 16, *Property, Plant and Equipment*, and PAS 41, *Agriculture – Bearer Plants* (Amendments)
- PAS 27, *Separate Financial Statements – Equity Method in Separate Financial Statements* (Amendments)
- PFRS 10, *Consolidated Financial Statements,* and PAS 28, *Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (Amendments)
- PFRS 10, *Consolidated Financial Statements*, PFRS 12, *Disclosure of Interests in Other Entities*, and PAS 28, *Investments in Associates and Joint Ventures – Investment Entities: Applying the Consolidation Exception* (Amendments)
- PFRS 11, *Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operations* (Amendments)
- PFRS 14, *Regulatory Deferral Accounts*
- *Annual Improvements to PFRSs (2012-2014 cycle)*
  - PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations – Changes in Methods of Disposal*
  - PFRS 7, *Financial Instruments: Disclosures – Servicing Contracts*

- PFRS 7 - *Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements*
- PAS 19, *Employee Benefits – Regional Market Issue regarding Discount Rate*
- PAS 34, *Interim Financial Reporting – Disclosure of Information 'Elsewhere in the Interim Financial Report'*

Effective January 1, 2018

- PFRS 9, *Financial Instruments (2014 or final version)*. In July 2014, the final version of PFRS 9, was issued. PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions. Early application of previous versions of PFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before February 1, 2015. The Company did not early adopt PFRS 9.

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

Standards issued by the International Accounting Standards Board (IASB) but not yet adopted locally by the SEC and FRSC.

- International Financial Reporting Standards (IFRS) 15, *Revenue from Contracts with Customers*. IFRS 15 was issued in May 2014 by the IASB and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 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 IFRS 15 provide a more structured approach to measuring and recognizing revenue.

  The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018 with early adoption permitted. IFRS 15 was not yet adopted by FRSC. The Company is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date once adopted locally.

- IFRS 16, *Leases*. On January 13, 2016, the IASB issued its new standards, IFRS 16, *Leases*, which replaces International Accounting Standard (IAS) 17, the current leases standard, and the related Interpretations.

  Under the new standard, lessees will no longer classify their leases as either operating or finance leases in accordance with IAS 17. 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. Lease with a term of 12 months or less or for which the underlying asset if of low value are exempted from these requirements.

The accounting by lessors is substantially unchanged as the new standard carried forward the principles of lessor accounting under IAS 17. Lessors, however, will be required to disclose more information in their financial statements, particularly on the risk exposure to residual value.

The new standard is effective for annual periods beginning on or after January 1, 2019. Entities may early adopt IFRS 16 but only if they have also adopted IFRS 15, *Revenue from Contracts with Customers*. When adopting IFRS 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 IFRS 16 and plans to adopt the new standard on the required effective date once adopted locally.

35. Subsequent Event

On January 29, 2016, MNTC entered into a new ten-year term loan facility agreement with Unionbank of the Philippines for a facility amount of ₱5.0 billion to finance capital expenditure such as Segment 10 and NLEX-SLEX Connector Road. On February 3, 2016, MNTC made its initial drawdown amounting to ₱1.0 billion. 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, or such longer period as the parties may agree upon in writing.

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.