

Metro Pacific Tollways Corporation
(A Subsidiary of Metro Pacific Investments Corporation)
and Subsidiaries

Consolidated Financial Statements
December 31, 2013 and 2012
and Years Ended December 31, 2013, 2012 and 2011

and

Independent Auditors' Report



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, 2013 and 2012, and the consolidated statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2013, 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.

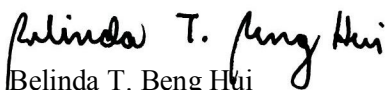
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



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, 2013 and 2012, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2013 in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.



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. 08-001998-78-2012,
June 19, 2012, valid until June 18, 2015

PTR No. 4225152, January 2, 2014, Makati City

February 20, 2014



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

CONSOLIDATED BALANCE SHEETS

	December 31	January 1	
	2013	2012 (As Restated - Note 3)	2012 (As Restated - Note 3)
ASSETS			
Current Assets			
Cash and cash equivalents (Note 9)	₱3,298,219,235	₱3,334,619,906	₱1,653,539,917
Receivables (Notes 10 and 21)	244,488,759	167,077,277	102,212,349
Inventories - at cost (Note 21)	50,289,462	45,259,533	55,260,432
Advances to contractors and consultants (Notes 21 and 32)	228,415,319	17,120,885	82,757,480
Due from related parties (Note 21)	107,651,923	343,168,278	560,141,362
Derivative assets (Note 34)	-	224,894,466	-
Available-for-sale financial assets (Notes 16 and 34)	1,995,120,215	53,003,500	-
Input value-added tax (Notes 5 and 36)	50,974,992	45,596,568	49,855,787
Other current assets	171,637,491	130,594,898	100,667,805
Total Current Assets	6,146,797,396	4,361,335,311	2,604,435,132
Noncurrent Assets			
Notes receivable (Notes 11 and 34)	-	6,577,566,742	-
Due from related parties (Notes 21 and 34)	64,808,414	65,050,205	65,232,060
Investment in an associate (Note 12)	177,837,993	180,484,410	152,105,732
Service concession assets (Note 13)	24,448,051,326	15,179,563,780	15,552,074,333
Property and equipment (Note 14)	164,300,372	119,734,372	123,654,717
Other intangible assets (Note 15)	19,522,572	13,918,628	12,709,316
Available-for-sale financial assets (Notes 16 and 34)	1,849,827,352	915,559,026	905,968,276
Pension asset (Note 26)	1,837,846	16,887,028	-
Goodwill (Notes 6 and 15)	4,979,245,878	13,565,061	13,565,061
Other noncurrent assets (Note 17)	883,464,234	147,867,095	54,232,681
Total Noncurrent Assets	32,588,895,987	23,230,196,347	16,879,542,176
	₱38,735,693,383	₱27,591,531,658	₱19,483,977,308
LIABILITIES AND EQUITY			
Current Liabilities			
Accounts payable and other current liabilities (Notes 18 and 21)	₱1,799,085,796	₱1,947,699,969	₱1,089,338,313
Due to related parties (Note 21)	7,552,728	7,222,774	8,178,596
Unearned toll revenue	7,109,512	-	10,584,590
Long-term incentive plan payable (Note 26)	-	92,356,928	-
Dividends payable (Notes 21 and 22)	411,785,737	277,108,310	40,225,431
Income tax payable	194,160,958	151,565,349	31,355,828
Provisions (Note 19)	262,936,700	248,710,026	249,103,430
Current portion of long-term debt (Notes 20 and 34)	1,157,571,085	144,299,038	145,174,660
Total Current Liabilities	3,840,202,516	2,868,962,394	1,573,960,848



	December 31		January 1
	2013	2012 (As Restated - Note 3)	2012 (As Restated - Note 3)
Noncurrent Liabilities			
Long-term debt - net of current portion (Notes 20 and 34)	₱16,586,465,099	₱8,761,669,286	₱8,905,442,780
Deposits for shares subscription (Note 22)	-	6,771,600,000	-
Accrued retirement costs (Note 26)	1,181,143	1,239	47,933,214
Long-term incentive plan payable (Note 26)	112,832,454	38,814,200	60,515,894
Financial guarantee obligation (Notes 21 and 34)	64,808,414	65,050,205	65,232,060
Provisions (Notes 6 and 19)	1,454,430,283	252,433,157	189,931,902
Deferred tax liabilities - net (Note 30)	526,148,706	393,092,990	332,161,283
Derivative liabilities	-	-	130,155,566
Other noncurrent liabilities (Note 32)	256,700,000	-	-
Total Noncurrent Liabilities	19,002,566,099	16,282,661,077	9,731,372,699
Equity (Note 22)			
Capital stock	11,836,798,859	5,065,198,859	5,065,198,859
Equity adjustment on reverse acquisition	(581,085,463)	(581,085,463)	(581,085,463)
Retained earnings	2,348,739,683	1,720,687,876	1,593,645,170
Treasury shares	(193,597,437)	(193,597,437)	(193,597,437)
Other comprehensive income reserve (Notes 16 and 34)	9,929,547	24,582,622	(1,840,342)
Other reserves (Notes 25 and 26)	2,233,510	35,105,334	24,074,498
Total Equity Attributable to Equity Holders of the Parent	13,423,018,699	6,070,891,791	5,906,395,285
Non-controlling interests	2,469,906,069	2,369,016,396	2,272,248,476
Total Equity	15,892,924,768	8,439,908,187	8,178,643,761
	₱38,735,693,383	₱27,591,531,658	₱19,483,977,308

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		
	2013	2012 (As Restated - Note 3)	2011 (As Restated - Note 3)
OPERATING REVENUES			
Toll fees (net of discounts amounting to ₱59,283,405 in 2013, ₱56,778,507 in 2012 and ₱61,436,477 in 2011)	₱8,153,623,567	₱6,784,126,258	₱6,464,946,010
Sales of magnetic cards	3,527	5,625	42,071
	8,153,627,094	6,784,131,883	6,464,988,081
COST OF SERVICES (Note 23)	(3,305,287,340)	(2,767,072,303)	(2,854,496,993)
GROSS PROFIT	4,848,339,754	4,017,059,580	3,610,491,088
CONSTRUCTION REVENUE (Notes 5 and 13)	410,752,465	224,847,664	99,077,443
CONSTRUCTION COSTS (Notes 5 and 13)	(410,752,465)	(224,847,664)	(99,077,443)
GENERAL AND ADMINISTRATIVE EXPENSES (Note 24)	(786,668,684)	(831,001,462)	(810,918,519)
INTEREST EXPENSE AND OTHER FINANCE COSTS (Note 28)	(1,086,213,854)	(694,947,852)	(1,276,922,425)
EQUITY IN NET EARNINGS OF ASSOCIATES (Note 12)	246,892,909	227,962,736	250,866,400
INTEREST INCOME (Note 27)	131,549,625	135,723,273	161,261,687
FOREIGN EXCHANGE GAIN (LOSS) - Net	(38,799,850)	1,312,885	(10,753,384)
OTHER INCOME (Note 29)	199,773,565	159,636,620	524,690,208
OTHER EXPENSES (Note 29)	–	(45,020,915)	(94,636,391)
INCOME BEFORE INCOME TAX	3,514,873,465	2,970,724,865	2,354,078,664
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 30)			
Current	759,370,717	809,707,221	557,622,075
Deferred	(28,280,480)	44,678,056	11,956,412
	731,090,237	854,385,277	569,578,487
NET INCOME	₱2,783,783,228	₱2,116,339,588	₱1,784,500,177
Attributable to			
Equity holders of the Parent	₱2,001,246,327	₱1,471,117,499	₱1,262,450,303
Non-controlling interests	782,536,901	645,222,089	522,049,874
	₱2,783,783,228	₱2,116,339,588	₱1,784,500,177
Basic/Diluted Earnings Per Share Attributable to Equity Holders of the Parent (Note 31)	₱40.20	₱0.30	₱0.25

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		
	2013	2012 (As Restated - Note 3)	2011 (As Restated - Note 3)
NET INCOME	₱2,783,783,228	₱2,116,339,588	₱1,784,500,177
OTHER COMPREHENSIVE INCOME (LOSS)			
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</i>			
Net gain (loss) on cash flow hedges (Note 34)	10,508,616	10,508,656	(30,252,244)
Income tax effect (Note 30)	(3,152,584)	(3,152,597)	9,075,673
	7,356,032	7,356,059	(21,176,571)
Gain (loss) on fair value change in available- for-sale financial assets (Note 16)	(19,537,962)	12,594,250	3,628,750
Income tax effect (Note 30)	2,999,700	(3,778,275)	(1,088,625)
	(16,538,262)	8,815,975	2,540,125
	(9,182,230)	16,172,034	(18,636,446)
<i>Other comprehensive income not to be reclassified to profit or loss in subsequent periods:</i>			
Remeasurement gains (losses) on defined benefit retirement plan (Note 26)	(10,385,333)	32,051,380	(4,522,974)
Income tax effect (Note 30)	1,059,900	(9,322,779)	1,356,893
	(9,325,433)	22,728,601	(3,166,081)
TOTAL OTHER COMPREHENSIVE INCOME (LOSS)	(18,507,663)	38,900,635	(21,802,527)
TOTAL COMPREHENSIVE INCOME	₱2,765,275,565	₱2,155,240,223	₱1,762,697,650
Attributable to:			
Equity holders of the Parent	₱1,986,593,252	₱1,497,540,463	₱1,251,207,942
Non-controlling interests	778,682,313	657,699,760	511,489,708
	₱2,765,275,565	₱2,155,240,223	₱1,762,697,650

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, 2013, 2012 AND 2011

	Attributable to Equity Holders of the Parent								Non-controlling Interests	Total Equity
	Capital Stock	Equity Adjustment on Reverse Acquisition	Retained Earnings	Treasury Shares	Other Comprehensive Income Reserve (Note 22)	Other Reserves (Note 22)	Total			
At January 1, 2013	₱5,065,198,859	(₱581,085,463)	₱1,733,574,023	(₱193,597,437)	₱7,748,400	₱35,105,334	₱6,066,943,716	₱2,369,738,972	₱8,436,682,688	
Effect of adoption of Revised PAS 19 (Note 3)	-	-	(12,886,147)	-	16,834,222	-	3,948,075	(722,576)	3,225,499	
As at January 1, 2013, as restated	5,065,198,859	(581,085,463)	1,720,687,876	(193,597,437)	24,582,622	35,105,334	6,070,891,791	2,369,016,396	8,439,908,187	
Cash dividends - ₱0.28 per share (Note 22)	-	-	(1,373,194,520)	-	-	-	(1,373,194,520)	-	(1,373,194,520)	
Cash dividends of a subsidiary - ₱116 per share (Note 21)	-	-	-	-	-	-	-	(677,792,640)	(677,792,640)	
Transaction costs (Note 22)	-	-	-	-	-	(33,858,000)	(33,858,000)	-	(33,858,000)	
Cost of share-based payment (Note 25)	-	-	-	-	-	986,176	986,176	-	986,176	
Conversion of deposits for shares subscription into preferred shares (Note 22)	6,771,600,000	-	-	-	-	-	6,771,600,000	-	6,771,600,000	
	11,836,798,859	(581,085,463)	347,493,356	(193,597,437)	24,582,622	2,233,510	11,436,425,447	1,691,223,756	13,127,649,203	
Net income	-	-	2,001,246,327	-	-	-	2,001,246,327	782,536,901	2,783,783,228	
Other comprehensive income (loss) (Notes 16, 22 and 34)	-	-	-	-	(14,653,075)	-	(14,653,075)	(3,854,588)	(18,507,663)	
Total comprehensive income for the year	-	-	2,001,246,327	-	(14,653,075)	-	1,986,593,252	778,682,313	2,765,275,565	
At December 31, 2013	₱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	
At January 1, 2012	₱5,065,198,859	(₱581,085,463)	₱1,607,472,401	(₱193,597,437)	(₱3,103,035)	₱24,074,498	₱5,918,959,823	₱2,280,835,512	₱8,199,795,335	
Effect of adoption of Revised PAS 19 (Note 3)	-	-	(13,827,231)	-	1,262,693	-	(12,564,538)	(8,587,036)	(21,151,574)	
As at January 1, 2012, as restated	5,065,198,859	(581,085,463)	1,593,645,170	(193,597,437)	(1,840,342)	24,074,498	5,906,395,285	2,272,248,476	8,178,643,761	
Cash dividends - ₱0.27 per share (Note 22)	-	-	(1,344,074,793)	-	-	-	(1,344,074,793)	-	(1,344,074,793)	
Cash dividends of a subsidiary - ₱96 per share (Note 21)	-	-	-	-	-	-	-	(560,931,840)	(560,931,840)	
Cost of share-based payment (Note 25)	-	-	-	-	-	3,070,578	3,070,578	-	3,070,578	
Long-term incentive plan reserves (Note 26)	-	-	-	-	-	7,960,258	7,960,258	-	7,960,258	
	5,065,198,859	(581,085,463)	249,570,377	(193,597,437)	(1,840,342)	35,105,334	4,573,351,328	1,711,316,636	6,284,667,964	
Net income, as previously reported	-	-	1,470,176,415	-	-	-	1,470,176,415	644,514,701	2,114,691,116	
Effect of adoption of Revised PAS 19 (Note 3)	-	-	941,084	-	-	-	941,084	707,388	1,648,472	
Net income, as restated	-	-	1,471,117,499	-	-	-	1,471,117,499	645,222,089	2,116,339,588	
Other comprehensive income, as previously reported	-	-	-	-	10,851,435	-	10,851,435	5,320,599	16,172,034	
Effect of adoption of Revised PAS 19 (Note 3)	-	-	-	-	15,571,529	-	15,571,529	7,157,072	22,728,601	
Other comprehensive income, as restated (Notes 16, 22 and 34)	-	-	-	-	26,422,964	-	26,422,964	12,477,671	38,900,635	
Total comprehensive income for the year, as restated	-	-	1,471,117,499	-	26,422,964	-	1,497,540,463	657,699,760	2,155,240,223	
At December 31, 2012, as restated	₱5,065,198,859	(₱581,085,463)	₱1,720,687,876	(₱193,597,437)	₱24,582,622	₱35,105,334	₱6,070,891,791	₱2,369,016,396	₱8,439,908,187	



Attributable to Equity Holders of the Parent

	Capital Stock	Equity Adjustment on Reverse Acquisition	Retained Earnings	Treasury Shares	Other Comprehensive Income Reserve (Note 22)	Other Reserves (Note 22)	Total	Non-controlling Interests	Total Equity
At January 1, 2011	₱5,065,198,859	(₱581,085,463)	₱1,605,119,088	(₱193,597,437)	₱9,402,019	₱1,949,447	₱5,906,986,513	₱2,194,365,532	₱8,101,352,045
Effect of adoption of Revised PAS 19 (Note 3)	–	–	(18,924,221)	–	–	–	(18,924,221)	(4,595,605)	(23,519,826)
As at January 1, 2011, as restated	5,065,198,859	(581,085,463)	1,586,194,867	(193,597,437)	9,402,019	1,949,447	5,888,062,292	2,189,769,927	8,077,832,219
Cash dividends - ₱0.25 per share (Note 22)	–	–	(1,255,000,000)	–	–	–	(1,255,000,000)	–	(1,255,000,000)
Cash dividends of a subsidiary - ₱85 per share (Note 21)	–	–	–	–	–	–	–	(496,658,400)	(496,658,400)
Cost of share-based payment (Note 25)	–	–	–	–	–	6,985,309	6,985,309	–	6,985,309
Long-term incentive plan reserves (Note 26)	–	–	–	–	–	15,139,742	15,139,742	–	15,139,742
Non-controlling interest arising from business combination	–	–	–	–	–	–	–	67,647,241	67,647,241
	5,065,198,859	(581,085,463)	331,194,867	(193,597,437)	9,402,019	24,074,498	4,655,187,343	1,760,758,768	6,415,946,111
Net income, as previously reported	–	–	1,257,353,313	–	–	–	1,257,353,313	521,612,531	1,778,965,844
Effect of adoption of Revised PAS 19 (Note 3)	–	–	5,096,990	–	–	–	5,096,990	437,343	5,534,333
Net income as restated	–	–	1,262,450,303	–	–	–	1,262,450,303	522,049,874	1,784,500,177
Other comprehensive income (loss), as previously reported	–	–	–	–	(12,505,054)	–	(12,505,054)	(6,131,392)	(18,636,446)
Effect of adoption of Revised PAS 19 (Note 3)	–	–	–	–	1,262,693	–	1,262,693	(4,428,774)	(3,166,081)
Other comprehensive income (loss), as restated (Notes 16, 22 and 34)	–	–	–	–	(11,242,361)	–	(11,242,361)	(10,560,166)	(21,802,527)
Total comprehensive income for the year, as restated	–	–	1,262,450,303	–	(11,242,361)	–	1,251,207,942	511,489,708	1,762,697,650
At December 31, 2011, as restated	₱5,065,198,859	(₱581,085,463)	₱1,593,645,170	(₱193,597,437)	(₱1,840,342)	₱24,074,498	₱5,906,395,285	₱2,272,248,476	₱8,178,643,761

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		
	2013	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	₱3,514,873,465	₱2,970,724,865	₱2,354,078,664
Adjustments to reconcile income before tax to net cash flows:			
Interest expense and other finance costs (Note 28)	1,086,213,854	694,947,852	1,276,922,425
Amortization of service concession assets (Notes 13 and 23)	756,639,560	597,358,217	592,987,123
Equity in net earnings of associates (Note 12)	(246,892,909)	(227,962,736)	(250,866,400)
Interest income (Note 27)	(131,549,625)	(135,723,273)	(161,261,687)
Movements in:			
Provisions	(167,387,019)	59,025,989	4,059,355
Pension asset/Accrued retirement costs	12,137,437	(30,671,475)	9,773,295
Unrealized foreign exchange loss (gain) - net	45,246,037	102,158	(152,552)
Long-term incentive plan (Note 26)	44,584,062	78,615,492	75,655,636
Depreciation of property and equipment (Notes 14, 23 and 24)	41,775,679	27,768,690	28,308,266
Gain on disposal of available-for-sale financial assets (Notes 16 and 29)	(11,780,746)	-	-
Amortization of other intangible assets (Notes 15, 23 and 24)	11,074,575	7,547,442	6,902,591
Reversal of allowance for doubtful accounts (Notes 10 and 29)	(5,259,500)	-	-
Executive stock option plan expense (Note 25)	986,176	3,070,578	6,985,309
Loss (gain) on disposals of property and equipment (Note 14)	(907,581)	176,481	(457,363)
Mark-to-market loss on derivative assets (Notes 29 and 34)	-	44,844,434	94,636,391
Provision for potential losses on claim for refund (Note 24)	-	11,060,341	8,640,240
Deferred toll revenue realized	-	(10,584,590)	(30,985,896)
Mark-to-market gain on derivatives arising from convertible note (Notes 29 and 34)	-	(3,222,025)	-
Reversal of allowance for potential losses on input value-added tax (Notes 5 and 29)	-	-	(288,052,966)
Gain on bargain purchase (Note 29)	-	-	(30,951,517)
Reversal of accrued expenses (Note 29)	-	-	(11,000,000)
Working capital changes:			
Decrease (increase) in:			
Receivables	(71,542,935)	(61,831,976)	(35,979,526)
Inventories	(5,029,929)	10,000,899	(17,370,403)
Due from related parties	3,931,810	(14,080,987)	(29,743,636)
Advances to contractors and consultants	(211,294,434)	4,052,553	(74,696,065)
Input value-added tax	(5,378,424)	4,259,219	(46,687,186)
Other current assets	(40,878,593)	(44,156,686)	(13,434,990)

(Forward)



	Years Ended December 31		
	2013	2012	2011
Increase (decrease) in:			
Accounts payable and other current liabilities	(₱417,964,818)	₱83,260,624	₱484,751,051
Due to related parties	329,954	(955,822)	(247,479)
Long-term incentive plan payable	(62,922,736)	-	-
Unearned toll revenue	3,266,291	-	10,584,590
Income tax paid	(716,554,172)	(686,328,448)	(538,884,814)
Net cash flows from operating activities	3,425,715,479	3,381,297,816	3,423,512,456
CASH FLOWS FROM INVESTING ACTIVITIES			
Decrease (increase) in other noncurrent assets	7,236,266	(32,050,372)	(12,099,004)
Dividends received (Note 12)	242,686,995	200,559,508	182,212,741
Interest received	103,375,718	121,817,176	150,681,757
Acquisition of:			
Notes receivable (Notes 11 and 18)	-	(6,197,040,000)	-
Available-for-sale financial assets (Note 16)	(4,011,901,065)	(50,000,000)	(212,500,000)
Investment in subsidiary, net of cash acquired (Note 6)	745,931,132	-	-
Additions to:			
Service concession assets (Notes 13 and 20)	(410,613,911)	(224,847,664)	(99,077,443)
Property and equipment (Note 14)	(63,599,068)	(30,492,351)	(39,647,467)
Other intangible assets (Note 15)	(4,228,781)	(8,756,754)	(7,235,682)
Proceeds from:			
Sale of property and equipment (Note 14)	3,557,941	6,467,525	1,759,802
Maturity in investment in bonds (Note 16)	50,600,000	-	50,000,000
Sale of available-for-sale financial assets (Note 16)	1,077,158,808	-	-
Net cash flows from (used in) investing activities	(2,259,795,965)	(6,214,342,932)	14,094,704
CASH FLOWS FROM FINANCING ACTIVITIES			
Deposits for shares subscription (Note 22)	-	6,771,600,000	-
Proceeds from loans (Note 20)	8,300,000,000	-	7,210,230,849
Payments of:			
Dividends to stockholders (Notes 21 and 22)	(1,141,322,469)	(1,113,020,723)	(1,252,810,916)
Dividends to non-controlling stockholders (Note 21)	(543,402,720)	(324,048,960)	(640,603,200)
Costs on issuance of preferred shares (Note 22)	(33,858,000)	-	-
Loans	(6,342,602,165)	(167,102,307)	(7,498,803,399)
Interest	(1,151,832,801)	(653,200,747)	(1,117,297,660)
Swap termination costs (Notes 29 and 34)	(175,000,000)	-	(209,010,941)
Debt issue costs (Note 20)	(115,686,507)	-	(150,032,833)
Net cash flows from (used in) financing activities	(1,203,704,662)	4,514,227,263	(3,658,328,100)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	1,384,477	(102,158)	144,000
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(36,400,671)	1,681,079,989	(220,576,940)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR (Note 9)	3,334,619,906	1,653,539,917	1,874,116,857
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 9)	₱3,298,219,235	₱3,334,619,906	₱1,653,539,917

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) and its subsidiaries (collectively referred to as “the Company”) were incorporated in the Philippines and registered with the Philippine Securities and Exchange Commission (SEC) on various dates. The primary purpose of MPTC is that of investment holding.

On November 13, 2008, First Philippine Holdings Corporation (FPHC) and Benpres Holdings Corporation (BHC), former shareholders of MPTC, then First Philippine Infrastructure, Inc. (FPII), sold their combined 99.8% ownership interest in MPTC to Metro Pacific Investments Corporation (MPIC). MPIC, a publicly-listed Philippine corporation, is 55.8% owned by Metro Pacific Holdings, Inc. (MPHI). MPHI is a Philippine corporation whose stockholders are Enterprise Investment Holdings, Inc. (EIH) (60.0%), Intalink B.V. (26.7%) and First Pacific International Limited (13.3%). First Pacific Company Limited (FPC), a company incorporated in Bermuda and listed in Hong Kong, through its subsidiaries, holds 40.0% equity interest in EIH and an investment financing, which under Hong Kong Generally Accepted Accounting Principles require FPC to account for the results and assets and liabilities of EIH and its subsidiaries as FPC group companies in Hong Kong.

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

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

The consolidated financial statements were approved and authorized for issuance by the Board of Directors (BOD) on February 20, 2014, as reviewed and recommended for approval by the Audit Committee.

Toll Operations

Metro Pacific Tollways Development Corporation (MPTDC) and Subsidiaries

MPTDC, a wholly owned subsidiary of MPTC, owns 100.0% of Luzon Tollways Corporation (LTC), 67.1% of Manila North Tollways Corporation (MNTC) and 46.0% of Tollways Management Corporation (TMC). MPTDC, then First Philippine Infrastructure Development Corporation (FPIDC), was the assignee of BHC and FPHC of all their rights, interests and privileges, in relation to the construction, operation and maintenance of the Manila-Subic Expressways under a Memorandum of Understanding (MOU) signed on February 8, 1994 by BHC and FPHC with Philippine National Construction Corporation (PNCC), Subic Bay Metropolitan Authority (SBMA), Bases Conversion and Development Authority (BCDA), and several other governmental and non-governmental entities. The Manila-Subic Expressways shall connect the Subic and Clark Special Economic Zones to Metro Manila.



MPTDC established MNTC jointly with PNCC for the purpose of implementing the rehabilitation of the North Luzon Expressway (NLEX) and the installation of appropriate collection system therein referred to as the “Manila-North Expressway Project” or the “MNEP.”

The MNEP consists of three phases as follows:

- | | |
|-----------|--|
| Phase I | Rehabilitation and expansion of approximately 84 kilometers (km) of the existing NLEX and an 8.8-km stretch of a Greenfield expressway |
| Phase II | Construction of the northern parts of the 17-km circumferential road C-5 which connects the current C-5 expressway to the 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 |

In accordance with the Memorandum of Agreement (MOA) dated March 6, 1995 among MPTDC, (then FPIDC), SBMA and BCDA, MPTDC undertook the immediate construction of the SBMA - Tipo Road (Segment 7) that connects Tipo in Hermosa, Bataan to Subic. Under the MOA, SBMA authorized MPTDC to charge and collect certain amount of entry fees from the motoring public for the use of Segment 7.

On April 5, 1997, a Provisional Operating and Maintenance Agreement was signed to initiate the collection process in Segment 7 under the terms and conditions of the Supplemental Toll Operation Agreement (STOA) as discussed in Note 2.

Also pursuant to the MOA, Segment 7 was integrated to and formed part of the Joint Venture Agreement (JVA) executed by PNCC and MPTDC (then FPIDC). Accordingly, MPTDC executed a Deed of Assignment and Conveyance on July 6, 2001 whereby MPTDC assigned, conveyed and transferred in favor of MNTC all its rights, interests and privileges over Segment 7. On the same date, MPTDC and MNTC entered into an Operation and Maintenance Agreement (S7 O&M) whereby MNTC appointed MPTDC as the Operator of the Segment 7 toll road. On February 10, 2005, pursuant to the Operation and Maintenance (O&M) Agreement between MNTC and TMC, a 46.0% owned associate of MPTDC, TMC took over the operation and maintenance of Segment 7 from MPTDC (see Note 21).

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 operation and maintenance of Phase I consisting of Segments 1, 2, 3 and including Segment 7 in favor of MNTC. Thereafter, MNTC took over the NLEX from PNCC and commenced its tollway operations on February 10, 2005.

On June 5, 2010, 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. In May 2013, Segment 9, a portion of Phase II, which is a 2.4 km-road connecting NLEX to the McArthur Highway, had officially commenced construction and is expected to be completed by July 2014. The estimated cost of construction of Segment 9 is ₱1.1 billion. The remaining portion of Phase II is under pre-construction works while Phase III of the MNEP has not yet been started as at February 20, 2014.



Cavitex Infrastructure Corp. (CIC) and Subsidiaries

As further discussed in Note 6, MPTC, Cavitex Holdings, Inc. (CHI) and 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 or UMPC, was incorporated on October 9, 1995 primarily to undertake the design, construction and financing of the Manila-Cavite Toll Expressway Project (MCTEP) 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 JVA with the Philippine Reclamation Authority (PRA, formerly Public Estates Authority or PEA) 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 South Luzon Expressway (SLEX) |

CIC, then UMPC, 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.

Metro Strategic Infrastructure Holdings, Inc. (MSIHI)

MSIHI is primarily engaged to purchase, subscribe for, or otherwise acquire and own or dispose of real and personal properties including shares of stock, bonds, debentures, notes, other evidences of indebtedness, and any other securities, contracts or obligations. MSIHI's main asset is its 2.0% interest in Citra Metro Manila Tollways Corporation (CMMTC) (see also Note 16). 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.



2. Service Concession Arrangements

STOA for the Manila-North Expressway

By virtue of Presidential Decree (PD) No. 1113 issued on March 31, 1977 as amended by PD No. 1894 issued on December 22, 1983, PNCC was granted the franchise for the construction, operation and maintenance 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 the Binictican-Bo. Tipo road project, as defined in the MOA dated March 6, 1995, to MNTC, which assumed all the rights and obligations as a necessary and integral part of the MNEP. 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 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 Toll Operation Certificate (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, operation and maintenance 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 Manila-North Expressway, whereby the ROP granted MNTC the rights, obligations and privileges including the authority to finance, design, construct, operate and maintain the project roads as toll roads (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 21, 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. Fees billed by TRB amounted to ₱3.1 million 2011. No fees were billed by TRB in 2013 and 2012.

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 MNEP 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 – July 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.

TOA for the MCTEP

On July 26, 1996, PRA (Grantee) and CIC entered into a TOA with the Grantor, through the TRB, to expand the scope and toll collection period of the Toll Operation Certificate of PRA and amplify the terms and conditions which are necessary to ensure the financial viability of the MCTEP. Under the TOA, MARA and UEM shall continue to be liable jointly and severally. Pursuant to the TOA, PRA will be responsible for the operation and maintenance of the expressway while CIC will be responsible for the design and construction of the expressway including its financing.

The following are the salient terms of the TOA:

- a. The expressways shall be constructed in accordance with the following provisional construction schedule:

Upgrading of R-1 Expressway	1996–1997
C-5 Link Expressway	1996–1998
R-1 Expressway Extension	1997–1998

- b. The franchise period for all the expressways shall be thirty-five (35) consecutive years calculated from the last final operation date, which is the date on which all segments of each expressway shall have commenced operation, or from October 1, 1998, whichever is earlier. In the event the franchise period is extended in accordance with the provisions of this agreement, such extension shall be correspondingly included for the purposes of determining the extended franchise period. Notwithstanding the provisions of this section, the Grantee shall be entitled to operate and maintain any completed segment of any expressway before the last final operation date in accordance with the provisions of this agreement.
- c. The right granted to CIC to perform the construction of the expressways shall be for a term of four (4) consecutive years counted from the effectiveness of the Notice to Proceed. The Notice to Proceed is issued by the Grantor upon fulfillment of all the conditions precedent as set out in the TOA.
- d. Construction 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 CIC's cost estimate, the Grantor and PRA agree that the agreed toll rates shall be adjusted accordingly.
- e. The Grantor undertakes that there shall exist throughout the term of the construction, Land in Vacant Possession for the construction of any segment of an expressway to which the Notice to Proceed is issued so that construction can be carried out continuously without any interruption for at least 6 months.



- f. Any delay in the construction caused by (i) any delay in handing over the Land in Vacant Possession, (ii) any delay caused by significant changes made to the basic design, or (iii) any other cause not due to the willful act, fault or negligence of PRA and/or CIC, shall correspondingly extend the period of construction, provided however, that such extension of the period of construction shall not adversely affect the feasibility of the MCTEP. If such extension affects the feasibility of the MCTEP, the termination provisions shall apply.
- g. The expressways shall be owned by the Grantor without prejudice to the rights and entitlement of the Grantee and/or CIC.
- h. If the TOA is terminated by PRA and/or CIC by reason of the Grantor's default, the Grantor shall within six months from the date of notice of termination by the PRA and/or CIC: (i) be obliged to take over the MCTEP, and shall forthwith assume all attendant rights and liabilities thereof including without limitation the obligations under the loan and (ii) pay just compensation to PRA 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 (JV) maintained with a local bank.

On June 28, 2010, the TRB has issued a clarification of the Franchise Period of R-1 Expressway Extension. According to the TRB, each segment of the expressways have their specific commencement of its Operation Date, that is, the date to start toll collection for that segment, which is granted after such segment is substantially completed and can be operated as a toll road. Since the R-1 Expressway Extension has yet to be substantially completed as at that date, the TRB clarified that the Franchise Period has not yet commenced for that segment.

As provided in the JVA, the JV 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 MCTEP 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 MCTEP will be transferred to the Grantor.

On February 2, 2006, the then CIC's BOD authorized the then CIC's management to:

- a. Enter into an Engineering Procurement and Construction Contract (EPC Contract) with No. 14 Metallurgical Construction Company of China National Nonferrous Metal Industry (the Equity Contractor or MCC) and Katahira & Engineers Asia, Inc. which sets out the basic and major terms of an EPC Contract in connection with the construction of the R-1 Expressway Extension, Segment 4 of the MCTEP. Under the said agreement, the total contract price shall be ₱5,000.0 million. In addition, the agreement provides that a performance security be secured as discussed below; and



- b. Enter into with MCC and the existing stockholders of CIC a Shareholders' Contribution Agreement (SCA) in connection with MCC's equity investment in CIC for the purpose of allowing it to comply with the conditions precedent under the EPC Contract that was awarded to it in relation to the R-1 Expressway Extension, Segment 4 of the MCTEP, as well as other agreements, documents and papers pertinent to the foregoing.

While the EPC Contract and SCA were signed by CIC and the respective parties, the contract was not executed and was declared null and void in 2007.

On June 4, 2009, CIC, together with the Lenders, Agents and Pledgor, executed an amendment to the 2006 Omnibus Loan Agreement (OLA) to replace MCC with Sargasso Construction and Development Corporation (SCDC), to amend certain obligations and to comply with the terms and conditions of CIC's Lenders and its Equity Contractor.

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 and to comply with the terms and conditions of CIC's Lenders and its Equity Contractor.

Below are the salient provisions of the O&M Agreement:

1. Redefinition of Phase 1 and 2 of the MCTEP

Phase 1 of the MCTEP will now relate to the design and improvement of the R-1 Expressway and the design and construction of the R-1 Expressway Extension which consist of Segment 1 (from Seaside Drive to Zapote), Segment 4 (from Zapote to Kawit) and Segment 5 (from Kawit to Noveleta), provided that, subject to the approval of the TRB, Segment 5 will be excluded from Phase 1 in the event that its construction does not begin within two years from the completion of the design and construction works for Segment 4 that is estimated to be in December 2008. In case of exclusion from Phase 1, Segment 5 shall now form part of the Phase 2, subject to the approval of the TRB.

Phase 2 of the MCTEP will now relate to the design and construction of the C-5 Link Expressway, which consists of Segments 2 and 3 from R-1 Interchange to Sucat Interchange and to SLEX Interchange, respectively.

2. Change of the Participation of PRA and CIC in the O&M Agreement of R-1 Expressway

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 OLA (an OLA was signed by CIC and various lenders in 2006) and the repayment of the Equity Contractor and shall be irrevocable during the aforementioned period.

3. Appointment of Directors and Officers

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.

4. Amendment of the Revenue Sharing Provisions as Previously Provided under the TOA

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.

The new PRA share of 8.5% of the gross toll revenue shall be subject to increase as mentioned in the previous paragraph which shall be implemented during the period of:

- a) existence of the loan which is payable for a period of 8 years; and
- b) repayment of the Equity Contractor which shall be converted into subordinated debt pari passu with the lenders for a period which shall not exceed an additional 3 years after the period of 8 years.

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.

5. Amendment of the Conduct of the O&M of the Tollway

All gross toll revenue collections shall be directly deposited on a daily basis to the respective bank accounts of PRA and CIC:

- a) The 91.5% 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 JV 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.
6. 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.
7. 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 4 years or until August 25, 2021, or upon full settlement of the funding obtained by CIC for the completion of MCTEP.

3. **Basis of Preparation and Summary of Significant Accounting Policies**

Basis of Preparation

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

The consolidated financial statements provide comparative information in respect of the previous period. In addition, the Company presents an additional consolidated balance sheet at the beginning of the earliest period presented when there is a retrospective application of an accounting policy, a retrospective restatement, or a reclassification of items in the consolidated financial statements. An additional consolidated balance sheet as at January 1, 2012 is presented in these consolidated financial statements due to retrospective application of Revised Philippine Accounting Standard (PAS) 19, Employee Benefits".

Statement of Compliance

The consolidated financial statements of the Company have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries as at December 31, 2013 and 2012 and for each of the three years in the period ended December 31, 2013.

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.

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.



Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting year as the Parent Company, using consistent 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.

Profit or loss and each component of other comprehensive income are attributed to the equity holders of the Parent and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

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 assets (including goodwill) and liabilities of the subsidiary
- Derecognizes the carrying amount of any non-controlling interest
- Derecognizes the cumulative translation differences recorded in equity
- Recognizes the fair value of the consideration received
- Recognizes the fair value of any investment retained
- Recognizes any surplus or deficit in profit or loss
- Reclassifies the Parent Company's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate.

Non-controlling interests represent the interests in MNTC and MSIHI not held by the Parent Company, and are presented separately in the consolidated statement of income and within equity in the consolidated balance sheet, separately from equity attributable to equity holders of the parent.

The Parent Company's subsidiaries are as follows:

	Activity	Country of incorporation and operation	Percentage of Ownership	
			2013	2012
MPTDC (see Notes 1 and 2)	Holding Company	Philippines	100.0	100.0
LTC (dormant) ^(a)	Tollway Operations	Philippines	100.0	100.0
CIC and subsidiaries (see Notes 1, 2 and 6)	Tollway Operations	Philippines	100.0	–
Collared Wren Holdings, Inc. (CWHI) ^{(a)(b)}	Holding Company	Philippines	100.0	–
Larkwing Holdings, Inc. (LHI) ^{(a)(b)}	Holding Company	Philippines	100.0	–
MPCALA Holdings, Inc. (MHI) ^{(a)(b)}	Holding Company	Philippines	100.0	–
MNTC ^(a) (see Notes 1 and 2)	Tollway Operations	Philippines	67.1	67.1
MSIHI (see Note 1)	Holding Company	Philippines	57.0	57.0

^(a) Owned through MPTDC.

^(b) These companies were incorporated in September 2013 to facilitate the bidding of the Cavite-Laguna Expressway. MHI is owned by MPTDC at 51% and the remaining 49% is owned equally by CWHI and LHI.



Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of certain standards and amendments that require restatement of previous financial statements. These include PAS 19, "Employee Benefits" (Revised 2011), and amendments to PAS 1, "Presentation of Financial Statements".

Several other amendments apply for the first time in 2013. However, they do not impact the consolidated financial statements of the Company.

The nature and the impact of the new standards and amendments are described below:

- PFRS 7, "Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities" (Amendments)

These amendments require an entity to disclose information about rights of set-off and related arrangements (such as collateral agreements). The new disclosures are required for all recognized financial instruments that are set off in accordance with PAS 32. These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or 'similar agreement', irrespective of whether they are set-off in accordance with PAS 32. The amendments require entities to disclose, in a tabular format, unless another format is more appropriate, the following minimum quantitative information. This is presented separately for financial assets and financial liabilities recognized at the end of the reporting period:

- a) The gross amounts of those recognized financial assets and recognized financial liabilities;
- b) The amounts that are set off in accordance with the criteria in PAS 32 when determining the net amounts presented in the statement of financial position;
- c) The net amounts presented in the statement of financial position;
- d) The amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in (b) above, including:
 - i. Amounts related to recognized financial instruments that do not meet some or all of the offsetting criteria in PAS 32; and
 - ii. Amounts related to financial collateral (including cash collateral); and
- e) The net amount after deducting the amounts in (d) from the amounts in (c) above.

The amendments have no impact on the Company's financial position or performance.

- PFRS 10, "Consolidated Financial Statements"

The Company adopted PFRS 10 in the current year. PFRS 10 replaced the portion of PAS 27, "Consolidated and Separate Financial Statements", that addressed the accounting for consolidated financial statements. It also included the issues raised in Standing Interpretations Committee (SIC) 12, "Consolidation - Special Purpose Entities". PFRS 10 established a single control model that applied to all entities including special purpose entities. The changes introduced by PFRS 10 require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in PAS 27. The adoption of this standard did not have an impact on the Company's consolidated financial statements.



- PFRS 11, “Joint Arrangements”

PFRS 11 replaced PAS 31, “Interests in Joint Ventures”, and SIC 13, “Jointly Controlled Entities - Non-Monetary Contributions by Venturers”. PFRS 11 removed the option to account for jointly controlled entities using proportionate consolidation. Instead, jointly controlled entities that meet the definition of a joint venture must be accounted for using the equity method. The adoption of this standard did not have an impact on the Company’s consolidated financial statements.

- PFRS 12, “Disclosure of Interests in Other Entities”

PFRS 12 sets out the requirements for disclosures relating to an entity’s interests in subsidiaries, joint arrangements, associates and structured entities. The requirements in PFRS 12 are more comprehensive than the previously existing disclosure requirements for subsidiaries (for example, where a subsidiary is controlled with less than a majority of voting rights). While the Company has a subsidiary with material non-controlling interests, there are no unconsolidated structured entities. PFRS 12 disclosures are provided in Notes 3, 5, 8 and 12.

- PFRS 13, “Fair Value Measurement”

PFRS 13 establishes a single source of guidance under PFRSs for all fair value measurements. PFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS. PFRS 13 defines fair value as an exit price. PFRS 13 also requires additional disclosures.

As a result of the guidance in PFRS 13, the Company re-assessed its policies for measuring fair values, in particular, its valuation inputs such as non-performance risk for fair value measurement of liabilities. The Company has assessed that the application of PFRS 13 has not materially impacted the fair value measurements of the Company. Additional disclosures, where required, are provided in the individual notes relating to the assets and liabilities whose fair values were determined. Fair value hierarchy is provided in Note 34.

- PAS 1, “Presentation of Financial Statements - Presentation of Items of Other Comprehensive Income or OCI” (Amendments)

The amendments to PAS 1 introduced a grouping of items presented in OCI. Items that will be reclassified (or “recycled”) to profit or loss at a future point in time (for example, upon derecognition or settlement) will be presented separately from items that will never be recycled. The amendments affect presentation only and have no impact on the Company’s financial position or performance.

- PAS 19, “Employee Benefits” (Revised)

On January 1, 2013, the Company adopted the Revised PAS 19.

For defined benefit plans, the Revised PAS 19 requires all actuarial gains and losses to be recognized in OCI and unvested past service costs previously recognized over the average vesting period to be recognized immediately in profit or loss when incurred.



Prior to adoption of the Revised PAS 19, the Company recognized actuarial gains and losses as income or expense when the net cumulative unrecognized gains and losses for each individual plan at the end of the previous period exceeded 10% of the higher of the defined benefit obligation and the fair value of the plan assets and recognized unvested past service costs as an expense on a straight-line basis over the average vesting period until the benefits become vested. Upon adoption of the Revised PAS 19, the Company changed its accounting policy to recognize all actuarial gains and losses in OCI and all past service costs in profit or loss in the period they occur.

The Revised PAS 19 replaced the interest cost and expected return on plan assets with the concept of net interest on defined benefit liability or asset which is calculated by multiplying the net balance sheet defined benefit liability or asset by the discount rate used to measure the employee benefit obligation, each as at the beginning of the annual period.

The Revised PAS 19 also amended the definition of short-term employee benefits and requires employee benefits to be classified as short-term based on expected timing of settlement rather than the employee's entitlement to the benefits. In addition, the Revised PAS 19 modifies the timing of recognition for termination benefits. The modification requires the termination benefits to be recognized at the earlier of when the offer cannot be withdrawn or when the related restructuring costs are recognized.

Changes to definition of short-term employee benefits and timing of recognition for termination benefits do not have any impact to the Company's financial position and financial performance.

The Company also concurrently adopted Philippine Interpretation Committee (PIC) Question and Answer (Q&A) No. 2013-03, "Accounting for Employee Benefits under a Defined Contribution Plan subject to the Requirements of Republic Act (RA) No. 7641, The Philippine Retirement Law". Under this Q&A, the benefits mandated under RA No. 7641 are considered as a minimum benefit guarantee for qualified private sector employees in the Philippines. Hence, for an entity that provides a defined contribution plan as its only post-employment benefit plan, its obligation for post-employment benefits is not limited to the amount it agrees to contribute to the fund. Thus, the Company's contributory retirement plan should be accounted for as a defined benefit plan.

The changes in accounting policies have been applied retrospectively. The effects of adoption on the consolidated financial statements are as follows:

	As at December 31			As at January 1
	2013	2012	2011	2011
Increase (decrease) in:				
<u>Consolidated balance sheets</u>				
Pension asset	(P5,819,735)	(P3,137,538)	P-	P-
Investment in an associate	(2,393,105)	5,353,444	4,874,713	-
Other current assets	1,338,340	-	-	-
Accrued retirement costs	474,553	1,239	37,286,305	33,599,753
Accounts payable and other current liabilities	(91,543)	(116,159)	(105,893)	-
Deferred tax liabilities - net	(1,586,999)	(894,675)	(11,154,125)	(10,079,927)
Other comprehensive income reserve	7,950,410	16,834,222	1,262,693	-
Retained earnings	(12,026,329)	(12,886,147)	(13,827,231)	(18,924,221)
Non-controlling interests	(1,340,285)	(722,576)	(8,587,036)	(4,595,605)



	2013	2012	2011
<u>Consolidated statements of income</u>			
Provision for retirement benefits	(P2,251,234)	(P3,081,863)	(P942,316)
Equity in net earnings	(894,218)	(496,719)	4,874,713
Income tax effects	281,273	936,672	282,696
Net income:			
Attributable to equity holders of the Parent	859,818	941,084	5,096,990
Attributable to non-controlling interests	215,925	707,388	437,343
	2013	2012	2011
<u>Consolidated statements of comprehensive income</u>			
Remeasurement of pension asset	(P3,619,778)	P32,052,619	P-
Remeasurement of accrued retirement costs	(7,325,575)	(1,239)	(4,522,973)
Income tax effects	(1,227,906)	9,322,779	(1,356,892)
Other comprehensive income:			
Attributable to equity holders of the Parent Company	(8,883,812)	15,571,529	1,262,693
Attributable to non-controlling interests	(833,635)	7,157,072	(4,428,774)

The adoption did not have impact on the consolidated statements of cash flows.

▪ PAS 27, “Separate Financial Statements”

As a consequence of the new PFRS 10, “Consolidated Financial Statements” and PFRS 12, “Disclosure of Interests in Other Entities”, what remains of PAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The adoption of the amended PAS 27 did not have an impact on the separate financial statements of the entities in the Company.

▪ PAS 28, “Investments in Associates and Joint Ventures”

As a consequence of the issuance of the new PFRS 11, “Joint Arrangements”, and PFRS 12, “Disclosure of Interests in Other Entities”, PAS 28 has been renamed PAS 28, “Investments in Associates and Joint Ventures”, and describes the application of the equity method to investments in joint ventures in addition to associates. The adoption of the amended PAS 28 did not have an impact on the consolidated financial statements of the Company.

▪ PAS 36, “Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets” (Amendments)

These amendments remove the unintended consequences of PFRS 13 on the disclosures required under PAS 36. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units (CGUs) for which impairment loss has been recognized or reversed during the period. These amendments are effective retrospectively for annual periods beginning on or after January 1, 2014 with earlier application permitted, provided PFRS 13 is also applied. The Company has early adopted these amendments to PAS 36 in the current period since the amended/additional disclosures provide useful information. Accordingly, these amendments have been considered while making disclosures for impairment of non-financial assets. These amendments would continue to be considered for future disclosures.



- Philippine Interpretation IFRIC 20, “Stripping Costs in the Production Phase of a Surface Mine”

This interpretation applies to waste removal (stripping) costs incurred in surface mining activity, during the production phase of the mine. The interpretation addresses the accounting for the benefit from the stripping activity. This new interpretation is not relevant to the Company.

- PFRS 1, “First-time Adoption of International Financial Reporting Standards - Government Loans” (Amendments)

The amendments to PFRS 1 require first-time adopters to apply the requirements of PAS 20, “Accounting for Government Grants and Disclosure of Government Assistance”, prospectively to government loans existing at the date of transition to PFRS. However, entities may choose to apply the requirements of PAS 39, “Financial Instruments: Recognition and Measurement”, and PAS 20 to government loans retrospectively if the information needed to do so had been obtained at the time of initially accounting for those loans. These amendments are not relevant to the Company.

Annual Improvements to PFRSs (2009-2011 cycle). The Annual Improvements to PFRSs (2009-2011 cycle) contain non-urgent but necessary amendments to PFRSs. The Company adopted these amendments for the current year.

- PFRS 1, “First-time Adoption of PFRS - Borrowing Costs”

The amendment clarifies that, upon adoption of PFRS, an entity that capitalized borrowing costs in accordance with its previous generally accepted accounting principles, may carry forward, without any adjustment, the amount previously capitalized in its opening balance sheet at the date of transition. Subsequent to the adoption of PFRS, borrowing costs are recognized in accordance with PAS 23, “Borrowing Costs”. The amendment does not apply to the Company as it is not a first-time adopter of PFRS.

- PAS 1, “Presentation of Financial Statements - Clarification of the requirements for comparative information”

These amendments clarify the requirements for comparative information that are disclosed voluntarily and those that are mandatory due to retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional comparative period does not need to contain a complete set of financial statements. On the other hand, supporting notes for the third balance sheet (mandatory when there is a retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements) are not required. The amendments affect disclosures only and have no impact on the Company’s financial position or performance.



- PAS 16, “Property, Plant and Equipment - Classification of servicing equipment”

The amendment clarifies that spare parts, stand-by equipment and servicing equipment should be recognized as property, plant and equipment when they meet the definition of property, plant and equipment and should be recognized as inventory if otherwise. The amendment does not have any significant impact on the Company’s financial position or performance.

- PAS 32, “Financial Instruments: Presentation - Tax effect of distribution to holders of equity instruments”

The amendment clarifies that income taxes relating to distributions to equity holders and to transaction costs of an equity transaction are accounted for in accordance with PAS 12, “Income Taxes”. The amendment does not have any significant impact on the Company’s financial position or performance.

- PAS 34, “Interim Financial Reporting - Interim financial reporting and segment information for total assets and liabilities”

The amendment clarifies that the total assets and liabilities for a particular reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker and there has been a material change from the amount disclosed in the entity’s previous annual financial statements for that reportable segment. The amendment affects disclosures only and has no impact on the Company’s financial position or performance.

Business Combinations and Goodwill

Business combinations are accounted for using the acquisition method of accounting. 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 costs incurred are expensed 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, the acquisition date fair value of the acquirer’s previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through the consolidated statement of income.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognized in accordance with PAS 39, “Financial Instruments: Recognition and Measurement”, either in profit or loss or as a charge to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity. In instances where the contingent consideration does not fall within the scope of PAS 39, it is measured in accordance with the appropriate PFRS.



Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred, the amount recognized for non-controlling interest and the acquisition date fair value of previously held equity interest in the acquired over the net identifiable acquired assets and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly 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 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.

Investment in an Associate

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.

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

The Company's investment in its associate is accounted for using the equity method.

Under the equity method, the investment in the associate is carried in the consolidated balance sheet at cost plus post-acquisition changes in the Company's share in net assets of the associate, less any impairment in value. Goodwill relating to the associate 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. Where there has been a change recognized directly in the equity of the associate, the Company recognizes its share of any changes and discloses this, when applicable, in the consolidated statement of changes in equity. Unrealized gains and losses resulting from transactions between the Company and the associate are eliminated to the extent of the interest in the associate.

The Company's share of profit of an associate is shown on the face of the consolidated statement of income. This is the profit attributable to equity holders of the associate and, therefore, is profit after tax and non-controlling interests in the subsidiaries of the associate.

The financial statements of the associate 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 associate. The Company determines at each balance sheet date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Company calculates the amount of impairment as the difference between the recoverable amount of the investment in associate and its carrying value and recognizes the amount in the consolidated statement of income.

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

Cash and Cash Equivalents

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

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.

Subsequent Measurement

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

a. Financial Assets and Liabilities at FVPL

Financial assets or liabilities at FVPL include financial assets or liabilities held for trading and those designated upon initial recognition as at FVPL.

A financial asset is classified as held for trading if it is acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments or a financial guarantee contract. Gains or losses on investments held for trading are recognized in the consolidated statement of income. Interest earned or incurred is recognized as the interest accrues and dividend income is recorded when the right of payment has been established.

Financial instruments may be designated as at FVPL by management on initial recognition when any of the following criteria is met:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognizing gains or losses on them on a different basis, or
- The assets or liabilities are part of a group of financial assets or liabilities, or both financial assets and liabilities, which are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, or
- The financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Assets and liabilities classified under this category are carried at fair value in the consolidated balance sheet, with any gains or losses being recognized in the consolidated statement of income.

The Company accounts for its derivative transactions (including embedded derivatives) under this category with fair value changes being reported directly in the consolidated statement of income, except when the derivative is treated as an effective accounting hedge, in which case the fair value change is either reported in the consolidated statement of income with the corresponding adjustment from the hedged transaction (fair value hedge) or deferred in equity (cash flow hedge) under “Other comprehensive income reserve” account.



As at December 31, 2013, there are no financial assets and liabilities at FVPL. As at December 31, 2012, the Company has derivative asset arising from the options embedded in the notes receivable which is classified as financial asset at FVPL.

b. 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. Assets under this category are classified as current assets if maturity is within 12 months as at the balance sheet date and noncurrent assets if maturity is more than a year from the balance sheet date.

Loans and receivables include cash and cash equivalents, receivables, notes receivable, due from related parties and refundable deposits (included in "Other noncurrent assets" account in the consolidated balance sheet) (see Notes 9, 10, 11, 17 and 21).

c. HTM Investments

HTM investments are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities wherein the Company has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Where the Company sells other than an insignificant amount of HTM investments, the entire category would be tainted and reclassified as AFS financial assets. Other long-term investments that are intended to be HTM, such as bonds, are subsequently measured at amortized cost. This cost is computed as the amount initially recognized minus principal repayments, plus or minus the cumulative amortization using the effective interest rate method of any difference between the initially recognized amount and the maturity amount. This calculation includes fees paid or received between parties to the contract that are an integral part of the effective interest rate, issuance costs and all other premiums and discounts. Gains and losses are recognized in the consolidated statement of income when the investments are derecognized or impaired, as well as through the amortization process. Assets under this category are classified as current assets if maturity is within 12 months from the balance sheet date and as noncurrent assets if maturity is more than a year from the balance sheet date.

The Company has no HTM investments as at December 31, 2013 and 2012.

d. 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 three preceding categories. AFS financial assets include equity and debt securities. Equity investments classified as available-for-sale 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 other comprehensive income in the “Other comprehensive income 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. These financial assets are classified as noncurrent assets unless the intention is to dispose such assets within 12 months from the balance sheet date.

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

As at December 31, 2013 and 2012, AFS financial assets consist of investments in quoted fixed rate retail treasury bonds and notes of the ROP, fixed rate corporate bonds of Manila Electric Company (Meralco) and unit investment trust funds (UITF) and investment in unquoted shares of CMMTC and Pacific Global One Aviation Company, Inc. (PGOACI) (see Note 16).

e. 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, long-term debt and financial guarantee obligation (see Notes 18, 20, 21 and 34).

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.

Financial Guarantee Contracts. Financial guarantee contracts issued by the Company are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognized initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the balance sheet date and the amount recognized less cumulative amortization.



Offsetting 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.

'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 a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event 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. Assets Carried at Amortized Cost

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the consolidated statement of income. Interest income continues to be accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance



income in the consolidated statement of income. The assets together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Company. If a write-off is later recovered, any amount formerly charged is credited to the consolidated statement of income.

If, in a subsequent 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 statements of income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

b. Assets Carried at Cost

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.

c. 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. Where there is evidence of impairment, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in the consolidated statement of income) is removed from other comprehensive income 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 other comprehensive income.

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.



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;
- 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 of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, shall be recognized in the consolidated statement of income.

Derivatives and Hedge Accounting

Freestanding Derivatives. The Company uses derivative financial instruments, such as currency forward contracts and interest rate swaps, to hedge its foreign currency risks and interest rate risks, respectively. 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 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.

Embedded Derivatives. Embedded derivatives are bifurcated when the entire hybrid contracts (composed of the host contract and the embedded derivative) are not accounted for at FVPL, the economic risks of the embedded derivatives are not closely related to those of their respective host contracts, and a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative.

Only where the following conditions are met should an embedded derivative be separated from the host contract and accounted for separately:

- a. the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract;
- b. a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- c. the hybrid (combined) instrument is not measured at fair value with changes in fair value recognized in profit or loss.

Embedded derivatives that are bifurcated from the host contracts are accounted for as financial assets at FVPL. Changes in fair values are recognized in the consolidated statement of income. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.



The Company assesses whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. The Company determines whether a modification to cash flows is significant by considering the extent to which the expected future cash flows associated with the embedded derivative, the host contract or both have changed and whether the change is significant relative to the previously expected cash flows on the contract.

Current Versus Noncurrent Classification. Derivative instruments that are not designated and effective hedging instruments are classified as current or noncurrent or separated into a current and noncurrent portion based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows):

- When the Company will hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the balance sheet date, the derivative is classified as noncurrent (or separated into current and noncurrent portions) consistent with the classification of the underlying item.
- Embedded derivatives that are not closely related to the host contract are classified consistent with the cash flows of the host contract.
- Derivative instruments that are designated as, and are effective hedging instruments, are classified consistent with the classification of the underlying hedged item. The derivative instrument is separated into a current portion and noncurrent portion only if a reliable allocation can be made.

Fair Value Measurement

The Company measures derivatives at fair value at each balance sheet date and, for the purposes of impairment testing, uses fair value less costs of disposal to determine the recoverable amount of some of its non-financial assets. Also, fair values of financial instruments measured at amortized cost are disclosed in Note 34.

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

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

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

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



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

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the 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.

Inventories

Inventories, which consist of magnetic cards and spare parts, are valued at the lower of cost and net realizable value (NRV). Cost includes purchase cost and import duties and is determined primarily on a first-in, first-out method prior to May 2013. 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.

From the start of May 2013, the Company changed its accounting policy for determining the costs of its inventory to weighted average method. The Company takes the view that this policy provides reliable and more relevant information. The policy has been applied prospectively from May 2013 because it was not practicable to estimate the effects of applying the policy either retrospectively, or prospectively from any earlier date.



Advances to Contractors and Consultants

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

Service Concession Arrangements

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

In addition, the Company recognizes and measures construction revenue in accordance with 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.

The Company also recognizes its contractual obligations to restore the toll roads to a specified level of serviceability 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 the fair value of the construction services. Following initial recognition, the service concession assets are carried at cost less accumulated amortization and any impairment losses.

The service concession asset of MNTC is amortized using the straight-line method over the term of the service concession. The service concession asset of CIC is amortized using the unit-of-production method. The annual amortization of the service concession asset of CIC 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 period to the net carrying value of the assets. The expected traffic volume is estimated by management with reference to the traffic projection reports prepared by independent traffic consultants.

The amortization period and method for an intangible asset with a finite useful life is reviewed at least each financial period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the service concession assets are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense is recognized under the "Cost of services" account in the consolidated statement of income.

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



Property and Equipment

Property and equipment 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.

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 (Software Costs)

The Company's other intangible assets pertain to various computer software used in administration and operations. Intangible assets acquired separately are measured on initial recognition at cost. 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 profit and loss in the period in which the expenditure is incurred.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each 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 as the expense category that is consistent with the function of the intangible assets.

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

Investment in an Associate, Property and Equipment, Other Intangible Assets, Service Concession Assets, Input VAT 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 to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other available fair value indicators. Impairment losses of continuing operations are recognized in the consolidated statement of income in those expense categories consistent with the function of the impaired asset.

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.

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. Where 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. Where 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 Shares Subscription

Deposit for shares subscription represents deposits received by the Company from its stockholder for the proposed increase in authorized capital stock. Deposit for shares 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.

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, 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 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 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 and MSIHI 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, excluding value-added tax, discounts



and rebates. The Company assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Company has concluded that it is acting as principal in all of its revenue arrangements. 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 sales discounts. 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 is 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.

Guarantee fees and 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.

Interest income is recognized as the interest accrues using the effective interest rate method.

Management fees, included in "Other income" account in the consolidated statement of income, are recognized when services are rendered.

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 refunds from lenders, reversal of accrued expenses and other income.

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. 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 Parent Company and its subsidiaries determine their own functional currency and items included in the consolidated financial statements are measured using that functional currency. The Parent Company and its subsidiaries have determined its functional currency to be the Philippine peso. 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 retranslated 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.

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 (DB) 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 profit or loss.

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 profit or loss. 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 profit or loss.

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 profit or loss 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 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.

Income Taxes

Current Tax. Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the tax authority. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the balance sheet date.

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

Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits and unused tax losses, to the extent that it is probable that taxable income will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilized. Deferred tax, however, is not recognized when it arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income or loss.

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.

Current and deferred tax assets and liabilities relating to items recognized directly in equity are recognized in equity and not in the consolidated statement of income.



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.

Value-added Tax (VAT)

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

- Where 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.
- Receivables and payables that are stated with the amount of VAT included.

The net amount of VAT recoverable from, or payable to, the taxation authority is included as input value-added tax or as part of payables in the consolidated balance sheet.

Earnings Per Share

Basic earnings per share is computed by dividing net income for the year by the weighted average number of common shares issued and outstanding during the year, after giving retroactive effect to any stock dividend or stock splits, if any, declared during the year.

Dilutive earnings per share is computed by dividing net income for the year by the weighted average of common shares issued and outstanding during the year plus the weighted average number of common shares that would be issued for outstanding common stock equivalent. The Company does not have dilutive common stock equivalents.

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. Future Changes in Accounting Policies

The Company has not applied the following PFRS, Philippine Interpretations and amendments to existing standards which are not yet effective as at December 31, 2013:

- Investment Entities (Amendments to PFRS 10, PFRS 12 and PAS 27)

These amendments are effective for annual periods beginning on or after January 1, 2014. They provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under PFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. It is not expected that this amendment would be relevant to the Company since none of the entities in the Company would qualify to be an investment entity under PFRS 10.



- Philippine Interpretation IFRIC 21, “Levies”

IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. IFRIC 21 is effective for annual periods beginning on or after January 1, 2014. The Company does not expect that IFRIC 21 will have material financial impact in future consolidated financial statements.

- PAS 39, “Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting” (Amendments)

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments are effective for annual periods beginning on or after January 1, 2014. The Company has not novated its derivatives during the current period. However, these amendments would be considered for future novations.

- PAS 32, “Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities” (Amendments)

The amendments clarify the meaning of “currently has a legally enforceable right to set-off” and also clarify the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments will affect presentation only and will have no impact on the Company’s financial position or performance. The amendments to PAS 32 are to be retrospectively applied for annual periods beginning on or after January 1, 2014.

- PAS 19, “Employee Benefits – Defined Benefit Plans: Employee Contributions” (Amendments)

The amendments apply to contributions from employees or third parties to defined benefit plans. Contributions that are set out in the formal terms of the plan shall be accounted for as reductions to current service costs if they are linked to service or as part of the remeasurements of the net defined benefit asset or liability if they are not linked to service. Contributions that are discretionary shall be accounted for as reductions of current service cost upon payment of these contributions to the plans. The amendments to PAS 19 are to be retrospectively applied for annual periods beginning on or after July 1, 2014. Currently, the Company’s employees or third parties do not contribute to the Company’s defined benefit plans, thus, the Company does not expect that these amendments will have an impact on its financial position or performance.

Annual Improvements to PFRSs (2010-2012 cycle). The Annual Improvements to PFRSs (2010-2012 cycle) contain non-urgent but necessary amendments to the following standards:

- PFRS 2, “Share-based Payment - Definition of Vesting Condition”

The amendment revised the definitions of vesting condition and market condition and added the definitions of performance condition and service condition to clarify various issues. This amendment shall be prospectively applied to share-based payment transactions for which the grant date is on or after July 1, 2014. The Company does not expect that this amendment will have significant impact on its financial position or performance.



- PFRS 3, “Business Combinations - Accounting for Contingent Consideration in a Business Combination”

The amendment clarifies that a contingent consideration that meets the definition of a financial instrument should be classified as a financial liability or as equity in accordance with PAS 32. Contingent consideration that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of PAS 39. The amendment shall be prospectively applied to business combinations for which the acquisition date is on or after July 1, 2014. The Company shall consider this amendment for future business combinations.

- PFRS 8, “Operating Segments - Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments’ Assets to the Entity’s Assets”

The amendments require entities to disclose the judgment made by management in aggregating two or more operating segments. This disclosure should include a brief description of the operating segments that have been aggregated in this way and the economic indicators that have been assessed in determining that the aggregated operating segments share similar economic characteristics. The amendments also clarify that an entity shall provide reconciliations of the total of the reportable segments’ assets to the entity’s assets if such amounts are regularly provided to the chief operating decision maker. These amendments are effective for annual periods beginning on or after July 1, 2014 and are applied retrospectively. The amendments will affect disclosures only and will have no impact on the Company’s financial position or performance.

- PFRS 13, “Fair Value Measurement - Short-term Receivables and Payables”

The amendment clarifies that short-term receivables and payables with no stated interest rates can be held at invoice amounts when the effect of discounting is immaterial. The Company does not expect this amendment to have significant impact on the Company’s financial position or performance.

- PAS 16, “Property, Plant and Equipment - Revaluation Method - Proportionate Restatement of Accumulated Depreciation”

The amendment clarifies that, upon revaluation of an item of property, plant and equipment, the carrying amount of the asset shall be adjusted to the revalued amount, and the asset shall be treated in one of the following ways:

- a. The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated depreciation at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account any accumulated impairment losses.
- b. The accumulated depreciation is eliminated against the gross carrying amount of the asset.

The amendment is effective for annual periods beginning on or after July 1, 2014. The amendment shall apply to all revaluations recognized in annual periods beginning on or after the date of initial application of this amendment and in the immediately preceding annual period. The amendment will have no impact on the Company’s financial position or performance.



- PAS 24, “Related Party Disclosures - Key Management Personnel”

The amendments clarify that an entity is a related party of the reporting entity if the said entity, or any member of a group for which it is a part of, provides key management personnel services to the reporting entity or to the parent company of the reporting entity. The amendments also clarify that a reporting entity that obtains management personnel services from another entity (also referred to as management entity) is not required to disclose the compensation paid or payable by the management entity to its employees or directors. The reporting entity is required to disclose the amounts incurred for the key management personnel services provided by a separate management entity. The amendments are effective for annual periods beginning on or after July 1, 2014 and are applied retrospectively. The amendments will affect disclosures only and will have no impact on the Company’s financial position or performance.

- PAS 38, “Intangible Assets - Revaluation Method - Proportionate Restatement of Accumulated Amortization”

The amendments clarify that, upon revaluation of an intangible asset, the carrying amount of the asset shall be adjusted to the revalued amount, and the asset shall be treated in one of the following ways:

- a. The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated amortization at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account any accumulated impairment losses.
- b. The accumulated amortization is eliminated against the gross carrying amount of the asset.

The amendments also clarify that the amount of the adjustment of the accumulated amortization should form part of the increase or decrease in the carrying amount accounted for in accordance with the standard.

The amendments are effective for annual periods beginning on or after July 1, 2014. The amendments shall apply to all revaluations recognized in annual periods beginning on or after the date of initial application of this amendment and in the immediately preceding annual period. The amendments will have no impact on the Company’s financial position or performance.

Annual Improvements to PFRSs (2011-2013 cycle). The Annual Improvements to PFRSs (2011-2013 cycle) contain non-urgent but necessary amendments to the following standards:

- PFRS 1, “First-time Adoption of Philippine Financial Reporting Standards - Meaning of Effective PFRSs”

The amendment clarifies that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but that permits early application, provided either standard is applied consistently throughout the periods presented in the entity’s first PFRS financial statements. This amendment is not applicable to the Company as it is not a first-time adopter of PFRS.



- PFRS 3, “Business Combinations - Scope Exceptions for Joint Arrangements”

The amendment clarifies that PFRS 3 does not apply to the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself. The amendment is effective for annual periods beginning on or after July 1 2014 and is applied prospectively. This amendment will have no impact on the Company’s financial position or performance.

- PFRS 13, “Fair Value Measurement - Portfolio Exception”

The amendment clarifies that the portfolio exception in PFRS 13 can be applied to financial assets, financial liabilities and other contracts. The amendment is effective for annual periods beginning on or after July 1 2014 and is applied prospectively. The amendment will have no significant impact on the Company’s financial position or performance.

- PAS 40, “Investment Property”

The amendment clarifies the interrelationship between PFRS 3 and PAS 40 when classifying property as investment property or owner-occupied property. The amendment stated that judgment is needed when determining whether the acquisition of investment property is the acquisition of an asset or a group of assets or a business combination within the scope of PFRS 3. This judgment is based on the guidance of PFRS 3. This amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively. The amendment will have no impact on the Company’s financial position or performance.

- PFRS 9, “Financial Instruments”

PFRS 9, as issued, reflects the first and third phases of the project to replace PAS 39 and applies to the classification and measurement of financial assets and liabilities and hedge accounting, respectively. Work on the second phase, which relate to impairment of financial instruments, and the limited amendments to the classification and measurement model is still ongoing, with a view to replace PAS 39 in its entirety. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at fair value through profit or loss. All equity financial assets are measured at fair value either through OCI or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For liabilities designated as at FVPL using the fair value option, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change relating to the entity’s own credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward to PFRS 9, including the embedded derivative bifurcation rules and the criteria for using the FVO. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Company’s financial assets, but will potentially have no impact on the classification and measurement of financial liabilities.



On hedge accounting, PFRS 9 replaces the rules-based hedge accounting model of PAS 39 with a more principles-based approach. Changes include replacing the rules-based hedge effectiveness test with an objectives-based test that focuses on the economic relationship between the hedged item and the hedging instrument, and the effect of credit risk on that economic relationship; allowing risk components to be designated as the hedged item, not only for financial items, but also for non-financial items, provided that the risk component is separately identifiable and reliably measurable; and allowing the time value of an option, the forward element of a forward contract and any foreign currency basis spread to be excluded from the designation of a financial instrument as the hedging instrument and accounted for as costs of hedging. PFRS 9 also requires more extensive disclosures for hedge accounting.

PFRS 9 currently has no mandatory effective date. PFRS 9 may be applied before the completion of the limited amendments to the classification and measurement model and impairment methodology. The Company will not adopt the standard before the completion of the limited amendments and the second phase of the project.

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

This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The SEC and the Financial Reporting Standards Council (FRSC) have deferred the effectivity of this interpretation until the final Revenue standard is issued by the International Accounting Standards Board (IASB) and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed. Adoption of the interpretation when it becomes effective will not have any impact on the consolidated financial statements of the Company.

5. 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 outlines an approach to account for contractual arrangements arising from entities providing public services. It 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 for the MNEP and MCTEP qualify under the intangible asset model, wherein the service concession assets are recognized as intangible assets in accordance with PAS 38. The service concession asset of MNTC is amortized using the straight-line method over the concession period, as management believes that straight-line best reflect the pattern of consumption of the service concession asset.

The service concession asset of CIC is amortized using the unit-of-production method. The amortization of the service concession asset of CIC 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 agreement. Adjustments may need to be made to the carrying amounts of the 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 independent 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.

The total carrying values of service concession assets amounted to ₱24,448.1 million and ₱15,179.6 million as at December 31, 2013 and 2012, respectively (see Note 13).

The Company also recognizes construction revenues and costs in accordance with PAS 11. It measures contract revenue at the fair value of the consideration received or receivable. Given that MNTC and CIC 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 ₱410.8 million, ₱224.8 million and ₱99.1 million for the years ended December 31, 2013, 2012 and 2011, respectively.

The Company also recognizes its contractual obligations to restore the toll roads to a specified level of serviceability. The Company recognizes a provision following PAS 37 as the obligation arises which is a consequence of the use of the toll roads and therefore it is proportional to the number of vehicles using the roads and increasing in measurable annual increments. Provision for heavy maintenance amounted to ₱433.5 million and ₱336.7 million as at December 31, 2013 and 2012, respectively (see Note 19).

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 Notes 1 and 6). 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.

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 lease.

Rental expense amounted to ₱2.4 million, ₱1.9 million and ₱2.4 million for the years ended December 31, 2013, 2012 and 2011, respectively (see Note 24).

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.

The fair values and carrying values of AFS financial assets not quoted in an active market amounted to ₱328.2 million as at December 31, 2013 and 2012 (see Note 16).

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.

Determination of Fair Value of Financial Instruments (including derivatives). The Company initially records all financial instruments at fair value and subsequently carries certain financial assets and liabilities at fair value, which requires extensive use of accounting estimates and judgment. Valuation techniques are used particularly for financial assets and financial liabilities (including derivatives) that are not quoted in an active market. Where valuation techniques are used to determine fair values (discounted cash flow analysis and option pricing models), they are periodically reviewed by qualified personnel who are independent of the trading function. All models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practicable, models use only observable data as valuation inputs. However, other inputs such as credit risk (whether that of the Company or the counterparties), forward prices, volatilities and correlations, require management to develop estimates or make adjustments to observable data of comparable instruments. The amount of changes in fair values would differ if the Company uses different valuation assumptions or other acceptable methodologies. Any change in fair value of these financial instruments (including derivatives) would affect either the consolidated statement of income or changes in equity.

Fair values of financial assets and liabilities are presented in Note 34.

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 collectibility. 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 2013, 2012 and 2011.



Receivables (net of allowance for doubtful accounts of ₱5.5 million and ₱5.3 million as at December 31, 2013 and 2012, respectively) amounted to ₱244.5 million and ₱167.1 million as at December 31, 2013 and 2012, respectively (see Note 10).

Due from related parties (current and noncurrent) amounted to ₱172.5 million and ₱408.2 million as at December 31, 2013 and 2012, respectively (see Note 21).

Notes receivable amounted to ₱6,577.6 million as at December 31, 2012 (see Note 11).

Input/Output VAT. Upon the effectivity of RA No. 9337, the Bureau of Internal Revenue (BIR) issued Revenue Regulation (RR) No. 16-2005 on September 1, 2005, which, for the first time, expressly referred to toll road operations as being subject to VAT. This notwithstanding VAT Ruling 078-99 issued on August 9, 1999 where BIR categorically ruled that MNTC, as assignee of the PNCC franchise, is entitled to the tax exemption privileges of PNCC and is exempt from VAT on its gross receipts from the operation of the NLEX.

As further discussed in Note 36, 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.

On July 19, 2010, the BIR issued RMC No. 63-2010 to fully implement the imposition of VAT on toll fees. Following the issuance of the RMC, MNTC applied for abatement of alleged VAT liabilities for taxable years 2006 and 2007. The BIR was not able to resolve the application for abatement of MNTC because on August 13, 2010, the Supreme Court (SC) issued a temporary restraining order (TRO) on the imposition of the 12% VAT on tollway operators.

On July 19, 2011, the SC upheld the legality of RMC No. 63-2010 issued by the BIR on July 13, 2010, in line with Section 108 of the National Internal Revenue Code (NIRC) that allows the imposition of VAT on all services for a fee. In relation to the SC Decision dated July 19, 2011, the BIR issued RMC No. 39-2011 (dated August 31, 2011) to fully implement the imposition of VAT on the gross receipts of tollway operators from all types of vehicles starting October 1, 2011.

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. As at December 31, 2013 and 2012, total output VAT liability of MNTC amounted to ₱89.4 million and ₱86.9 million, respectively. With respect to input VAT, MNTC reversed the accumulated input VAT as at December 31, 2010 amounting to ₱1,438.7 million of which ₱1,150.6 million relates to input VAT on operating expenses and were written off against the related allowance. The remaining ₱288.1 million input VAT was capitalized to service concession assets, property and equipment and other current and noncurrent assets (see Notes 13, 14 and 17). Management believes that had the input VAT not been previously recognized, the input VAT should have formed part of the cost of the assets. The related allowance of ₱288.1 million on input VAT was reversed to income upon capitalization of the input VAT to service concession asset, property and equipment and other current and noncurrent assets (see Note 29). Starting October 1, 2011, as allowed under RMC No. 39-2011, MNTC recognized input VAT from its purchases of goods and services, portion of which had been applied against output VAT set up as discussed above. As at December 31, 2013 and 2012, the unapplied input VAT of MNTC amounted to ₱37.2 million and ₱32.4 million, respectively.



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, 2013, 2012 and 2011. Inventories amounted to ₱50.3 million and ₱45.3 million as at December 31, 2013 and 2012, respectively.

Estimated Useful Lives. The useful life of each of the Company's item of service concession assets, 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 service concession assets, property and equipment and intangible assets would decrease the recorded depreciation expense and amortization expense.

There were no changes in the estimated useful lives of service concession assets, property and equipment and other intangible assets in 2013, 2012 and 2011. The carrying values of nonfinancial assets subject to depreciation and amortization as at December 31, 2013 and 2012 are as follows:

	2013	2012
Service concession assets (see Note 13)	₱24,448,051,326	₱15,179,563,780
Property and equipment (see Note 14)	164,300,372	119,734,372
Other intangible assets (see Note 15)	19,522,572	13,918,628

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 2013, 2012 and 2011. The carrying values of AFS financial assets amounted to ₱3,844.9 million and ₱968.6 million as at December 31, 2013 and 2012, respectively (see Note 16).



Impairment of Nonfinancial Assets. Impairment review for nonfinancial assets (investment in an associate, service concession assets, property and equipment, other intangible assets and other noncurrent assets) is performed when certain impairment indicators are present. Determining the fair value of assets requires the estimation of cash flows expected to be generated from the continued and ultimate disposition of such assets.

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

	2013	2012
Service concession assets (see Note 13)	₱24,448,051,326	₱15,179,563,780
Investment in an associate (see Note 12)	177,837,993	180,484,410
Property and equipment (see Note 14)	164,300,372	119,734,372
Other intangible assets (see Note 15)	19,522,572	13,918,628
Other noncurrent assets (see Note 17)	875,265,691	144,739,795

No impairment loss was recognized in 2013, 2012 and 2011. There is no impairment testing performed for the years ended December 31, 2013, 2012 and 2011 as there were no indicators of impairment.

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 2013, 2012 and 2011. The carrying amount of goodwill amounted to ₱4,979.2 million and ₱13.6 million as at December 31, 2013 and 2012, respectively (see Notes 6 and 15).

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 net operating loss carry-over (NOLCO) and minimum corporate income tax (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 ₱437.1 million and ₱155.2 million as at December 31, 2013 and 2012, respectively (see Note 30).

Certain deferred tax assets were not recognized since management believes that it is more likely than not that these will not be realized in the future. Unrecognized deferred tax assets on deductible temporary differences, NOLCO and MCIT amounted to ₱98.0 million and ₱63.4 million as at December 31, 2013 and 2012, respectively (see Note 30).



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 25.

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 ₱1.0 million, ₱3.1 million and ₱7.0 million for the years ended December 31, 2013, 2012, 2011, respectively (see Notes 21 and 25).

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 26.

Pension asset under the defined benefit plan amounted to ₱1.8 million and ₱16.9 million as at December 31, 2013 and 2012, respectively. Accrued retirement costs under the defined benefit plan amounted to ₱1.2 million as at December 31, 2013 (see Note 26).

Long Term Incentives Benefits. The LTIP for key executives of MPIC and certain subsidiaries, including MPTC, was approved by the Executive Compensation Committee and the BOD of MPIC. The Company’s LTIP was approved by the Company’s BOD. The LTIP of MPIC and 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, 2013 and 2012 (see Note 26). LTIP payable as at December 31, 2013 and 2012 amounted to ₱112.8 million and ₱131.2 million, respectively (see Note 26).

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 ₱1,717.4 million and ₱501.1 million as at December 31, 2013 and 2012, respectively (see Note 19).

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 36).

6. Business Combination

Acquisition of CIC in 2013

In relation to the Convertible Note Agreement executed by and between the Parent Company and CHI (see Note 11), the Parent Company, CHI and CIC executed a MLA on December 27, 2012 for the management of CIC by MPTC. Also on the same date, MPTC, CHI and CIC executed an Addendum to the MLA to clarify their intention in respect of the terms and conditions of the MLA. The management of CIC by MPTC will commence on January 2, 2013 and until the issuance of the new common shares of CIC in favor of MPTC as a result of the conversion into or exchange of the CHI Preferred Shares for the said new common shares of CIC ("Management Period").

CIC shall pay all the direct expenses incurred by MPTC and its representatives in the performance of management functions and activities at CIC. In addition, MPTC shall receive all the financial benefits from CIC's operations. However, all losses incurred by CIC shall also be borne by MPTC.

By virtue of the MLA, MPTC acquired control over CIC effective January 2, 2013. The allocation of the total cost of acquisition to identifiable assets, liabilities and contingent liabilities as at January 2, 2013 is shown below:

	Fair Values Recognized on Acquisition
Assets	
Cash and cash equivalents	₱745,931,132
Receivables	2,884,709
Other current assets	164,000
Service concession asset (see Note 13)	9,614,374,641
Property and equipment (see Note 14)	25,392,971
Other intangible assets (see Note 15)	12,449,738
Advances to contractors	72,779,377
Other noncurrent assets	650,638,604
	<hr/> 11,124,615,172
Liabilities	
Accrued expenses and other current liabilities	208,653,686
Due to a related party	420,167,012
Retention sum and contractors payable	157,579,754
Long-term debt	7,004,862,666
Provision for heavy maintenance (see Note 19)	227,639,393

(Forward)



	Fair Values Recognized on Acquisition
Contingent liability (see Note 19)	₱1,100,076,247
Deferred tax liabilities - net (see Note 30)	162,574,328
Other noncurrent liabilities	6,281,695
	<u>9,287,834,781</u>
Total identifiable net assets at fair value	1,836,780,391
Goodwill arising on acquisition (see Note 15)	4,965,680,817
Consideration transferred	<u>₱6,802,461,208</u>

Total consideration transferred consists of the fair values of the Convertible Note and the related derivative asset arising from the conversion feature (see Note 11). No transaction costs were incurred for the business combination.

The fair value and gross amount of the receivables amounted to ₱2.9 million. None of the receivables have been impaired and it is expected that the full contractual amounts can be collected.

A contingent liability at a fair value of ₱1,100.1 million was recognized at the acquisition date resulting from probable claim from a third party (see Note 19). An indemnification asset amounting to ₱513.4 million was recognized in relation to such probable claim (see Note 17). No further disclosures regarding 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. As at December 31, 2013, the contingent liability amounted to ₱1,142.2 million while the indemnification asset amounted to ₱533.0 million with the increases arising from the passage of time (see Notes 17, 19, 27 and 28).

Net cash outflow on acquisition is as follows:

Total cash paid on acquisition ^(a)	₱6,771,600,000
Cash acquired with the subsidiary ^(b)	745,931,132
Net cash outflow	<u>₱6,025,668,868</u>

^(a) Represents the cash consideration for the Convertible Note (see Note 11).

^(b) Included in cash flow from investing activities.

The goodwill of ₱4,965.7 million that arose on the acquisition can be attributed to the synergies expected to be derived from the business combination. None of the goodwill recognized is expected to be deductible for income tax purposes.

From the date of acquisition, CIC has contributed ₱1,052.2 million of operating revenues and ₱251.8 million to net income of the Company.



7. Operating Segment Information

The Company has only one operating segment which is the tollways business. The Company's results of operations are reviewed by the chief operating decision maker to make decisions and to assess Company performance, and for which discrete financial information is available.

The Company's performance is evaluated based on net income for the year; earnings before interest, taxes and depreciation and amortization (EBITDA); EBITDA margin; core income; and core income margin. Net income for the year is measured consistent with the consolidated net income in the consolidated financial statements.

EBITDA is measured as net income excluding amortization of service concession assets and other intangible assets, depreciation of property and equipment, provision for heavy maintenance, asset impairment on noncurrent assets, interest expense and other finance costs, interest income, equity in net earnings of an associate, net foreign exchange gain (loss), gain (loss) on derivative financial instruments, provision for (benefit from) income tax and other nonrecurring income and expenses. Nonrecurring items represent income and expenses that, through occurrence or size, are not considered usual operating items. EBITDA margin pertains to EBITDA divided by net toll revenues.

Core income for the year is measured as net income attributable to equity holders of MPTC, excluding adjustments on equity in net earnings of an associate, foreign exchange gain (loss) - net, gain (loss) on derivative financial instruments, gain (loss) on prepayment or extinguishment of debt, asset impairment on noncurrent assets, net of tax effects of aforementioned adjustments and other nonrecurring income and expenses, as defined under the Company's policy.

Core income margin pertains to core income divided by net toll revenues. Net income margin pertains to net income attributable to equity holders of MPTC divided by net toll revenues.

The revenues, net income, assets, liabilities, and other information of the Company's operations as at and for the years ended December 31, 2013, 2012 and 2011 are as follows:

	2013	2012	2011
Net toll revenues	₱8,153,623,567	₱6,784,126,258	₱6,464,946,010
Other income	182,549,798	152,299,302	95,663,940
Total revenues	8,336,173,365	6,936,425,560	6,560,609,950
Operating and maintenance costs	(2,347,044,580)	(2,062,571,229)	(2,022,314,753)
Operating expenses	(708,018,680)	(663,825,264)	(579,645,019)
Equity in net earnings of an associate	246,892,909	227,962,736	190,501,474
EBITDA	5,528,003,014	4,437,991,803	4,149,151,652
Financing costs	(871,229,027)	(551,106,663)	(679,351,213)
Core income before depreciation, amortization and provisions	4,656,773,987	3,886,885,140	3,469,800,439
Depreciation, amortization and provisions*	(1,901,594,517)	(1,617,858,105)	(1,328,055,992)
Core income before non-controlling interests	2,755,179,470	2,269,027,035	2,141,744,447
Non-controlling interests	(791,919,890)	(696,471,982)	(657,813,113)
Core income	1,963,259,580	1,572,555,053	1,483,931,334
Nonrecurring items	37,986,747	(101,437,554)	(221,481,031)
Net income attributable to equity holders of MPTC	₱2,001,246,327	₱1,471,117,499	₱1,262,450,303

(Forward)



	2013	2012	2011
EBITDA margin for the year	68%	65%	64%
Core income margin for the year	24%	23%	23%
Net income margin for the year	25%	22%	20%
Total assets	₱38,735,693,383	₱27,591,531,658	₱19,483,977,308
Total liabilities	22,842,768,615	19,151,623,471	11,305,333,547
Total equity	15,892,924,768	8,439,908,187	8,178,643,761
Other disclosures:			
Investment in an associate	₱177,837,993	₱180,484,410	₱152,105,732
Capital expenditure (consists of additions to service concession assets, property and equipment and other intangible assets)	478,441,760	264,096,769	145,960,592

* Includes provision for current and deferred taxes.

The following table shows the reconciliation of EBITDA to net income for the years ended December 31, 2013, 2012 and 2011.

	2013	2012	2011
EBITDA	₱5,528,003,014	₱4,437,991,803	₱4,149,151,652
Interest expense and other finance costs (see Note 28)	(1,086,213,854)	(694,947,852)	(1,276,922,425)
Amortization of service concession assets (see Notes 13 and 23)	(756,639,560)	(597,358,217)	(592,987,123)
Interest income (see Note 27)	131,549,625	135,723,273	161,261,687
Provision for heavy maintenance (see Note 23)	(167,481,570)	(107,142,857)	(109,116,393)
Depreciation of property and equipment (see Notes 14, 23 and 24)	(41,775,679)	(27,768,690)	(28,308,266)
Amortization of other intangible assets (see Notes 15, 23 and 24)	(11,074,575)	(7,547,442)	(6,902,591)
Nonrecurring items:			
Foreign exchange gain (loss) - net Provisions (see Notes 19 and 24)	(38,799,850)	1,312,885	(10,753,384)
Mark-to-market loss on derivatives - net (see Notes 29 and 34)	(13,256,981)	(108,313,713)	(38,799,285)
Provision for potential losses on claim for refund (see Note 24)	-	(41,622,409)	(94,636,391)
Reversal of allowance for potential losses on input VAT (see Notes 5 and 29)	-	(11,060,341)	(8,640,240)
Reclassification of input VAT*	-	-	288,052,966
Gain on bargain purchase of MSIHI shares (see Notes 12 and 29)	-	-	(132,226,188)
Refunds from lenders (see Note 29)	-	-	88,210,936
Share in nonrecurring items of an associate	-	-	24,183,224
Other nonrecurring items	(29,437,105)	(8,541,575)	3,105,507
Income before income tax	3,514,873,465	2,970,724,865	2,354,078,664
Provision for (benefit from) income tax (see Note 30):			
Current	759,370,717	809,707,221	557,622,075
Deferred	(28,280,480)	44,678,056	11,956,412
	731,090,237	854,385,277	569,578,487
Net income for the year	₱2,783,783,228	₱2,116,339,588	₱1,784,500,177

* In 2011, as a result of the implementation of RMC No. 39-2011 as discussed in Note 5, MNTC reclassified certain input VAT incurred in January 1 to September 30, 2011 to related expense accounts.



The following table shows the reconciliation of the consolidated core income to the consolidated net income for the years ended December 31, 2013, 2012 and 2011.

	2013	2012	2011
Core income for the year	₱1,963,259,580	₱1,572,555,053	₱1,483,931,334
Foreign exchange gain (loss) - net	(38,799,850)	1,312,885	(10,753,384)
Provisions (see Notes 19 and 24)	(13,256,981)	(108,313,713)	(38,799,285)
Share of non-controlling interests in nonrecurring items	9,382,989	51,249,893	135,763,239
Mark-to-market loss on derivatives - net (see Notes 29 and 34)	-	(41,622,409)	(94,636,391)
Provision for potential losses on claim for refund (see Note 24)	-	(11,060,341)	(8,640,240)
Loan prepayment fees (see Note 28)	-	-	(329,943,301)
Reversal of allowance for potential losses on input VAT (see Notes 5 and 29)	-	-	288,052,966
Reclassification of input VAT*	-	-	(132,226,188)
Accelerated amortization of debt issue costs (see Note 28)	-	-	(97,419,279)
Gain on bargain purchase of MSIHI shares (see Notes 12 and 29)	-	-	88,210,936
Refunds from lenders (see Note 29)	-	-	24,183,224
Share in nonrecurring items of an associate	-	-	3,105,507
Other nonrecurring items	80,660,589	6,996,131	(48,378,835)
Net income attributable to equity holders of MPTC	2,001,246,327	1,471,117,499	1,262,450,303
Net income attributable to non-controlling interests	782,536,901	645,222,089	522,049,874
Net income for the year	₱2,783,783,228	₱2,116,339,588	₱1,784,500,177

* In 2011, as a result of the implementation of RMC No. 39-2011 as discussed in Note 5, MNTC reclassified certain input VAT incurred in January 1 to September 30, 2011 to related expense accounts.

8. Material Partly-Owned Subsidiary

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

	2013	2012	2011
Proportion of equity interest held by non-controlling interests	32.9%	32.9%	32.9%
Accumulated balances of material non-controlling interests	₱2,344,158,995	₱2,243,269,323	₱2,146,463,721
Net income during the year allocated to material non-controlling interests	782,536,901	645,259,770	522,135,831
Dividends paid to material non-controlling interests	543,402,720	324,048,960	640,603,200



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

Summarized Balance Sheets

	As at December 31	
	2013	2012
Current assets	₱4,151,690,181	₱3,076,126,053
Noncurrent assets	16,636,612,712	15,960,423,876
Current liabilities	(3,164,381,644)	(2,722,097,394)
Noncurrent liabilities	(10,424,902,161)	(9,422,088,695)
Total equity	₱7,199,019,088	₱6,892,363,840
Attributable to:		
Equity Holders of the Parent	₱4,854,860,093	₱4,649,094,517
Non-controlling interests	2,344,158,995	2,243,269,323
	₱7,199,019,088	₱6,892,363,840

Summarized Statements of Comprehensive Income

	Years Ended December 31		
	2013	2012	2011
Operating revenues	₱7,101,440,105	₱6,784,131,883	₱6,464,988,081
Cost of services	(2,938,375,736)	(2,767,072,303)	(2,854,496,993)
General and administrative expenses	(536,636,463)	(665,741,658)	(608,018,371)
Interest expense and other finance costs	(618,382,272)	(684,054,227)	(1,266,011,049)
Other income (including construction revenue)	538,822,788	411,494,283	612,461,766
Other expenses (including construction costs)	(341,646,216)	(269,868,579)	(204,454,425)
Income before income tax	3,205,222,206	2,808,889,399	2,144,469,009
Provision for income tax	827,313,306	849,551,491	563,068,866
Net income	2,377,908,900	1,959,337,908	1,581,400,143
Other comprehensive income (loss)	(11,716,074)	37,926,052	(32,097,764)
Total comprehensive income	₱2,366,192,826	₱1,997,263,960	₱1,549,302,379
Attributable to non-controlling interests			
	₱778,682,313	₱657,737,442	₱511,575,666

Summarized Cash Flow Information

	Years Ended December 31		
	2013	2012	2011
Operating	₱3,431,642,148	₱3,474,885,536	₱3,548,121,658
Investing	(3,192,076,056)	(189,541,194)	(155,795,640)
Financing	(1,416,908,167)	(1,728,262,574)	(3,418,421,001)
Effect of exchange rate changes on cash and cash equivalents	1,393,248	-	156,793
Net increase (decrease) in cash and cash equivalents	(₱1,175,948,827)	₱1,557,081,768	(₱25,938,190)



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 has been repaid in full.

9. Cash and Cash Equivalents

This account consists of:

	2013	2012
Cash on hand and in banks	₱1,134,763,978	₱494,180,377
Short-term deposits	2,163,455,257	2,840,439,529
	₱3,298,219,235	₱3,334,619,906

Cash in banks earn interest at the prevailing bank deposit rates. Short-term deposits 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 include revenue and debt service reserve accounts amounting to ₱632.1 million as at December 31, 2013, which are established and maintained solely for debt servicing of CIC's long-term debt. The revenue and debt service reserve accounts also form part of the securities for CIC's long-term debt (see Note 20).

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 ₱155.8 million as at December 31, 2013. The Transaction Accounts which mainly consist of the O&M Account, the Major Maintenance Reserve Account, the Cash Trapping Event Reserve Account, the Construction Cost Account, the Coverage Reserve Account and the 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 20.

Interest earned from cash and cash equivalents amounted to ₱62.1 million, ₱89.4 million and ₱115.1 million for the years ended December 31, 2013, 2012 and 2011, respectively (see Note 27).



10. Receivables

This account consists of:

	2013	2012
Trade receivables (see Note 21)	₱146,292,473	₱127,708,069
Advances to officers and employees (see Note 21)	11,955,388	7,874,405
Interest receivables	4,271,256	6,546,919
Other receivables	87,513,729	30,207,384
	250,032,846	172,336,777
Less allowance for doubtful accounts	5,544,087	5,259,500
	₱244,488,759	₱167,077,277

Trade receivables are noninterest-bearing and are generally collectible within a year.

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

Interest receivables are collectible within three months.

Other receivables are noninterest-bearing and are collectible within a year. As at December 31, 2013 and 2012, other receivables include those receivables from motorists who caused accidental damage to NLEX property from day-to-day operations amounting to ₱28.9 million and ₱26.2 million, respectively. Other receivables also include the advances made to Department of Public Works and Highways (DPWH) amounting to ₱52.9 million as at December 31, 2013. Pursuant to the Reimbursement Agreement entered into by MNTC with DPWH in 2013, DPWH requested these advances in order to fast track the acquisition of right-of-way for Phase II Segment 9.

Movement in the allowance for doubtful accounts in 2013 is as follows:

	Individually Impaired		Total
	Trade Receivables	Other Receivables	
Balance at beginning of year	₱5,259,500	₱-	₱5,259,500
Provision for doubtful accounts (see Note 24)	-	5,544,087	5,544,087
Reversals during the year (see Note 29)	(5,259,500)	-	(5,259,500)
Balance at end of year	₱-	₱5,544,087	₱5,544,087

There were no movements in the allowance for individually assessed impaired trade receivables and other receivables for the year ended December 31, 2012.



11. Notes Receivable

On December 26, 2012, the Parent Company and CHI entered into a Convertible Note Agreement whereby CHI issued on December 27, 2012 a Convertible Note to the Parent Company with a principal amount or face value of ₱6,771.6 million consisting of 67,716,000 units valued at ₱100 per unit. The terms of the Convertible Note are as follows:

- Maturity of the Convertible Note is June 27, 2013;
- The Convertible Note shall not earn and shall not be subject to interest; provided however, that should CHI fail to issue the CHI Preferred Shares on the maturity date or upon the occurrence of any event of default, CHI shall pay the Parent Company 9.5% interest on the outstanding amount of the Convertible Note until the issuance of the CHI Preferred Shares or the full payment in cash of the principal amount (subject to the sole option of the Parent Company as to the manner of payment);
- Each Convertible Note unit entitles the Parent Company to the right to convert into CHI Preferred Shares which is exercisable on maturity date at ₱100 per CHI Preferred Share;
- CHI has the option to prepay the Convertible Note prior to maturity date through the issuance of CHI Preferred Shares; and
- Upon conversion to CHI Preferred Shares, CHI shall also cause CIC (a wholly owned subsidiary of CHI) to grant the Parent Company the option to exchange the CHI Preferred Shares to new common shares of CIC. The Parent Company may exercise this option at any time after securing the approval of the TRB of CIC's capital increase and subscription by MPTC to the new common shares of CIC up to June 29, 2017. As at February 20, 2014, this option has not yet been exercised by the Parent Company.

As at December 31, 2012, the Convertible Note was classified as loans and receivables under noncurrent assets since this is convertible to a noncurrent asset (that is, investment in CHI preferred shares, an equity instrument) and that MPTC cannot demand cash payment until there is an event of default. The carrying value of the Convertible Note amounted to ₱6,557.6 million as at December 31, 2012. The Convertible Note has embedded derivatives which are discussed in Note 34.

The Convertible Note was converted into CHI Preferred Shares on June 25, 2013. As this is part of the consideration transferred on the acquisition of CIC on January 2, 2013, the investment in CHI Preferred Shares, including the derivative asset arising from the option, was eliminated upon consolidation of CIC.



12. Investment in an Associate

Details of the Company's investment in TMC, a 46.0% owned associate, are as follows:

	2013	2012 (As restated - see Note 3)
Acquisition cost	₱17,480,000	₱17,480,000
Accumulated equity in net earnings:		
Balance at beginning of year, as previously reported	157,650,966	129,751,019
Effect of adoption of Revised PAS 19 (see Note 3)	4,377,994	4,874,713
Balance at beginning of year, as restated	162,028,960	134,625,732
Equity in net earnings for the year, as restated	246,892,909	227,962,736
Dividends received	(242,686,995)	(200,559,508)
Balance at end of year	166,234,874	162,028,960
Share in remeasurements of pension asset:		
Balance at beginning of year, as previously reported	-	-
Effect of adoption of Revised PAS 19 (see Note 3)	975,450	-
Balance at beginning of year, as restated	975,450	-
Remeasurements of pension asset during the year	(6,852,331)	975,450
Balance at end of year	(5,876,881)	975,450
	₱177,837,993	₱180,484,410

As further discussed in Note 21, TMC is primarily engaged in the operations and maintenance of tollways, tollways facilities, interchanges and related works. TMC is the operator of Phase I, including Segment 7 and portion of Phase II which is Segment 8.1, of the MNEP of MNTC under an O&M Agreement.

Also, TMC is a party to a JV that entered into an agreement with BCDA for the interim operation and maintenance of the Subic-Clark-Tarlac Expressway (SCTEx), a 94-km toll road (see Note 32).

Summarized financial information of TMC follows:

	As at December 31	
	2013	2012
Current assets	₱835,139,570	₱816,471,884
Noncurrent assets	97,697,369	179,144,820
Current liabilities	(536,266,004)	(603,259,290)
Noncurrent liabilities	(9,966,602)	-
Equity	386,604,333	392,357,414
Proportion of the Company's ownership	46%	46%
Carrying amount of the investment	₱177,837,993	₱180,484,410



	Years Ended December 31		
	2013	2012	2011
Service revenues	₱1,824,954,222	₱1,811,869,108	₱1,786,897,878
Cost of services	(917,115,983)	(882,707,994)	(862,703,150)
General and administrative expenses	(241,762,933)	(283,614,483)	(316,337,764)
Other income (expenses) - net	113,024,996	23,008,580	(16,388,863)
Income before income tax	779,100,302	668,555,211	591,468,101
Provision for income tax	242,376,586	172,984,045	170,583,360
Net income	536,723,716	495,571,166	420,884,741
Other comprehensive income (loss)	(14,896,371)	2,120,544	-
Total comprehensive income	₱521,827,345	₱497,691,710	₱420,884,741
Company's share of:			
Net income	₱246,892,909	₱227,962,736	₱193,606,981
Total comprehensive income	240,040,579	228,938,187	193,606,981

TMC's BOD approved the declaration of cash dividends aggregating to ₱527.6 million, ₱436.0 million and ₱396.1.0 million in 2013, 2012 and 2011, respectively.

On February 13, 2014, TMC's BOD approved the declaration of cash dividends amounting to ₱334.3 million.

In 2011, the Company's equity in net earnings of associates include the gain on bargain purchase amounting to ₱57.3 million arising from the acquisition of 37% ownership interest in MSIHI prior to it becoming a subsidiary of the Company.

13. Service Concession Assets

The movements in the service concession assets follow:

	MNEP	MCTEP	Total
Cost:			
At January 1, 2012	₱19,809,164,908	₱-	₱19,809,164,908
Additions	224,847,664	-	224,847,664
At December 31, 2012	20,034,012,572	-	20,034,012,572
Acquisition of a subsidiary (see Note 6)	-	9,614,374,641	9,614,374,641
Additions	341,646,215	69,106,250	410,752,465
At December 31, 2013	₱20,375,658,787	₱9,683,480,891	₱30,059,139,678
Accumulated amortization:			
At January 1, 2012	₱4,257,090,575	₱-	₱4,257,090,575
Amortization (see Note 23)	597,358,217	-	597,358,217
At December 31, 2012	4,854,448,792	-	4,854,448,792
Amortization (see Note 23)	599,931,592	156,707,968	756,639,560
At December 31, 2013	₱5,454,380,384	₱156,707,968	₱5,611,088,352

(Forward)



	MNEP	MCTEP	Total
Carrying value:			
At December 31, 2013	₱14,921,278,403	₱9,526,772,923	₱24,448,051,326
At December 31, 2012	15,179,563,780	–	15,179,563,780
At January 1, 2012	15,552,074,333	–	15,552,074,333

MNEP

Additions during 2013 pertain mainly to the civil works construction on Segment 9 and fixed operating equipment (FOE) design, supply and installation for the toll collection system migration on Segment 8.1 and Phase I of the MNEP. Additions also include the pre-construction costs of Segments 8.2 and 10 of Phase II of the MNEP.

Borrowing costs capitalized amounted to ₱11.4 million for the year ended December 31, 2013. The interest rate used to determine the amount of borrowing costs eligible for capitalization was 5.1% to 5.9% in 2013. There were no borrowing costs capitalized in 2012.

Additions during 2012 pertain to the costs of the supply, installation, test and commissioning of FOE for the Plaridel Bypass Interchange and Bocaue and Angeles Interchange Toll Facilities, part of Phase I of the NLEX. The Plaridel Bypass Interchange has started commercial operations in March 2012, whereas, the Bocaue and Angeles Interchange has started commercial operations in July 2012. Additions also include the pre-construction costs of Segments 8.2, 9 and 10 of Phase II of the MNEP.

As discussed in Note 5, input VAT amounting to ₱228.1 million relates to the construction of the toll road and therefore were reclassified to “Service concession assets” account in 2011 and are being amortized over the remaining concession term using the straight line method. The amortization of the capitalized input VAT amounted to ₱8.2 million for the years ended December 31, 2013, 2012 and 2011.

The concession term for fully operational Phase I and Segment 8.1 of Phase II of the MNEP is until December 31, 2037. As at December 31, 2013 and 2012, the remaining concession term is 24 years and 25 years, respectively.

MCTEP

Additions during 2013 pertain mainly to the civil works construction of the Modified Zapote Interchange, which forms part of Segment 4 of R-1 Expressway Extension.

The concession terms for R-1 Expressway and R-1 Expressway Extension are until September 30, 2033 and April 30, 2046, respectively. As at December 31, 2013, the remaining concession terms for R-1 Expressway and R-1 Expressway Extension are 20 years and 32 years respectively.



14. 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, 2012	₱83,290,266	₱77,490,838	₱87,168,621	₱247,949,725
Additions	12,530,431	8,341,964	9,619,956	30,492,351
Disposals	–	(9,096,919)	(6,215,940)	(15,312,859)
At December 31, 2012	95,820,697	76,735,883	90,572,637	263,129,217
Additions	1,270,140	29,298,143	33,030,785	63,599,068
Acquisition of a subsidiary (see Note 6)	13,220	6,014,780	19,364,971	25,392,971
Disposals	(20,882)	(10,479,643)	(3,521,833)	(14,022,358)
At December 31, 2013	₱97,083,175	₱101,569,163	₱139,446,560	₱338,098,898
Accumulated depreciation:				
At January 1, 2012	₱20,193,528	₱36,839,498	₱67,261,982	₱124,295,008
Depreciation (see Note 24)	6,036,181	13,263,474	8,469,035	27,768,690
Disposals	–	(7,629,588)	(1,039,265)	(8,668,853)
At December 31, 2012	26,229,709	42,473,384	74,691,752	143,394,845
Depreciation (see Notes 23 and 24)	4,389,420	16,009,729	21,376,530	41,775,679
Disposals	–	(7,884,314)	(3,487,684)	(11,371,998)
At December 31, 2013	₱30,619,129	₱50,598,799	₱92,580,598	₱173,798,526
Net book value:				
At December 31, 2013	₱66,464,046	₱50,970,364	₱46,865,962	₱164,300,372
At December 31, 2012	69,590,988	34,262,499	15,880,885	119,734,372
At January 1, 2012	63,096,738	40,651,340	19,906,639	123,654,717

The estimated useful lives of property and equipment are 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

As discussed in Note 5, input VAT amounting to ₱9.5 million relates to the purchase of property and equipment and therefore were reclassified to “Property and equipment” account in 2011 and are being depreciated over the remaining useful lives of the property and equipment using the straight line method. The depreciation of the capitalized input VAT amounted to ₱1.9 million for the years ended December 31, 2013 and 2012 and ₱2.3 million for the year ended December 31, 2011.

Proceeds from the sale of property and equipment amounted to ₱3.6 million in 2013, ₱6.5 million in 2012 and ₱1.8 million in 2011. Loss on disposals of property and equipment amounted to ₱0.2 million in 2012. Gain on disposals of property and equipment amounted to ₱0.9 million in 2013 and ₱0.5 million in 2011.



The gross carrying amounts of fully depreciated property and equipment that are still in use amounted to ₱85.7 million and ₱76.7 million as at December 31, 2013 and 2012, respectively.

15. Goodwill and Other Intangible Assets

The movements in goodwill and other intangible assets follow:

	Goodwill	Other Intangible Assets
Cost:		
At January 1, 2012	₱13,565,061	₱62,395,018
Additions	–	8,756,754
At December 31, 2012	13,565,061	71,151,772
Additions	–	4,228,781
Acquisition of a subsidiary (see Note 6)	4,965,680,817	12,449,738
At December 31, 2013	₱4,979,245,878	₱87,830,291
Accumulated amortization:		
At January 1, 2012	₱–	₱49,685,702
Amortization (see Notes 23 and 24)	–	7,547,442
At December 31, 2012	–	57,233,144
Amortization (see Notes 23 and 24)	–	11,074,575
At December 31, 2013	₱–	₱68,307,719
Carrying value:		
At December 31, 2013	₱4,979,245,878	₱19,522,572
At December 31, 2012	13,565,061	13,918,628
At January 1, 2012	13,565,061	12,709,316

Goodwill is the difference between the cost of business combination and the fair values of assets and liabilities. The goodwill amounting to ₱13.6 million as at December 31, 2012 arose from the reverse acquisition in 2007 when FPHC and BHC transferred all their shares in MPTDC (then FPIDC, regarded as the accounting acquirer) in exchange for shares of MPTC. The additional goodwill in 2013 arose from the acquisition of CIC (see Note 6).

Other intangible assets pertain to computer software relating to the Company's accounting, reporting and asset management systems with estimated useful lives of 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 amount of the CIC CGU as at December 31, 2013 has 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 year ended December 31, 2013, average traffic volume growth rates used are 2.5% and 4.9% for R-1 Expressway and R-1



Expressway Extension, respectively. The discount rate applied was 7.3%, which was based on the weighted average cost of capital with estimated premium of 4% over cost of equity. The average forecast period used in the computation is 20 years for the R-1 Expressway and 32 years for R-1 Expressway. 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.

16. Available-for-Sale Financial Assets

This account consists of:

	2013	2012
Current:		
UITF	₱1,995,120,215	₱-
Investment in quoted treasury bonds	-	53,003,500
	1,995,120,215	53,003,500
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	199,402,000	-
Investment in quoted treasury bonds and notes	1,322,178,826	587,312,500
	1,849,827,352	915,559,026
	₱3,844,947,567	₱968,562,526

The movements in this account follow:

	2013	2012
Balance at beginning of year	₱968,562,526	₱905,968,276
Additions	4,011,901,065	50,000,000
Maturity	(50,600,000)	-
Sale of AFS financial assets	(1,065,378,062)	-
Changes in fair value	(19,537,962)	12,594,250
Balance at end of year	₱3,844,947,567	₱968,562,526

CMMTC

Investment in CMMTC represents 2.0% interest in unquoted shares of stocks of CMMTC (see Note 1).

PGOACI

On June 14, 2011, MPTC entered into a Shareholders Agreement with Philippine Long Distance Telephone Company (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.



Investment in UITF, Treasury Bonds and Notes and Corporate Bonds

This consists of investments in UITF, fixed rate retail treasury bonds of the ROP, fixed rate treasury notes and corporate bonds of Meralco. The quoted ROP retail treasury bonds and corporate bonds of Meralco, which bear fixed interest rates ranging from 2.1% to 6.0% are payable quarterly while the quoted fixed rate treasury notes which bear fixed interest rate of 4.4% is payable semi-annually (see Note 27). 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 maturities of the investment in treasury bonds and notes and corporate bonds are shown below:

Maturity Date	December 31, 2013		December 31, 2012	
	Fair Value	Principal Amount	Fair Value	Principal Amount
UITF				
Short-term	₱1,995,120,215	₱1,990,364,790	₱-	₱-
ROP Retail Treasury Bonds				
July 31, 2013	-	-	53,003,500	50,600,000
August 19, 2015	214,720,000	200,000,000	319,875,000	300,000,000
March 3, 2016	164,997,000	150,000,000	214,250,000	200,000,000
August 15, 2023	553,594,564	562,524,166	-	-
October 24, 2037	-	-	53,187,500	50,000,000
	933,311,564	912,524,166	640,316,000	600,600,000
Fixed Rate Treasury Notes				
August 23, 2018	388,867,262	393,634,047	-	-
Meralco Corporate Bonds				
December 12, 2020	199,402,000	200,000,000	-	-
	₱3,516,701,041	₱3,496,523,003	₱640,316,000	₱600,600,000

The fair value of the investment in treasury bonds and notes and corporate bonds is based on quoted market price of the instruments as at December 31, 2013 and 2012. The movements in the net unrealized gain on fair value change in AFS financial assets under "Other comprehensive income reserve" account for the years ended December 31, 2013, 2012 and 2011 follow:

	2013	2012	2011
Balance at beginning of year	₱39,716,000	₱27,121,750	₱23,493,000
Changes in fair value	(5,427,561)	12,594,250	3,628,750
Reclassification during the year to profit and loss	(14,110,401)	-	-
Balance at end of year	20,178,038	39,716,000	27,121,750
Tax effects of items taken directly in equity (see Note 30)	(8,915,100)	(11,914,800)	(8,136,525)
	₱11,262,938	₱27,801,200	₱18,985,225
Attributable to:			
Equity holders of the Parent	₱7,557,432	₱18,654,606	₱12,739,087
Non-controlling interests	3,705,506	9,146,594	6,246,138
	₱11,262,938	₱27,801,200	₱18,985,225



17. Other Noncurrent Assets

This account consists of:

	2013	2012
Indemnification asset (see Note 6)	₱533,005,276	₱-
Sinking fund	125,943,966	-
Advances to contractors and consultants	66,153,415	-
Reimbursement right - retirement	10,797,505	-
Refundable deposits	8,198,543	3,127,300
Other	139,365,529	144,739,795
	₱883,464,234	₱147,867,095

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 26). 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.

18. Accounts Payable and Other Current Liabilities

This account consists of:

	2013	2012
Trade payables (see Note 21)	₱579,597,473	₱593,459,165
Accrued expenses (see Note 21)	531,895,482	537,399,479
Output VAT	109,458,035	94,776,106
Withholding taxes payable	100,766,608	76,218,437
Retention payable	168,727,195	37,876,466
Interest payable	33,150,691	19,876,421
Payable to CHI (see Note 11)	163,467,012	574,560,000
Others	112,023,300	13,533,895
	₱1,799,085,796	₱1,947,699,969

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

Under the terms and conditions of the Tax Indemnity Letter in relation to the Convertible Note as discussed in Note 11, CHI shall deliver to MPTC a standby letter of credit (LC) with a face value amounting to ₱574.6 million. As at December 31, 2012, the standby LC has not yet been delivered to MPTC. CHI, therefore, instructed MPTC to withhold an amount equal to the face value of the standby LC from the proceeds of the Convertible Note until CHI has delivered the standby LC to MPTC. The standby LC has been delivered to MPTC on January 31, 2013 and therefore, MPTC released such amount to CHI on February 1, 2013.



Payable to CHI as at December 31, 2013 relates to noninterest-bearing advances obtained by CIC in 2012 for its debt service requirements. This is payable within one year.

Accrued expenses consist of:

	2013	2012
Operator's fees (see Notes 21 and 23)	₱323,285,740	₱161,254,933
Salaries and employee benefits (see Note 26)	54,909,637	48,351,095
PNCC fees (see Notes 21 and 23)	42,112,144	40,831,188
Repairs and maintenance	27,918,283	31,114,920
Professional fees	29,415,978	30,529,877
Transaction costs on:		
Refinancing of long-term debt (see Note 20)	29,750,000	–
Notes receivable (see Note 11)	–	27,639,184
Construction costs	15,015,763	19,693,654
Outside services	9,487,937	5,910,004
Pretermination costs on interest rate swap (see Note 20)	–	171,500,000
Others	–	574,624
	₱531,895,482	₱537,399,479

Interest payable is settled within six months.

19. Provisions

The movements in this account follows:

	Heavy Maintenance	Contingent Liability	Others	Total
At January 1, 2012	₱370,394,626	₱–	₱68,640,706	₱439,035,332
Additions (see Notes 23 and 24)	120,000,000	–	108,313,713	228,313,713
Payments	(153,651,302)	–	(12,554,560)	(166,205,862)
At December 31, 2012	336,743,324	–	164,399,859	501,143,183
Acquisition of a subsidiary	227,639,393	1,100,076,247	5,723,047	1,333,438,687
Additions (see Notes 23 and 24)	187,579,364	–	54,304,238	241,883,602
Accretion (see Note 28)	8,094,216	42,077,916	–	50,172,132
Payments	(326,540,042)	–	(82,730,579)	(409,270,621)
At December 31, 2013	₱433,516,255	₱1,142,154,163	₱141,696,565	₱1,717,366,983
At December 31, 2013:				
Current	₱121,240,135	₱–	₱141,696,565	₱262,936,700
Noncurrent	312,276,120	1,142,154,163	–	1,454,430,283
	₱433,516,255	₱1,142,154,163	₱141,696,565	₱1,717,366,983
At December 31, 2012:				
Current	₱154,037,407	₱–	₱94,672,619	₱248,710,026
Noncurrent	182,705,917	–	69,727,240	252,433,157
	₱336,743,324	₱–	₱164,399,859	₱501,143,183



Provision for heavy maintenance. As discussed in Note 5, provision for heavy maintenance pertains to the present value of the estimated contractual obligations of the Company to restore the service concession assets to a specified level of serviceability during the concession term and to maintain the same assets in good condition prior to turnover of the assets to the Grantor. The amount of provision is reduced by the actual obligations paid for heavy maintenance of the service concession assets.

Contingent liability. As also discussed in Note 6, 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, 2013, the contingent liability amounted to ₱1,142.2 million with the increase arising from the passage of time (see Note 28). 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.

20. Long-term Debt

This account consists of borrowings of MNTC and CIC:

	2013	2012
Peso-denominated Notes and Loans:		
Series A Notes	₱6,086,026,234	₱6,148,128,542
Philippine National Bank (PNB) Loan	1,785,000,000	1,890,000,000
Term Loan Facilities	3,000,000,000	1,000,000,000
Rizal Commercial Banking Corporation and BDO Unibank, Inc. (RCBC/BDO) Loan	6,143,630,216	-
Series 2010 - 1 Notes	854,383,740	-
	17,869,040,190	9,038,128,542
Less unamortized debt issue costs	125,004,006	132,160,218
	17,744,036,184	8,905,968,324
Less current portion of long-term debt - net of unamortized debt issue costs of ₱23,228,185 in 2013 and ₱22,803,271 in 2012	1,157,571,085	144,299,038
	₱16,586,465,099	₱8,761,669,286

The unamortized debt issue costs incurred in connection with the availment of long-term debt amounting to ₱125.0 million and ₱132.2 million as at December 31, 2013 and 2012, respectively, were deducted against the long-term debt. The movements in debt issue costs are as follows:

	2013	2012
Balance at beginning of year	₱132,160,218	₱154,613,409
Amortization during the year* (see Note 28)	(23,472,003)	(22,453,191)
Debt issue costs incurred during the year	16,315,791	-
Balance at end of year	₱125,004,006	₱132,160,218

*Includes amortization of debt issue costs capitalized to service concession assets amounting to ₱138,554 in 2013.



MNTC

Series A Notes

On December 21, 2010, MNTC entered into a Notes Facility Agreement with local financing institutions for a ₱2.7 billion short-term unsecured and subordinated notes facility. Proceeds of the notes which were fully drawn on January 11, 2011 were used for the prepayment of the U.S. dollar loans and other corporate purposes. The notes are payable every three months, up to a maximum term of one year from initial drawdown date.

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”). Proceeds of the notes were used to prepay the ₱2.7 billion short-term loan in full and to partially prepay the 2006-issued Fixed Rate Corporate Notes (FXCNs), with outstanding amount of ₱3.0 billion, on April 19, 2011. 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. Acceleration of the unamortized debt issue costs relating to the prepayment of the 2006-issued FXCN amounted to ₱61.3 million in 2011.

On November 29, 2011, MNTC issued a notice of prepayment to the remaining 2006-issued FXCN holders. On December 15, 2011, these noteholders with outstanding notes of ₱2.3 billion were prepaid in full. Acceleration of unamortized debt issue costs relating to the prepayment of the remaining 2006-issued FXCN holders amounted to ₱36.1 million.

The prepayment fees paid to noteholders in relation to the prepayment of the 2006-issued FXCN amounting to ₱329.9 million were recognized as part of “Interest expense and other finance costs” in the 2011 consolidated statement of income (see Note 28).

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 Philippine Dealing System Treasury Fixing (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. The early termination payment amounted to ₱175.0 million (see Notes 18 and 34).



Term Loan Facilities

On December 12, 2011, MNTC entered into a Term Loan Facility Agreement for a ₱1.0 billion fixed-rate term loan facility from The Insular Life Assurance Company, Ltd. and the Philippine American Life and General Insurance Company. The loan facility has a final maturity date of 15 years, with two bullet repayment tranches of ₱500.0 million each after 10 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 October 8, 2013, MNTC entered into a Term Loan Facility Agreement with Sun Life of Canada (Philippines) 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.

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.

On December 5, 2013, MNTC again 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.

These loans availed in 2013 are intended to partially finance the Phase II expansion projects of MNTC.

As at December 31, 2013 and 2012, MNTC is in compliance with the required financial ratios and other loan covenants. MNTC's long-term debts are unsecured as at December 31, 2013 and 2012.

CIC and Subsidiaries

RCBC/BDO Loan

On April 11, 2012, CIC entered into an 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 to partially finance the tender and redemption of Series 2010-1 Notes.

The loan, which is subject to quarterly principal amortizations from July 2012 to April 2019, bears annual floating interest equal to the higher of: (i) three-month PDST-F plus 3.5% spread and (ii) BSP Overnight Reverse Repurchase rate plus 3.5% spread.

Under the 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, CIC is required to maintain certain financial ratios.



On December 16, 2013, CIC entered into an Amended and Restated Omnibus Agreement with CFC, 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 existing Omnibus Agreement (as discussed above). 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%.

The collateral security and covenants for the Amended and Restated Omnibus Agreement are the same with the Omnibus Agreement as discussed above.

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:

- Interest of 12% 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 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, the Major Maintenance Reserve Account, the Cash Trapping Event Reserve Account, the Construction Cost Account, the Coverage Reserve Account, the 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

The Transaction Accounts mainly consist of the O&M Account, Major Maintenance Reserve Account, Cash Trapping Event Reserve Account, Construction Cost Account, Coverage Reserve Account and Series Notes Debt Service Reserve Account.

- 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.

As at December 31, 2013 and 2012, CIC is in compliance with its debt covenants.

21. Related Party Transactions

Enterprises and individuals that directly, or indirectly through one or more intermediaries, control, or are controlled by, or under common control with the Company, including holding companies, subsidiaries and fellow subsidiaries are related parties of the Company. Associates and individuals owning, directly or indirectly, an interest in the voting power of the Company that gives them significant influence over the enterprise, key management personnel, including directors and officers of the Company and close members of the family of these individuals and companies associated with these individuals also constitute related parties.



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

Name	Relationship		Management Fees (see Note 29)	Guarantee Fees (see Note 29)	Interest Income (see Note 27)	Income from Utility Facilities (see Note 29)	Income from Advertising (see Note 29)	Operator's Fee (see Note 23)	PNCC Fee (see Note 23)	Repairs and Maintenance (see Note 23)	Outside Services (see Notes 23 and 24)	Rentals (see Note 24)
TMC	Associate	2013	₱55,615	₱24,115	₱10,813	₱-	₱-	₱1,532,066	₱-	₱1,406	₱-	₱-
		2012	59,541	23,446	10,873	-	-	1,492,527	-	-	-	-
		2011	84,700	23,152	10,892	-	-	1,566,118	-	-	-	-
PNCC	Non-controlling Stockholder	2013	-	-	-	-	-	-	41,809	-	-	-
		2012	-	-	-	-	-	-	39,986	-	-	-
		2011	-	-	-	-	-	-	385,245	-	-	-
Egis Projects Philippines, Inc. (EPPI)	Affiliate	2013	-	-	-	-	-	-	-	11,549	-	-
		2012	-	-	-	-	-	-	-	14,924	-	-
		2011	-	-	-	-	-	-	-	26,153	-	-
Easytrip Services Corporation (ESC)	Affiliate	2013	-	-	-	-	1,312	-	-	-	44,394	-
		2012	-	-	-	-	273	-	-	-	31,532	-
		2011	-	-	-	-	-	-	-	-	32,835	-
SMART Communications, Inc. (SMART)	Affiliate	2013	-	-	-	314	44,710	-	-	-	-	-
		2012	-	-	-	300	38,224	-	-	-	-	-
		2011	-	-	-	300	27,427	-	-	-	-	-
PLDT	Affiliate	2013	-	-	-	1,739	-	-	-	-	-	1,935
		2012	-	-	-	1,626	223	-	-	-	-	1,845
		2011	-	-	-	1,515	1,069	-	-	-	-	1,880
Digital Mobile Philippines, Inc. (Digitel)	Affiliate	2013	-	-	-	-	8,022	-	-	-	-	-
		2012	-	-	-	-	1,148	-	-	-	-	-
		2011	-	-	-	-	-	-	-	-	-	-
Total		2013	₱55,615	₱24,115	₱10,813	₱2,053	₱54,044	₱1,532,066	₱41,809	₱12,955	₱44,394	₱1,935
		2012	59,541	23,446	10,873	1,926	39,868	1,492,527	39,986	14,924	31,532	1,845
		2011	84,700	23,152	10,892	1,815	28,496	1,566,118	385,245	26,153	32,835	1,880



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

Name	Relationship		Receivables (see Note 10)	Advances to Contractors and Consultants	Accounts payable and other current liabilities ⁽¹⁾ (see Note 18)	Due from Related Parties ⁽²⁾	Due to Related Parties	Dividends Payable ⁽³⁾	Terms	Conditions
MPIC	Parent Company	2013	₱-	₱-	₱-	₱187,517	₱2,331,982	₱-	On demand; noninterest -	
		2012	-	-	-	231,584,545	2,002,028	-	bearing	Unsecured; no impairment
MPC	Under common control with MPIC	2013	-	-	-	-	1,565,508	-	On demand; noninterest -	Unsecured; no impairment
		2012	-	-	-	-	1,565,508	-	bearing	
EPPI	Affiliate	2013	-	19,209,306	3,909,673	-	-	-	On demand; noninterest -	Unsecured; no impairment
		2012	-	9,031,041	3,860,731	-	-	-	bearing	
PNCC	Noncontrolling Stockholder	2013	-	-	45,383,204	-	-	31,080,000	(1) On demand;	Unsecured
		2012	-	-	40,831,188	-	-	20,868,000	noninterest -bearing	
									(3) 15- 45 days;	Unsecured
									noninterest -bearing	
TMC	Associate	2013	-	-	336,673,650	172,173,820	-	-	(1) 30 days; noninterest -	Unsecured; no impairment
		2012	-	-	325,537,240	176,633,938	-	-	bearing	
									(2) For those under current assets – on demand;	
									noninterest -bearing	
									(2) For those under noncurrent assets – until	
									December 31, 2037; 17%	
									effective interest	
Egis Projects, SA (Egis)	Noncontrolling Stockholder	2013	-	-	-	-	-	172,804,800	45 days; noninterest -	Unsecured
		2012	-	-	-	-	-	116,026,080	bearing	
Global Fund Holdings, Inc.	Noncontrolling Stockholder	2013	-	-	-	-	-	51,282,000	45 days; noninterest -	Unsecured
		2012	-	-	-	-	-	34,432,200	bearing	
BDO	Noncontrolling Stockholder	2013	-	-	-	-	-	153,846,000	45 days; noninterest -	Unsecured
		2012	-	-	-	-	-	103,296,600	bearing	
ESC	Affiliate	2013	94,834,399	-	29,865,264	99,000	-	-	On demand; noninterest -	Unsecured; no impairment
		2012	63,799,316	-	38,731,663	-	-	-	bearing	
PLDT	Affiliate	2013	478,297	-	178,288	-	-	-	On demand; noninterest -	Unsecured; no impairment
		2012	1,294,078	-	-	-	-	-	bearing	

(Forward)



Name	Relationship		Receivables (see Note 10)	Advances to Contractors and Consultants	Accounts payable and other current liabilities ⁽¹⁾ (see Note 18)	Due from Related Parties ⁽²⁾	Due to Related Parties	Dividends Payable ⁽³⁾	Terms	Conditions
SMART	Affiliate	2013	₱22,899,033	₱-	₱204,325	₱-	₱-	₱-	On demand; noninterest - bearing	Unsecured; no impairment
		2012	45,346,189	-	-	-	-	-		
Digitel	Affiliate	2013	4,425,120	-	3,532	-	-	-	On demand; noninterest - bearing	Unsecured; no impairment
		2012	2,611,840	-	-	-	-	-		
Others	Affiliate	2013	-	-	-	-	3,655,238	-	On demand; noninterest - bearing	Unsecured
		2012	-	-	-	-	3,655,238	-		
Total		2013	₱122,636,849	₱19,209,306	₱416,217,936	₱172,460,337	₱7,552,728	₱409,012,800		
		2012	113,051,423	9,031,041	408,960,822	408,218,483	7,222,774	274,622,880		
At December 31, 2013:										
		Current	₱122,636,849	₱19,209,306	₱416,217,936	₱107,651,923	₱7,552,728	₱409,012,800		
		Noncurrent	-	-	-	64,808,414	-	-		
			₱122,636,849	₱19,209,306	₱416,217,936	₱172,460,337	₱7,552,728	₱409,012,800		
At December 31, 2012:										
		Current	₱113,051,423	₱9,031,041	₱408,960,822	₱343,168,278	₱7,222,774	₱274,622,880		
		Noncurrent	-	-	-	65,050,205	-	-		
			₱113,051,423	₱9,031,041	₱408,960,822	₱408,218,483	₱7,222,774	₱274,622,880		

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 2013 and 2012, MPIC billed MPTC for various operating expenses paid in behalf of MPTC.
- MPIC has assumed the obligation of BHC and FPHC to pay MPTDC (then FPIDC) advances amounting to ₱237.2 million and ₱225.4 million, respectively, pursuant to the SPA executed by BHC and FPHC with MPIC on August 26, 2008, in relation to the sale, assignment and transfer to MPIC of all of BHC's and FPHC's respective rights, title and interest in and to their shares in MPTC. In 2013 and 2012, MPTDC assigned portion of its receivable from MPIC amounting to ₱231.6 million and ₱231.0 million, respectively, to MPTC, which the latter applied against its cash dividends payable to MPIC. As at December 31, 2013 and 2012, outstanding receivable from MPIC amounted to ₱0.2 million and ₱231.6 million, respectively.

Transactions with an Associate

- TMC provides services to MNTC as operator to the NLEX, Segment 7 and Segment 8.1 under the O&M Agreement. The O&M Agreement contains the terms and conditions for the operation and maintenance by TMC of Phase I of the 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 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 MNEP, 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 operations and maintenance 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 Plaridel Bypass Interchange as an integral part of Phase I of the MNEP, MNTC and TMC agreed that the scope of the O&M Agreement shall correspondingly cover the Plaridel Bypass Interchange from June 25, 2012 until December 31, 2037. Consequently, MNTC agreed to pay TMC an annual base fee for the operations and maintenance of the Plaridel Bypass Interchange in the amount of ₱17.5 million effective in 2012. The Plaridel-Bypass Interchange is a 1.5-km stretch connecting Plaridel to NLEX.
- In 2012, MNTC also added the new Bocaue Interchange to the scope of TMC's operations and maintenance contract but the terms are still being formalized as at February 20, 2014.
- On January 22, 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 as follows:
 - ₱1,470.1 million for the Phase 1 of the NLEX;
 - ₱94.3 million for Segment 7;
 - ₱7.8 million for Dau Interchange; and
 - ₱36.9 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.

- Two separate agreements on the shareholders' corporate guarantee (collectively, "Corporate Guarantees") were executed by MPTDC (then FPIDC) and Egis Road Operation (collectively known as "Guarantors") with MNTC, whereby each has guaranteed the liability of TMC under the O&M Agreement in the following percentages: MPTDC – 66.0% and Egis Road Operation – 34.0%. As a consideration for the guarantee, TMC shall pay MPTDC and Egis Road Operation, annual guarantee fees equal to 2.5% of the gross value of the corporate guarantee. Any guarantee fee not paid within June 30 and December 31 of each year ("the Payment Dates") shall earn interest computed from the relevant Payment Date up to the date of actual payment of guarantee fees. Interest is at 91-day Philippine Treasury Bill Rate plus 2% per annum as defined in the O&M Agreement.

MPTDC recognized a receivable from TMC equivalent to the financial guarantee obligation recorded as the present value of the guaranteed portion of the liability of TMC under the O&M Agreement. The guarantee is effective until December 31, 2037, which is the end of the concession period of MNEP. Receivable on financial guarantee from TMC, recorded under "Due from related parties (noncurrent)," and the financial guarantee obligation amounted to ₱64.8 million and ₱65.1 million as at December 31, 2013 and 2012, respectively. Interest income on receivable from TMC and interest expense on financial guarantee obligation amounted to ₱10.8 million in 2013 and ₱10.9 million in 2012 and 2011 (see Notes 27 and 28).

- MPTC and MPTDC perform management, operational and financial advisory services for TMC. MPTC and MPTDC are in the process of formalizing their management agreements with TMC as at February 20, 2014. Total management fees amounted to ₱55.6 million in 2013, ₱59.5 million in 2012 and ₱84.7 million in 2011 (see Note 29).

Transactions with Non-controlling Stockholders

- In consideration of the assignment by PNCC of its usufructuary rights, interests and privileges under its franchise, PNCC is entitled to receive a payment equivalent to 6.0% and 2.0% of the toll revenue from the 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 the payment.

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

Prior to the letter of TRB, MNTC has been remitting payments directly to PNCC on a semi-annual basis. On December 2, 2010, MNTC received a letter from the TRB dated November 30, 2010, citing a decision of the 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 MNEP. In the said decision, the SC ruled, among others, that after the expiration of the franchise of PNCC, its share/participation in the JVs and STOs, inclusive of its percentage share in toll fees collected by joint venture companies currently operating the expressways, shall accrue to the Philippine Government.

On the basis of the conflicting claims of PNCC and TRB to the revenue share and dividends, on December 8, 2010, MNTC filed a motion for clarification asking the SC to clarify the entity to which MNTC should remit its payments which was then due on December 20, 2010. Pending resolution by the SC of the motion for clarification, and pursuant to a BOD resolution dated December 23, 2010, MNTC filed a petition for consignment with the Regional Trial Court (RTC) of Caloocan for the latter to hold the payments in trust and deliver to the party ultimately adjudged by the SC to be entitled to it, unless PNCC and the TRB, in the meantime, resolve the matter between themselves, in which case the funds should be delivered and disposed of pursuant to their agreement and settlement.

On December 29, 2010, MNTC through a letter sent by its legal counsel, informed PNCC and TRB of the consignment made to the RTC of Caloocan. Meantime, in a resolution dated January 18, 2011, the SC directed MNTC to remit to the National Treasury PNCC's percentage share of toll revenues and dividends arising out of PNCC's participation in the MNEP. Subsequently, PNCC filed a motion for clarification with the SC to clarify whether only PNCC's net income from the toll revenues, or PNCC's gross share in the NLEX tollway revenues, should be remitted to the National 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 the meantime, while the guidelines have yet to be formulated, PNCC and TRB have agreed to remit the entire consigned amount to the National Treasury. Thus, PNCC, TRB and MNTC filed an urgent joint manifestation and motion with the RTC asking it to dismiss the petition and remit the consigned amount to the National Treasury. MNTC subsequently filed a motion to dismiss PNCC's counterclaims against MNTC. On August 10, 2011, the RTC issued an Order dismissing PNCC's counterclaims against MNTC.

On September 19, 2011, Forum Holdings Corporation (FHC, an Intervenor) filed a petition-in-intervention with the RTC praying that MNTC be ordered to comply with its contractual commitment to PNCC by releasing and delivering directly to PNCC the consigned amount. The Intervenor, however, does not pray for any damages against MNTC. PNCC filed its opposition to the motion for intervention.

The SC, in a resolution dated November 15, 2011, ordered the RTC Judge to comply with the SC's resolutions and immediately remit PNCC's share in the net income from the toll revenues to the National Government. The RTC issued an Order dated November 24, 2011 that the consigned amount of ₱337.9 million (includes the PNCC fees for the period from January 2010 to November 2010 amounting to ₱310.4 million and dividends declared to PNCC in December 2010 amounting to ₱27.5 million) be remitted to the National Government. The consigned amount was remitted to the National Treasury on December 23, 2011. The remittance was certified in a Sheriff's return dated December 26, 2011 which was received by the RTC on December 27, 2011.



On January 11, 2012, the RTC, despite the fact that the consigned amount has already been remitted to the National Treasury, granted FHC's petition-in-intervention filed on September 19, 2011. Following the directive of the TRB dated March 22, 2012, MNTC remitted to the National Government through the TRB the payments for the PNCC fees accruing since the month of December 2010 and the dividends payable to PNCC after December 2010. In accordance with the TRB directive, 90% of the PNCC fees and dividends payable was remitted to the TRB, while the balance of 10% to PNCC.

Meantime, FHC filed a motion to withdraw intervention. In an order dated May 3, 2013, the RTC granted the withdrawal of the intervention. On September 6, 2013, the RTC heard the case to decide on the prayer for dismissal requested by MNTC, TRB and PNCC in their urgent joint manifestation and motion. During said hearing, the RTC found that the petition for consignment was already rendered moot and academic since the consigned amount was already remitted to the National Government and FHC already withdrew its intervention. Since there was no more pending incident for resolution, the RTC ordered the case dismissed.

- Dividends declared by MNTC to non-controlling stockholders in 2013, 2012 and 2011 amounted to ₱677.8 million, ₱560.9 million and ₱496.7 million, respectively. In 2013, 2012 and 2011, MNTC paid cash dividends to non-controlling stockholders amounting to ₱543.4 million, ₱324.0 million and ₱640.6 million, respectively. As at December 31, 2013 and 2012, MNTC has unpaid dividends to non-controlling stockholders amounting to ₱409.0 million and ₱274.6 million, respectively.

Transactions with Other Related Parties

EPPI

- In September 2007, MNTC entered into a contract with EPPI, a wholly owned subsidiary of Egis, for Fixed Operating Equipment (FOE) second line maintenance services. This contract pertains to services beyond the primary maintenance obligations of TMC under the O&M Agreement. The contract amount up to September 2010 is €1.2 million. On December 3, 2010, MNTC and EPPI entered into a Supplemental Agreement for NLEX and Phase II Segment 8.1 FOE second line maintenance services to extend the term for another three years starting in September 2010. The contract amount up to September 2013 is €1.2 million. Total services paid amounted to €0.3 million (₱14.4 million) in 2012 and €0.3 million (₱16.4 million) in 2011. The contract has not been extended after September 2013.
- In October 2011, MNTC entered into an agreement with EPPI for the design, supply and installation of FOE at Dau, Mabalacat and Tipo Toll Plazas with the objective of having a single toll collection system for both the NLEX and SCTEx. Total contract price amounted to €2.6 million, a fixed lump sum price, inclusive of VAT, and valid for 425 days from the Base Date. Unapplied mobilization advances to EPPI, included as part of "Advances to contractors and consultants" account in the consolidated balance sheet amounted to €0.2 million (₱9.0 million) as at December 31, 2013 and 2012. The installation of the FOE has not yet been started since the SCTEx has not yet been turned over to MNTC as at February 20, 2014 (see Note 32).
- On April 26, 2011, MNTC entered into an agreement with EPPI for the supply, installation, testing and commissioning works of FOE at Phase 1 Bocaue and Angeles Toll Plazas with the objective of addressing the closed system toll revenue leakage from north bound motorists. Total contract price amounted to €0.4 million (₱23.5 million). The installation of the FOE was completed on July 29, 2012.



- On February 7, 2012, MNTC issued the Notice to Proceed to EPPI for the supply, installation, test and commissioning of the FOE at the newly constructed Plaridel Bypass Interchange, including the interconnection with the NLEX existing system. Total contract price amounted to €0.8 million (₱45.2 million), a fixed lump sum price, inclusive of VAT and payable in Philippine peso. The installation of the FOE was completed on March 20, 2012.
- On December 27, 2012, MNTC entered into a Contract Agreement with Egis Projects Philippines, Inc. and Indra Philippines, Inc. Consortium for the FOE Design, Supply and Installation for the Toll Collection System Migration Project of Phase I and Segment 8.1. The total contract price of €6.2 million (₱365.3 million) shall be fixed lump sum, inclusive of VAT. The migration is expected to be completed by June 2014.

Total unapplied mobilization advances to Egis Projects Philippines, Inc. and Indra Philippines, Inc. Consortium, included as part of “Advances to contractors and consultants” in the consolidated balance sheet, amounted to ₱22.7 million as at December 31, 2013.

- On June 14, 2013, MNTC entered into a Contract Agreement with Egis Projects Philippines, Inc. and Indra Philippines, Inc. Consortium for the design, supply, installation, testing and commissioning of the FOE for Segment 9 of Phase II. The total contract price of €1.3 million (₱77.5 million) shall be fixed lump sum, inclusive of VAT. The contracted works are expected to be completed within one year from contract date.

Total unapplied mobilization advances to Egis Projects Philippines, Inc. and Indra Philippines, Inc. Consortium, included as part of “Advances to contractors and consultants” in the consolidated balance sheet, amounted to ₱10.5 million as at December 31, 2013.

- MNTC purchased spare parts inventories from EPPI. Total purchases amounted to ₱15.9 million in 2013, ₱21.1 million in 2012 and ₱9.9 million in 2011.

ESC

- On December 5, 2007, MNTC engaged the services of ESC, a wholly owned subsidiary of Egis, to assist MNTC in increasing the usage of the electronic toll collection (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 and ₱2.5 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.



PLDT, Smart and Digitel

- On November 1, 2010, 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, 2010 to October 31, 2015 for a monthly payment of ₱0.1 million, subject to annual escalation of 5%. The lease agreement may be terminated at the option of the parties. As at December 31, 2013 and 2012, there is no outstanding liability to PLDT.

Future minimum operating lease payments are as follows:

<u>Period Covered</u>	<u>2013</u>	<u>2012</u>
Not later than one year	₱2,033,676	₱1,936,834
More than one year and not later than five years	1,764,760	3,798,436

- In 2010, as part of MNTC's commercial policy on sponsorship of NLEX communication programs through co-branding, MNTC and SMART, together with PLDT, entered into joint sponsorship agreement for the "Northern Fiesta Campaign" which is a collaborative tourism promotion of local fiestas and festivals in the North and of safety and traffic discipline along NLEX through print media and through banners and traffic control gates stickers in the NLEX toll plazas.

MNTC has outstanding receivable from PLDT for its share in the costs of the promotion amounting to ₱0.3 million (inclusive of VAT) and ₱1.1 million (inclusive of VAT) as at December 31, 2013 and 2012, respectively.

Outstanding receivable from SMART for its share in the costs of the promotion amounted to ₱2.9 million (inclusive of VAT) as at December 31, 2013 and 2012.

- 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 paid the Company ₱1.3 million for annual fee for the years ended December 31, 2013, 2012 and 2011.

PLDT also paid ₱0.1 million for the annual fee for the Fiber Optic Overlay along Phase II Segment 8.1 for the years ended December 31, 2013, 2012 and 2011.

MNTC has also outstanding receivable from PLDT relating to Utility Facilities Contract for the Fiber Optic Overlay along the NLEX amounting to ₱0.2 million as at December 31, 2013 and 2012.

- On January 5, 2011, MNTC and SMART signed a Utility Facilities Contract where MNTC provides SMART an access for the construction, operation and maintenance 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.
- 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. Outstanding receivable from SMART for the naming rights and outdoor advertising near the interchange amounted to ₱20.0 million (inclusive of VAT) and ₱42.4 million (inclusive of VAT) as at December 31, 2013 and 2012, respectively.

- On October 22, 2012 and March 1, 2013 MNTC and Digitel entered into an advertising arrangements related to various advertising mediums which include rental, material production, installation and maintenance at several locations along NLEX covering the period from November 2012 to November 2013 and February 1, 2013 to July 31, 2013, respectively. Total consideration for the one year and six-month arrangement amounted to ₱6.9 million and ₱1.9 million, respectively.

Other Transactions

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

	2013	2012	2011
Short-term employee benefits	₱184,933,323	₱151,574,331	₱140,710,748
Retirement costs (see Note 26)	14,600,641	17,321,891	23,616,367
Executive stock option expense (see Note 25)	986,176	3,070,578	6,985,309
LTIP (see Note 26)	39,877,892	78,615,492	75,655,636
	₱240,398,032	₱250,582,292	₱246,968,060

- 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 ₱4.9 million in 2013, ₱1.6 million in 2012, and ₱2.6 million in 2011 recorded under “General and administrative expenses” account in the consolidated statement of income (see Note 24).
- Total advances to officers and employees amounted to ₱12.0 million and ₱7.9 million as at December 31, 2013 and 2012, respectively (see Note 10).
- In the normal course of business, the Company also grants and avails noninterest-bearing advances to/from subsidiaries, associates and affiliates.

22. Equity

Capital Stock

As at December 31, 2013, 2012 and 2011, the capital stock of the Company consists of:

	2013	2012	2011
Issued capital stock:			
Common shares	₱5,065,074,937	₱5,065,074,937	₱5,065,074,937
7% Preferred shares	6,771,600,000	-	-
	11,836,674,937	5,065,074,937	5,065,074,937
Subscribed capital stock	495,690	495,690	495,690
Less subscriptions receivable	371,768	371,768	371,768
	123,922	123,922	123,922
	₱11,836,798,859	₱5,065,198,859	₱5,065,198,859



Details of shares of stock of MPTC as at December 31, 2013 follow:

	Number of Shares	
	Common Shares	Preferred Shares
Authorized - ₱100 par value	54,000,000	70,000,000
Issued and outstanding:		
Issued shares	50,650,749	67,716,000
Treasury shares	(870,202)	–
Outstanding shares	49,780,547	67,716,000
Subscribed	4,957	–

Details of common shares of MPTC as at December 31, 2012 and 2011 follow:

	Number of Shares
Authorized - ₱1 par value	5,400,000,000
Issued and outstanding:	
Issued shares	5,065,074,937
Treasury shares	(87,020,160)
Outstanding shares	4,978,054,777
Subscribed	495,690

- 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, 2013 and 2012, the subscriptions were not yet paid in full.
- b. As at December 31, 2012, the Parent Company's shares of stock are pledged in favor of a local bank as security for MPIC's peso-denominated notes of ₱6,750.0 million. In 2013, MPIC refinanced this peso-denominated notes and resulted to the release of the pledge on the Parent Company's shares of stock.
- c. On February 26, 2013, the BOD of the Parent Company approved the following:
 - The increase in the par value of the Parent Company's common shares from ₱1 to ₱100 on a per share basis and correspondingly reduce the number of authorized (including the issued and outstanding) common shares of the Parent Company from 5,400,000,000 common shares to 54,000,000 common shares (the "Reverse Stock Split"); and
 - Subject to approval by the SEC of the Reverse Stock Split, increase in the authorized capital stock of the Company from ₱5,400.0 million divided into 54,000,000 common shares each with a par value of ₱100 per share, to up to ₱12,400.0 million divided into: (i) up to 54,000,000 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 Reverse Stock Split and Capital Increase.

The above Reverse Stock Split and Capital Increase were approved by the stockholders of the Parent Company on April 30, 2013.



The SEC approved the Parent Company's Reverse Stock Split and Capital Increase on September 24, 2013 and November 8, 2013, respectively.

- d. In connection with the application for increase in authorized capital stock, the Parent Company together with MPIC agreed on February 26, 2013 that MPIC will subscribe to new preferred shares of the Parent Company amounting to ₱6,771.6 million. The shares will be issued upon the SEC's approval of the Reverse Stock Split and Capital Increase of the Parent Company, thus the related amount was classified under "Deposits for shares subscription" account in the consolidated balance sheet as at December 31, 2012.

On April 30, 2013, the BOD of the Parent Company approved the conversion of the deposits for shares subscription amounting to ₱6,771.6 million into 67,716,000 preferred shares with par value of ₱100 per share.

Following the approval by the SEC of the Parent Company's Reverse Stock Split and Capital Increase, the Parent Company issued the preferred shares to MPIC in November 2013 in relation to the conversion of the MPIC's deposits from shares subscription into the Parent Company's Preferred Shares.

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 Parent 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.
- The Preferred Shares shall have no pre-emptive right to any share of convertible debt, securities, or warrants issued, sold or disposed of by the Parent Company.
- 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 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.



Equity Adjustment on Reverse Acquisition

Equity adjustment on reverse acquisition resulted from the transaction involving the transfer of FPHC and BHC of all their shares in MPTDC (then FPIDC, regarded as the accounting acquirer) in exchange for the shares of MPTC (then FPPII, 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 2013, 2012 and 2011:

Declaration Date	Record Date	Payment Date	Cash Dividend per Share	Total
February 26, 2013	March 12, 2013	April 10, 2013	₱0.14	₱702,194,520
July 25, 2013	August 13, 2013	September 9, 2013	0.14	671,000,000
February 24, 2012	March 12, 2012	April 10, 2012	0.17	846,239,314
August 8, 2012	August 21, 2012	September 13, 2012	0.10	497,805,479
February 23, 2011	March 11, 2011	March 25, 2011	0.15	755,000,000
August 3, 2011	August 19, 2011	August 30, 2011	0.10	500,000,000

As at December 31, 2013 and 2012, the unpaid cash dividends of the Parent Company amounted to ₱2.5 million and ₱2.2 million, respectively.

On February 20, 2014, MPTC’s BOD declared cash dividends of ₱14.9 per share or total amount of ₱741.9 million to common stockholders of record as at March 6, 2014 payable on or before April 1, 2014.

Scrip Dividends

Under Section 8.04.02 of the ARSA with among others Leighton International Limited (LIL), MPTC, through MPTDC, has the right to receive from LIL 50.0% of the difference of LIL’s selling price for the sale of its 16.5% interest in MNTC and US\$19.4 million, provided that any payment of LIL to MPTDC shall not exceed US\$4.4 million. Such MNTC shares held by LIL were previously purchased from MPTDC.

On November 12, 2009, LIL sold the shares to a third party and thereby paid the amount of US\$4.4 million (₱203.9 million) to MPTDC which the latter recognized as additional gain from the previous sale of MNTC shares to LIL and was included as part of the “Other income” account in the 2009 consolidated statement of income. In view of this, the Company recognized the scrip dividends declared in 2008 payable to all stockholders of record as at October 30, 2008 giving the stockholders the right to receive a proportionate share in the amounts that maybe received by

MPTC, through MPTDC, from LIL pursuant to the ARSA. The scrip dividends declared by MPTC amounted to US\$3.9 million (₱181.5 million), net of capital gains tax. As at December 31, 2013 and 2012, unpaid scrip dividends amounted to ₱0.3 million and is included under the “Dividends payable” account.

Retained Earnings Not Available for Dividend Distribution

The Company’s retained earnings includes undistributed earnings of subsidiaries and an associate amounting to ₱1,572.1 million and ₱1,631.7 million as at December 31, 2013 and 2012, respectively, which are not currently available for dividend distribution.



Other Comprehensive Income 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	Total	Attributable to Parent Company Owners	Non- controlling Interest
Balance at January 1, 2013	(P23,219,515)	P6,965,854	P39,716,000	(P11,914,800)	P27,528,406	(P7,965,886)	P31,110,059	P24,582,622	P6,527,437
Net movement in cash flow hedge (see Note 34)	10,508,616	(3,152,584)	-	-	-	-	7,356,032	4,935,897	2,420,135
Change in fair value of AFS financial assets (see Note 16)	-	-	(19,537,962)	2,999,700	-	-	(16,538,262)	(11,097,174)	(5,441,088)
Remeasurement loss (see Note 26)	-	-	-	-	(10,385,333)	1,059,900	(9,325,433)	(8,491,798)	(833,635)
Balance at December 31, 2013	(P12,710,899)	P3,813,270	P20,178,038	(P8,915,100)	P17,143,073	(P6,905,986)	P12,602,396	P9,929,547	P2,672,849
Balance at January 1, 2012	(P33,728,171)	P10,118,451	27,121,750	(P8,136,525)	(P4,522,974)	P1,356,893	(P7,790,576)	(P1,840,342)	(P5,950,234)
Net movement in cash flow hedge (see Note 34)	10,508,656	(3,152,597)	-	-	-	-	7,356,059	4,935,916	2,420,143
Change in fair value of AFS financial assets (see Note 16)	-	-	12,594,250	(3,778,275)	-	-	8,815,975	5,915,519	2,900,456
Remeasurement gain (see Note 26)	-	-	-	-	32,051,380	(9,322,779)	22,728,601	15,571,529	7,157,072
Balance at December 31, 2012	(P23,219,515)	P6,965,854	P39,716,000	(P11,914,800)	P27,528,406	(P7,965,886)	P31,110,059	P24,582,622	P6,527,437
Balance at January 1, 2011	(P3,475,927)	P1,042,778	P23,493,000	(P7,047,900)	P-	P-	P14,011,951	P9,402,019	P4,609,932
Net movement in cash flow hedge (see Note 34)	(30,252,244)	9,075,673	-	-	-	-	(21,176,571)	(14,209,479)	(6,967,092)
Change in fair value of AFS financial assets (see Note 16)	-	-	3,628,750	(1,088,625)	-	-	2,540,125	1,704,425	835,700
Remeasurement loss (see Note 26)	-	-	-	-	(4,522,974)	1,356,893	(3,166,081)	1,262,693	(4,428,774)
Balance at December 31, 2011	(P33,728,171)	P10,118,451	P27,121,750	(P8,136,525)	(P4,522,974)	P1,356,893	(P7,790,576)	(P1,840,342)	(P5,950,234)

Other Reserves

As at December 31, 2013, 2012 and 2011, other reserves of the Company consists of:

	2013	2012	2011
Long-term incentive plan reserves (see Note 26)	P23,100,000	P23,100,000	P15,139,742
Executive stock option plan reserves (see Note 25)	12,991,510	12,005,334	8,934,756
Transaction costs on issuance of preferred shares	(33,858,000)	-	-
	P2,233,510	P35,105,334	P24,074,498

Track Record of Registration of Securities

The following summarizes the information on the Parent Company's registration of securities under the Securities Regulation Code:

Date of SEC Approval	Date of Issuance (Repurchase)	Activity	Authorized Capital Stock (ACS)	Number of Shares Issued and Outstanding	Issue/ Offer Price
Common Shares:					
February 24, 1970		Incorporation	335,000,000	15,000,000	P1.00
September 17, 2007		Increase in ACS	5,065,000,000	-	1.00
	December 2007	Issuance on existing subscription	-	79,504,310	1.00
	January 26, 2008	Issuance on existing subscription	-	4,970,570,627	1.00
	October 16, 2008	Repurchase of previously issued common shares	-	(87,020,160)	2.22
September 24, 2013		Reverse stock split	(5,346,000,000)	(4,928,274,230)	100.00
			54,000,000	49,780,547	

(Forward)



Date of SEC Approval	Date of Issuance (Repurchase)	Activity	Authorized Capital Stock (ACS)	Number of Shares Issued and Outstanding	Issue/ Offer Price
Preferred Shares:					
November 8, 2013		Increase in ACS	70,000,000	–	₱100.00
	November 8, 2013	Issuance in relation to conversion of deposits for shares subscription	–	67,717,600	100.00
			70,000,000	67,717,600	
			124,000,000	117,498,147	

- a. On May 11, 2007, the then Parent Company's stockholders approved the increase in the authorized capital stock from ₱335.0 million divided into 335,000,000 shares with a par value of ₱1.00 per share to ₱5,400.0 million divided into 5,400,000,000 shares with the same par value. On September 17, 2007, the SEC approved the increase in MPTC's (then FPII's) authorized capital stock, thereby, approving FPHC's subscription to 2,534,991,020 shares and BHC's subscription to 2,435,579,607. The shares were treated as subscription, pending issuance of Certificate Authorizing Registration (CAR) by the BIR on such date. The CAR was subsequently issued on January 26, 2008. Accordingly, the 4,970,570,627 shares were issued to FPHC and BHC.
- b. In December 2007, 79,504,310 shares out of 80,000,000 subscribed shares have been fully paid.
- c. On October 16, 2008, the then Parent Company's BOD authorized the repurchase of 87,020,160 shares from Lopez, Inc. at the price of ₱2.22 per share or a total amount of ₱193.6 million. Consequently, a Deed of Absolute Sale was executed and an application for a special block sale was filed with the PSE on October 20, 2008. On October 22, 2008, the PSE approved the block sale.
- d. The total number of shareholders of the Parent Company is 103 and 256 as at December 31, 2013 and 2012, respectively.

23. Cost of Services

This account consists of:

	2013	2012	2011
Toll operation and maintenance costs	₱2,548,644,410	₱2,169,706,413	₱2,261,491,237
Amortization of service concession assets (see Note 13)	756,639,560	597,358,217	592,987,123
Cost of inventories	3,370	7,673	18,633
	₱3,305,287,340	₱2,767,072,303	₱2,854,496,993



Toll operation and maintenance costs consist of:

	2013	2012	2011
Operator's fee (see Note 21)	₱1,668,123,200	₱1,492,527,064	₱1,566,118,059
PNCC fee (see Note 21)	418,087,772	399,859,153	385,244,775
Provision for heavy maintenance (see Note 19)	167,481,570	107,142,857	109,116,393
Repairs and maintenance (see Note 21)	116,651,115	105,502,279	127,680,969
Insurance	50,705,705	42,971,970	48,957,913
Outside services (see Note 21)	44,393,941	-	-
Communication, light and water	23,289,757	-	-
Toll collection and medical services	17,988,000	20,223,090	21,297,634
Others	41,923,350	1,480,000	3,075,494
	₱2,548,644,410	₱2,169,706,413	₱2,261,491,237

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

24. General and Administrative Expenses

This account consists of:

	2013	2012 (As restated - see Note 3)	2011 (As restated - see Note 3)
Salaries and employee benefits (see Notes 21, 25 and 26)	₱376,486,746	₱376,863,892	₱387,836,269
Professional fees	100,149,102	59,642,522	73,648,571
Taxes and licenses	77,735,387	53,452,501	71,798,121
Advertising and marketing expenses	59,884,256	77,632,941	67,974,605
Depreciation of property and equipment (see Note 14)	37,682,638	27,768,690	28,308,266
Representation and travel	34,683,485	24,257,829	31,316,240
Provisions (see Note 19)	13,256,981	108,313,713	38,799,286
Repairs and maintenance	10,841,167	5,625,073	9,487,122
Communication, light and water	9,869,675	8,680,633	10,549,215
Outside services (see Note 21)	8,526,624	44,885,534	50,628,014
Amortization of other intangible assets (see Note 15)	8,108,060	7,547,442	6,902,591
Provisions for doubtful accounts (see Note 10)	5,544,087	-	-
Office supplies	5,077,996	4,146,309	3,748,465
Directors' fees (see Note 21)	4,940,616	1,649,589	2,565,242
Training and development costs	4,849,140	5,374,619	4,370,998
Rentals (see Note 21)	2,404,248	1,919,842	2,397,583
Donations and contributions	1,692,225	4,867,606	722,667
Provision for potential losses on claim for refund	-	11,060,341	8,640,240
Collection charges	-	127,758	5,445,734
Miscellaneous	24,936,251	7,184,628	5,779,290
	₱786,668,684	₱831,001,462	₱810,918,519



25. Share-based Payment

On June 24, 2007, the stockholders of MPIC approved a share option scheme (the Plan) under which MPIC's directors may, at their discretion, invite executives of MPIC upon the regularization of employment of eligible executives, to take up share option of MPIC to obtain an ownership interest in MPIC and for the purpose of long-term employment motivation. The scheme became effective on June 14, 2007 and is valid for ten (10) years. An amended plan was approved by the stockholders of MPIC on February 20, 2009.

As amended, the overall limit on the number of shares which may be issued upon exercise of all options to be granted and yet to be exercised under the Plan must not exceed 5% of the shares in issue from time to time. The maximum number of shares in respect of which options may be granted under the Plan shall not exceed 5% of the issued shares of MPIC on June 14, 2007 or the date when an event of any change in the corporate structure or capitalization affecting 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 will vest as follows: 30% on July 2, 2011; 35% on July 2, 2012; and 35% on July 2, 2013.

A summary of the Company's stock option activity received from MPIC and related information for the years ended December 31, 2013, 2012 and 2011 follows:

	2013		2012		2011	
	Number of shares	Exercise price	Number of shares	Exercise price	Number of shares	Exercise price
Outstanding at January 1	8,130,000	₱2.73	11,000,000	₱2.73	12,200,000	₱2.73
Exercised during the year	6,755,000	2.73	2,870,000	2.73	1,200,000	2.73
Outstanding at December 31	1,375,000	₱2.73	8,130,000	₱2.73	11,000,000	₱2.73
Exercisable at December 31	1,375,000	₱2.73	3,860,000	₱2.73	2,460,000	₱2.73

The weighted average remaining contractual life for the share options outstanding as at December 31, 2013 and 2012 is 1.5 years and 2.5 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 2010:

	30% vesting on July 2, 2011	35% vesting on July 2, 2012	35% 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.

Stock options expense, recognized by the Company in “Salaries and employee benefits” account, under “General and administrative expenses” in the consolidated statement of income, amounted to ₱1.0 million in 2013, ₱3.1 million in 2012 and ₱7.0 million in 2011 (see Notes 21 and 24).

Carrying value of the ESOP, recognized under “Other reserves” in the consolidated statement of changes in equity, amounted to ₱13.0 million, ₱12.0 million and ₱8.9 million as at December 31, 2013, 2012 and 2011, respectively (see Note 22).

26. Employee Benefits

LTIP

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

On April 27, 2012, the Parent Company’s BOD approved the implementation of LTIP of the Company which became effective on January 1, 2012. 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 2012 to 2014 LTIP was intended to be made at the end of the 2012 to 2014 Performance Cycle (without interim payments) and contingent on the achievement of the Company’s cumulative consolidated core income target for the 2012 to 2014 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 liabilities of the 2010 to 2012 LTIP and 2012 to 2014 LTIP were determined using the projected unit credit method. 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 2013, 2012 and 2011 included in "Salaries and employee benefits" account under "General and administrative expenses" in the consolidated statement of income amounted to ₱44.6 million, ₱78.6 million and ₱75.7 million, respectively (see Notes 21 and 24).

Carrying value of the 2010 to 2012 LTIP cost recognized under "Other reserves" in the consolidated statement of changes in equity amounted to ₱23.1 million as at December 31, 2013 and 2012 and ₱15.1 million as at December 31, 2011, representing MPIC's share in the LTIP cost of the Company as per 2010 to 2012 LTIP. The balance of ₱92.4 million was presented as LTIP payable in the current liability section of the consolidated balance sheet as at December 31, 2012. The liability for the 2010-2012 LTIP was paid in 2013.

The carrying value of the 2012 to 2014 LTIP amounting to ₱112.8 million and ₱38.8 million was presented as LTIP payable in the noncurrent liability section of the consolidated balance sheet as at December 31, 2013 and 2012, 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. 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, 2013 and 2012, 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 has a funded noncontributory defined benefit retirement plan and CIC has an unfunded noncontributory defined benefit retirement plan 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 which is normally obtained every two years.

The funds of MNTC are administered by a trustee bank. Subject to the specific instructions provided by MNTC in writing, MNTC directs the trustee bank 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 statement of income and "Pension asset" or "Accrued retirement costs" account in the consolidated balance sheet, which are based on the latest actuarial valuation.

Changes in accrued retirement costs (pension asset) of the Company in 2013 are as follows:

	Present Value of Defined Benefit Obligation	Fair Value of Plan Assets	Accrued Retirement Costs (Pension Asset)
At January 1, 2013	₱137,693,640	₱154,579,429	(₱16,885,789)
Acquisition of a subsidiary (see Note 6)	558,648	-	558,648
Net benefit cost in statement of income:			
Current service cost	22,337,057	-	22,337,057
Net interest	6,735,122	7,467,117	(731,995)
Past service costs	76,321	-	76,321
	167,400,788	162,046,546	5,354,242
Benefits paid	(15,088,771)	(15,088,771)	-
Remeasurements in OCI:			
Return on plan assets (excluding amount included in net interest)	-	911,469	(911,469)
Actuarial changes due to changes in demographic assumptions	(165,329)	-	(165,329)
Actuarial changes arising from changes in financial assumptions	6,679,280	-	6,679,280
Actuarial changes due to experience adjustment	(2,069,480)	-	(2,069,480)
	4,444,471	911,469	3,533,002
Contributions	-	9,543,947	(9,543,947)
At December 31, 2013	₱156,756,488	₱157,413,191	(₱656,703)
Pension asset			(₱1,837,846)
Accrued retirement costs			1,181,143
			(₱656,703)



Changes in accrued retirement costs (pension asset) of the Company in 2012 are as follows:

	Present Value of Defined Benefit Obligation	Fair Value of Plan Assets	Accrued Retirement Costs (Pension Asset)
At January 1, 2012	₱139,208,229	₱91,275,015	₱47,933,214
Net benefit cost in statement of income:			
Current service cost	23,515,444	–	23,515,444
Net interest	7,824,980	5,169,480	2,655,500
	170,548,653	96,444,495	74,104,158
Benefits paid	(14,741,123)	(14,741,123)	–
Remeasurements in OCI:			
Return on plan assets (excluding amount included in net interest)	–	12,962,040	(12,962,040)
Actuarial changes arising from changes in financial assumptions	(32,679,896)	–	(32,679,896)
Actuarial changes due to experience adjustment	14,566,006	–	14,566,006
	(18,113,890)	12,962,040	(31,075,930)
Contributions	–	59,914,017	(59,914,017)
At December 31, 2012	137,693,640	154,579,429	(16,885,789)
Pension asset			(16,887,028)
Accrued retirement costs			1,239
			(₱16,885,789)

Changes in accrued retirement costs (pension asset) of the Company in 2011 are as follows:

	Present Value of Defined Benefit Obligation	Fair Value of Plan Assets	Accrued Retirement Costs (Pension Asset)
At January 1, 2011	₱81,727,024	₱47,253,657	₱34,473,367
Net benefit cost in statement of income:			
Current service cost	21,985,015	–	21,985,015
Net interest	6,577,244	3,827,546	2,749,698
Past service cost	26,041,607	–	26,041,607
	136,330,890	51,081,203	85,249,687
Benefits paid	(3,271,234)	(3,271,234)	–
Remeasurements in OCI:			
Return on plan assets (excluding amount included in net interest)	–	1,625,599	(1,625,599)
Actuarial changes arising from changes in financial assumptions	16,094,171	–	16,094,171
Actuarial changes due to experience adjustment	(9,945,598)	–	(9,945,598)
	6,148,573	1,625,599	4,522,974
Contributions	–	41,839,447	(41,839,447)
At December 31, 2011	₱139,208,229	₱91,275,015	(₱47,933,214)



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 ₱8.4 million in 2013, ₱18.1 million in 2012 and ₱5.5 million in 2011.

The Company does not expect to contribute to its defined benefit retirement plan in 2014. The Company expects to contribute ₱7.5 million to its defined contribution retirement plan in 2014.

The major categories of plan assets as a percentage of the fair value of total plan assets follow:

	2013	2012	2011
Investments in:			
Government securities	60.62%	65.23%	74.99%
Debt securities	18.75%	12.11%	5.48%
Equity securities	1.01%	4.02%	6.90%
UITF	8.12%	6.55%	2.98%
Cash and cash equivalents	1.64%	4.07%	4.01%
Loans/notes receivable	8.91%	7.30%	5.04%
Receivables and others	0.95%	0.72%	0.60%
	100.00%	100.00%	100.00%

The following table presents the carrying amounts and fair values of the plan assets of the Company:

	2013	2012	2011
Investments in:			
Government securities	₱95,418,553	₱100,833,180	₱68,446,084
Debt securities	28,628,225	18,720,266	5,000,000
Equity instruments	1,596,923	6,210,000	6,300,039
UITF	12,782,012	10,119,048	2,723,588
Loans/notes receivable	3,468,465	6,289,956	3,656,197
Cash and cash equivalents	14,023,143	11,285,492	4,603,721
Receivables and others	1,495,870	1,121,487	545,386
	₱157,413,191	₱154,579,429	₱91,275,015

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, 2013 and 2012, 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 3.58% to 9.42% and have maturities from 2013 to 2037.
- Investments in debt instruments 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 2023.
- Cash and cash equivalents include regular savings and time deposits, which bear interest ranging from 1.25% to 4.10% per annum.



- Loans and notes receivables consist of unsecured FXCNs of PLDT, a related party, amounting to ₱2.4 million; unquoted and unsecured term loans of SMART, a related party, amounting to ₱1.1 million and unsecured subordinated note of an unaffiliated company amounting to ₱2.6 million as at December 31, 2012. The PLDT FXCNs, SMART terms loans and the subordinated note bear interest of 6.57%, 6.26% and 6.73% per annum, respectively. The PLDT FXCNs and subordinate note are due in 2016 while the SMART term loans are due in 2022. The PLDT FXCNs were disposed of in 2013. Thus, as at December 31, 2013, loan and receivables consist of the SMART term loans and unsecured subordinated note of an unaffiliated company amounting to ₱0.9 million and ₱2.6 million, respectively. Interest income on these loans and notes receivable amounted to ₱0.2 million in 2013 and 2012.
- Investment in equity securities as at December 31, 2013 include perpetual non-voting Series F preferred shares of First Gen Corporation amounting ₱1.6 million. Gain on changes in fair value of the investment amounted to ₱0.1 million for the year ended December 31, 2013. Investments in equity securities as at December 31, 2012 include investment in perpetual non-voting preferred shares of FPHC amounting to ₱6.2 million. Dividend income from the preferred shares of FPHC amounted to ₱0.5 million for the year ended December 31, 2012. The carrying amounts of investments in equity securities also approximate their fair values since they are marked-to-market. These investments were disposed of in 2013.
- 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, 2013, 2012 and 2011 are as follows:

	December 31, 2013	December 31, 2012	January 1, 2012
Discount rate	3.78% - 5.68%	4.58% - 6.08%	4.75% - 6.77%
Salary increase rate	7.00%	7.00%	7.00% - 12.00%

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

		Amount
Discount rate	(Actual + 1.00%)	₱106,747,302
	(Actual - 1.00%)	123,504,420
Salary increase rate	(Actual + 1.00%)	123,217,139
	(Actual - 1.00%)	106,941,846

The management performed an Asset-Liability Matching Study (ALM) 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 98.22% of debt instruments and 0.90% cash.

The average duration of the defined benefit obligation at the end of the reporting period is 14.5 years.



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

	December 31, 2013	December 31, 2012
Less than 1 year	₱51,707,273	₱31,341,059
More than 1 year to 5 years	31,360,624	33,427,947
More than 5 years to 10 years	82,849,106	34,336,008
More than 10 years to 15 years	77,345,842	86,972,757
More than 15 years to 20 years	173,893,337	99,893,539
More than 20 years	317,476,336	158,421,091

27. Interest Income

Sources of interest income follow:

	2013	2012	2011
Cash and cash equivalents (see Note 9)	₱62,146,363	₱89,386,797	₱115,148,599
AFS financial assets (see Note 16)	38,587,263	34,944,625	34,658,167
Indemnification asset (see Notes 6 and 17)	19,636,360	-	-
Receivable on financial guarantee* (see Note 21)	10,813,208	10,873,145	10,891,887
Others	366,431	518,706	563,034
	₱131,549,625	₱135,723,273	₱161,261,687

*Recorded in "Due from related parties" account under noncurrent assets.

28. Interest Expense and Other Finance Costs

Details of interest expense and other finance costs follow:

	2013	2012	2011
Interest expense on:			
Bank loans (see Notes 20 and 34)	₱997,615,506	₱659,466,103	₱794,415,849
Contingent liability (see Note 6 and 19)	42,077,916	-	-
Financial guarantee obligation (see Note 21)	10,813,208	10,873,145	10,891,887
Provision for heavy maintenance (see Note 19)	8,094,216	-	-
Other finance costs:			
Amortization of debt issue costs (see Note 20)	23,333,449	22,453,191	134,890,348
Bank charges	2,490,456	1,198,719	1,178,363
Lenders' fees	1,789,103	956,694	5,602,677
Loan prepayment fees (see Note 20)	-	-	329,943,301
	₱1,086,213,854	₱694,947,852	₱1,276,922,425



29. Other Income and Other Expenses

Details of other income follow:

	2013	2012	2011
Income from advertising (see Note 21)	₱64,226,382	₱45,002,103	₱32,697,931
Management fees (see Note 21)	55,614,902	59,540,687	84,700,231
Guarantee fees (see Note 21)	24,115,358	23,445,579	23,152,451
Income from toll service facilities	21,126,460	17,277,992	20,220,627
Gain on sale of AFS financial assets (see Note 16)	11,780,746	–	–
Reversal of allowance for doubtful accounts (see Note 10)	5,259,500	–	–
Income from utility facilities (see Note 21)	2,074,249	1,926,304	1,814,636
Mark-to-market gain on derivatives (see Note 34)	–	3,222,025	–
Reversal of allowance for potential losses on input value-added tax (see Note 5)	–	–	288,052,966
Gain on bargain purchase	–	–	30,951,517
Refunds from lenders	–	–	24,183,224
Reversal of accrued expenses	–	–	11,000,000
Others	15,575,968	9,221,930	7,916,625
	₱199,773,565	₱159,636,620	₱524,690,208

Gain on bargain purchase resulted from the acquisition of MSIHI in 2011.

Details of other expenses follow:

	2013	2012	2011
Mark-to-market loss on derivatives (see Note 34)	₱–	₱44,844,434	₱94,636,391
Loss on sale of property and equipment (see Note 14)	–	176,481	–
	₱–	₱45,020,915	₱94,636,391

30. Income Taxes

The provision for current income tax consists of:

	2013	2012	2011
Regular corporate income tax (RCIT)	₱724,348,235	₱781,694,037	₱526,617,703
Final tax on interest income	20,410,072	24,843,932	29,885,117
MCIT	14,612,410	3,169,252	1,119,255
	₱759,370,717	₱809,707,221	₱557,622,075



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

	2013	2012 (As restated - see Note 3)
Deferred Tax Liabilities		
Difference in amortization of service concession assets	₱621,249,768	₱491,496,942
Excess of fair values over book values	215,869,270	-
Capitalized debt issue costs	77,772,379	-
Fair value changes on AFS financial assets	26,389,452	29,389,152
Unamortized realized foreign exchange losses capitalized	21,374,072	22,264,658
Pension asset	551,353	5,112,695
	963,206,294	548,263,447
Deferred Tax Assets		
NOLCO	201,089,026	-
Provision for heavy maintenance	123,607,894	90,728,555
Provisions and accruals	25,505,200	35,228,832
Allowance for impairment losses	16,607,150	-
MCIT	19,687,867	-
Long-term incentive plan payable	19,448,520	9,724,260
Unrealized foreign exchange losses	14,045,075	-
Unamortized past service cost	10,913,971	12,522,956
Fair value changes on derivatives deferred in equity	3,813,270	6,965,854
Unearned toll revenues	2,032,250	-
Accrued retirement costs	307,365	-
	437,057,588	155,170,457
Deferred tax liabilities - net	₱526,148,706	₱393,092,990

For tax purposes, MNTC used the units of production method of amortization for Phase I and Segment 8.1 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 and MSIHI 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:

	2013	2012
NOLCO	₱247,890,273	₱85,960,557
Accrued expenses	53,504,054	108,756,927
MCIT	7,601,321	4,971,608
Unrealized foreign exchange loss	8,769	134,723
	₱309,004,417	₱199,823,815



As at December 31, 2013, MPTC, MPTDC, CIC and MSIHI 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
2011	December 31, 2014	₱1,119,255	₱158,438,954
2012	December 31, 2015	11,557,523	597,618,692
2013	December 31, 2016	14,612,410	162,129,382
		₱27,289,188	₱918,187,028

The movements in NOLCO are as follows:

	2013	2012
Balance at beginning of year	₱85,960,557	₱48,245,408
Acquisition of a subsidiary	675,139,083	–
Additions	162,129,382	76,817,694
Applications	–	(38,884,247)
Expirations	(5,041,994)	(218,298)
Balance at end of year	₱918,187,028	₱85,960,557

The movements in MCIT are as follows:

	2013	2012
Balance at beginning of year	₱4,971,608	₱2,479,952
Acquisition of a subsidiary	13,715,902	–
Additions	14,612,410	3,169,252
Expirations	(6,010,732)	(677,596)
Balance at end of year	₱27,289,188	₱4,971,608

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:

	2013	2012 (As restated - see Note 3)	2011 (As restated - see Note 3)
Income before income tax	₱3,514,873,465	₱2,970,724,865	₱2,354,078,664
Income tax computed at statutory tax rate of 30%	₱1,054,462,040	₱891,217,460	₱706,223,600
Add (deduct) tax effects of:			
Effect of optional standard deduction	(126,299,653)	–	–
Equity in net earnings of an associate	(74,067,873)	(68,388,821)	(75,259,919)
Interest income subjected to final tax	(30,330,017)	(37,299,427)	(44,947,518)
Nondeductible expenses and others	66,250,597	16,738,472	32,407,640
Provision for potential losses on claim for refund	–	3,318,102	–
Write-off of deferred tax assets	–	4,169,922	–

(Forward)



	2013	2012 (As restated - see Note 3)	2011 (As restated - see Note 3)
Reversal of allowance for potential losses on input VAT (see Note 5)	₱-	₱-	(₱86,415,890)
Nontaxable gain arising from business combination (see Note 29)	-	-	(9,285,455)
Amortization (reversal) of capitalized input VAT	-	-	(6,505,391)
Reversal of accrued expenses	-	-	(3,300,000)
Final tax on interest income	20,410,072	24,843,932	29,885,117
Change in unrecognized deferred tax assets	(193,947,339)	16,616,385	25,657,048
MCIT	14,612,410	3,169,252	1,119,255
	₱731,090,237	₱854,385,277	₱569,578,487

On December 18, 2008, the BIR issued RR No. 16-2008, which implemented the provisions of RA No. 9504 on Optional Standard Deduction (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 year 2013 while this was not availed for taxable years 2012 and 2011.

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

	2013	2012 (As restated - see Note 3)	2011 (As restated - see Note 3)
Balance at beginning of year	₱393,092,990	₱332,161,283	₱312,074,460
Acquisition of a subsidiary (see Note 6)	162,574,328	-	-
Provision for (benefit from) income tax during the year recognized in the consolidated statement of income	(28,280,480)	44,678,056	11,956,412
Income tax effect during the year recognized in the consolidated statement of comprehensive income	(1,238,132)	16,253,651	8,130,411
Balance at end of year	₱526,148,706	₱393,092,990	₱332,161,283



31. Basic/Diluted Earnings Per Share (EPS)

The basic/diluted EPS amount was computed as follows:

	2013	2012 (As restated - see Note 3)	2011 (As restated - see Note 3)
Net income attributable to equity holders of the Parent	₱2,001,246,327	₱1,471,117,499	₱1,262,450,303
Divide by weighted average shares outstanding	49,785,505	4,978,550,467	4,978,550,467
Basic/Diluted EPS	₱40.20	₱0.30	₱0.25

The Company does not have dilutive common stock equivalents, thus, the basic and dilutive EPS are the same.

As discussed in Note 22, the SEC approved the Company's Reverse Stock Split in September 2013, thus, the decrease in the weighted average shares outstanding in 2013.

32. Significant Contracts and Commitments

SCTEEx Agreements

In 2010, MNTC participated in a public bidding conducted by the BCDA under the latter's Terms of Reference (TOR) for the Privatization of the SCTEEx with the right to manage, operate and maintain the SCTEEx on an "as is, where is" basis for a period until October 30, 2043. On June 9, 2010, BCDA formally awarded MNTC the right to enter into a concession agreement with BCDA for the management, operation and maintenance of SCTEEx.

On July 20, 2011, MNTC and BCDA signed a Business and Operating Agreement (BOA) under which BCDA granted MNTC all its usufructuary rights, interests and obligations under its Toll Operating Agreement with the TRB relating to the management, operation and maintenance of the 94-km SCTEEx, including the exclusive right to possess and use the SCTEEx toll road and facilities and the right to collect toll. The BOA requires the satisfaction of certain conditions precedent including the necessary Philippine Government approvals such as the approval of the President of the ROP and the execution of a STOA by and among MNTC, BCDA and ROP, through the TRB. The term of the BOA shall be from the Effective Date until October 30, 2043. At the end of the contract term or upon termination of the BOA, the SCTEEx 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, in relation to SCTEEx.

The BOA and the STOA were favorably endorsed for Presidential approval via a joint letter of BCDA and TRB dated October 5, 2011 which contained the following statement: *"The privatization of the SCTEEx, as embodied in the BOA and STOA, is very well in harmony with the administration's Public-Private-Partnership (PPP) Program. We thus respectfully seek your favorable action on this request for approval of the BOA and the STOA"*.



Meantime, MNTC and BCDA agreed to extend the deadline provided under the BOA for compliance by the parties with all conditions precedent (Long-stop Date) until December 31, 2013. On December 20, 2013, MNTC proposed to further extend the Long-Stop Date to June 30, 2014 and this was approved by the BCDA Board on January 16, 2014.

As at February 20, 2014, BCDA is still in the process of obtaining the necessary Philippine Government approvals. Accordingly, the SCTEx had not been assigned and turned over to MNTC.

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. The Connector Road Project is approximately 13 kilometer elevated toll road which will connect the NLEX to the SLEX, and will traverse the Central Business District of Metro Manila primarily utilizing the existing Philippine National Railways right-of-way.

In September 2013, MPTDC was requested by the Philippine government 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 National Economic and Development Authority 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 Build-Operate-Transfer (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 NLEX-SLEX Connector Road Project as an extension of Segment 10 of the NLEX under the existing STOA from C3 Road in Caloocan to PUP Sta. Mesa, Manila utilizing the same Philippine National Railways 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 Project, confirming the agreement to implement Segment 10.2 as an extension or linkage of Phase 2 Segment 10 of the NLEX Project pursuant to P.D. 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 operation and maintenance 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. As at February 20, 2014, MNTC is still in the process of obtaining the necessary Philippine Government approvals.

Construction of Segment 9 of Phase II of MNEP

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 MNEP), 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 are expected to be completed by June 2014.

Unapplied mobilization advances to EEI Corporation, included as part of “Advances to contractors and consultants” in the consolidated balance sheet, amounted to ₱140.0 million as at December 31, 2013.

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 (50%) 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, 2013. As at February 20, 2014, the construction of the feeder roads has not yet started.

33. Financial Risk Management Objectives and Policies and Capital Management

The Company’s principal financial instruments comprise long-term debt, proceeds of which were used to finance the construction of the projects. The Company has various other financial instruments such as cash and cash equivalents, receivables from trade debtors and payables to trade creditors, which arise directly from its operations. The Company also has notes receivable and 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 and foreign currency risk. The Company is also exposed to credit risk and liquidity risk. The BOD reviews and approves policies of managing each of these risks and they are summarized below.



Interest Rate Risk

Interest rate risk is the risk that the fair value or future 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, cross currency 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, 2013						
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	0.05%-4.60%	₱3,207,618	₱-	₱-	₱-	₱3,207,618
AFS financial assets	2.13%-6.00%	-	350,000	393,634	762,524	1,506,158
		₱3,207,618	₱350,000	₱393,634	₱762,524	₱4,713,776
Fixed-rate loans:						
Series A-5	6.54%	₱10,000	₱970,000	₱-	₱-	₱980,000
Series A-7	7.27%	42,102	84,205	3,999,719	-	4,126,026
Series A-10	7.70%	10,000	20,000	20,000	930,000	980,000
Term-loan facilities	5.13% - 7.50%	-	-	-	3,000,000	3,000,000
Series 2010-1 Notes	12.00%	33,042	114,314	150,026	351,187	648,569
RCBC/BDO Loan	6.50%	152,500	305,000	457,500	5,185,000	6,100,000
		247,644	1,493,519	4,627,245	9,466,187	15,834,595
Floating-rate loan - PNB Loan						
	PDST-F + 0.50% Margin	892,500	892,500	-	-	1,785,000
		₱1,140,144	₱2,386,019	₱4,627,245	₱9,466,187	₱17,619,595

December 31, 2012						
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	0.05% - 3.88%	₱3,262,191	₱-	₱-	₱-	₱3,262,191
AFS financial assets	5.88% - 9.00%	50,600	300,000	200,000	50,000	600,600
		₱3,312,791	₱300,000	₱200,000	₱50,000	₱3,862,791
Fixed-rate loans:						
Series A-5	6.54%	₱10,000	₱20,000	₱960,000	₱-	₱990,000
Series A-7	7.27%	42,102	84,205	84,205	3,957,617	4,168,129
Series A-10	7.70%	10,000	20,000	20,000	940,000	990,000
Term-loan facilities	7.10%	-	-	-	1,000,000	1,000,000
		62,102	124,205	1,064,205	5,897,617	7,148,129
Floating-rate loan:						
PNB Loan	PDST-F + 0.50% Margin	105,000	1,785,000	-	-	1,890,000
		₱167,102	₱1,909,205	₱1,064,205	₱5,897,617	₱9,038,129



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 the RCBC/BDO Loan which will be repriced after 5 years from December 26, 2013. 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
2013	+50	(P8,925,000)
	-50	8,925,000
2012	+50	(9,450,000)
	-50	9,450,000

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. As at December 31, 2012, the Company is not significantly exposed to foreign currency risk as MNTC fully paid its U.S. dollar denominated loans prior to 2012. The minimal exposure to foreign currency risk relates to the Company's foreign currency denominated cash and cash equivalents and trade payables as at December 31, 2012.

In 2013, the Company's exposure to foreign exchange currency risk relates mainly to CIC's dollar denominated Series 2010-1 Notes amounting to \$19.5 million (P854.4 million) as at December 31, 2013. The Company also has minimal foreign currency denominated cash and cash equivalents and trade payables as at December 31, 2013.

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 statement of income:

	Increase/Decrease in Basis Points	Effect on Income Before Income Tax
2013	+5%	(P42,719,187)
	+5%	42,719,187



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 MPIC and TMC. ESC, SMART, MPIC and TMC are considered as low-risk counterparties as these are well-established companies. Moreover, the Company has payment obligations to MPIC and TMC which far exceed the aggregate amount of receivables and dues from MPIC and 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 from 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 notes receivable from CHI in 2012 was converted into CHI preferred shares in June 2013 (see Note 11).

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:

	2013	2012
Cash and cash equivalents ^(a)	₱3,207,617,735	₱3,262,190,611
Receivables:		
Trade receivables	146,292,473	122,448,569
Interest receivables	4,271,256	6,546,919
Other receivables	81,969,642	30,207,384
Derivative assets	-	224,894,466
Notes receivable	-	6,577,566,742
AFS financial assets ^(b)	3,516,701,041	640,316,000
Due from related parties	172,460,337	408,218,483
Refundable deposits and other financial assets ^(c)	8,198,543	3,127,300
Total credit risk exposure	₱7,137,511,027	₱11,275,516,474

^(a) Excluding cash on hand.

^(b) Excluding equity investments in CMMTC and PGOACI.

^(c) Included under Other noncurrent assets.



The Company's cash and cash equivalents and AFS financial assets 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, 2013 and 2012, 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, 2013 and 2012, except for the impaired receivables from the motorists who caused accidental damage to the NLEX, included in "Other receivables", amounting to ₱5.5 million as at December 31, 2013.

	Neither Past Due nor Impaired	Past Due but not Impaired					Total	Total
		<31 Days	31-60 Days	61-90 Days	91-180 Days	181 days - 1 year		
2013	₱129,698,331	₱599,390	₱1,756,982	₱1,596,237	₱2,890,054	₱9,751,479	₱16,594,142	₱146,292,473
2012	112,496,697	1,614,018	801,466	703,951	1,044,962	5,787,475	9,951,872	122,448,569

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

December 31, 2013				
	Neither Past Due nor Impaired - High-grade	Past Due but not Impaired	Impaired	Total
Cash and cash equivalents ^(a)	₱3,207,617,735	₱-	₱-	₱3,207,617,735
Receivables:				
Trade receivables	129,698,331	16,594,142	-	146,292,473
Interest receivables	4,271,256	-	-	4,271,256
Other receivables	81,969,642	-	5,544,087	87,513,729
Due from related parties	172,460,337	-	-	172,460,337
AFS financial assets ^(b)	3,516,701,041	-	-	3,516,701,041
Refundable deposits ^(c)	8,198,543	-	-	8,198,543
	₱7,120,916,885	16,594,142	₱5,544,087	₱7,143,055,114

^(a) Excluding cash on hand.

^(b) Excluding equity investments in CMMTC and PGOACI.

^(c) Included under Other noncurrent assets.

December 31, 2012				
	Neither Past Due nor Impaired - High-grade	Past Due but not Impaired	Impaired	Total
Cash and cash equivalents ^(a)	₱3,262,190,611	₱-	₱-	₱3,262,190,611
Receivables:				
Trade receivables	112,496,697	9,951,872	5,259,500	127,708,069
Interest receivables	6,546,919	-	-	6,546,919
Other receivables	30,207,384	-	-	30,207,384
Due from related parties	408,218,483	-	-	408,218,483
Derivative assets	224,894,466	-	-	224,894,466
Notes receivable	6,577,566,742	-	-	6,577,566,742
AFS financial assets ^(b)	640,316,000	-	-	640,316,000
Refundable deposits and other financial assets ^(c)	3,127,300	-	-	3,127,300
	₱11,265,564,602	₱9,951,872	₱5,259,500	₱11,280,775,974

^(a) Excluding cash on hand.

^(b) Excluding equity investments in CMMTC and PGOACI.

^(c) Included under Other noncurrent assets.



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 ₱1,450.0 million as at December 31, 2013 and 2012 and cash and cash equivalents amounting to ₱3,298.2 million and ₱3,334.6 million as at December 31, 2013 and 2012, 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, 2013 and 2012 based on undiscounted payments:

December 31, 2013					
	Within the Year	2–3 Years	4–5 Years	More than 5 Years	Total
Financial Assets					
Cash and cash equivalents	₱3,298,219,235	₱–	₱–	₱–	₱3,298,219,235
Receivables ^(a)	238,077,458	–	–	–	238,077,458
Due from related parties	118,706,923	22,110,000	22,110,000	210,045,000	372,971,923
AFS financial assets ^(b)	2,056,806,938	481,435,841	463,532,168	1,187,472,147	4,189,247,094
	₱5,711,810,554	₱503,545,841	₱485,642,168	₱1,397,517,147	₱8,098,515,710
Financial Liabilities					
Accounts payable and other current liabilities ^(c)	₱1,588,535,669	₱–	₱–	₱–	₱1,588,535,669
Due to related parties	7,552,728	–	–	–	7,552,728
Dividends payable	411,785,737	–	–	–	411,785,737
Long-term debt ^(d)	2,206,270,949	4,508,040,834	6,428,420,975	12,019,641,826	25,162,374,584
Financial guarantee obligation	11,055,000	22,110,000	22,110,000	210,045,000	265,320,000
	₱4,225,200,083	₱4,530,150,834	₱6,450,530,975	₱12,229,686,826	₱27,435,568,718

^(a) Excluding advances to officers and employees.

^(b) Including interest to be received.

^(c) Excluding statutory liabilities.

^(d) Including interest to be paid.

December 31, 2012					
	Within the Year	2–3 Years	4–5 Years	More than 5 Years	Total
Financial Assets					
Cash and cash equivalents	₱3,334,619,906	₱–	₱–	₱–	₱3,334,619,906
Receivables ^(a)	164,462,372	–	–	–	164,462,372
Due from related parties	354,223,278	22,110,000	22,110,000	221,100,000	619,543,278
AFS financial assets ^(b)	89,598,443	381,653,819	223,501,910	443,577,255	1,138,331,427
	₱3,942,903,999	₱403,763,819	₱245,611,910	₱664,677,255	₱5,256,956,983

(Forward)



December 31, 2012

	Within the Year	2-3 Years	4-5 Years	More than 5 Years	Total
Financial Liabilities					
Accounts payable and other current liabilities ^(c)	₱1,776,447,083	₱-	₱-	₱-	₱1,776,447,083
Due to related parties	7,222,774	-	-	-	7,222,774
Dividends payable	277,108,310	-	-	-	277,108,310
Long-term debt ^(d)	719,492,169	2,978,267,354	1,974,156,967	6,718,632,350	12,390,548,840
Financial guarantee obligation	11,055,000	22,110,000	22,110,000	221,100,000	276,375,000
	₱2,791,325,336	₱3,000,377,354	₱1,996,266,967	₱6,939,732,350	₱14,727,702,007

^(a) Excluding advances to officers and employees.

^(b) Including interest to be received.

^(c) Excluding statutory liabilities.

^(d) 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 to maintain a Maintenance Debt Service Coverage Ratio (DSCR) of not less than 1.15 times and maintain a debt to equity ratio 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 agreements provide that MNTC may incur new loans or declare dividends as long as the Pro-forma DSCR for the relevant year is not less than 1.30 times.

MNTC also ensures that its debt to equity ratio is in line with the requirements of the Board of Investments (BOI). BOI requires the Company to comply with a 75:25 debt to equity ratio as proof of capital build-up. In 2011, the Company completed the implementation of its capital restructuring program through a series of transactions that also extended the maturity of its loan obligations amidst the low-interest rate environment. The Company also ended the year with an improved leverage ratio, boosting its debt capacity 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 MCTEP 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 2013. Other than the restriction in dividends and distribution of its share capital, CIC is not subject to other externally imposed capital requirements.

Under 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 debt to equity ratio of 3.0 times at all times until full payment of the long-term debt.



MPTC Group. The Company manages its capital structure and adjust 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, 2013 and 2012. 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 2013, the Company's strategy, which was unchanged from 2012, was to maintain a sustainable debt to equity ratio. The debt to equity ratio as at December 31, 2013 and 2012 are:

	2013	2012 (As restated - see Note 3)
Long-term debt	₱17,744,036,184	₱8,905,968,324
Total equity	15,892,924,768	8,439,908,187
Total capital	₱33,636,960,952	₱17,345,876,511
Debt to equity ratio	1.12	1.06

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

34. Financial Assets and Financial Liabilities

Fair Values

A comparison of carrying and fair values of all of the Company's financial instruments, other than those with carrying amounts that are reasonable approximations of fair values, by category as at December 31, 2013 and 2012 follows:

	2013		2012	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets				
FVPL -				
Derivative assets	₱-	₱-	₱224,894,466	₱224,894,466
Loans and receivables -				
Due from related parties - noncurrent portion	64,808,414	149,763,265	65,050,205	150,850,119
AFS financial assets:				
Investment in treasury bonds and notes	1,322,178,826	1,322,178,826	640,316,000	640,316,000
Investment in corporate bonds	199,402,000	199,402,000	-	-
UITF	1,995,120,215	1,995,120,215	-	-
	3,516,701,041	3,516,701,041	640,316,000	640,316,000
	₱3,581,509,455	₱3,666,464,306	₱930,260,671	₱1,016,060,585
Financial Liabilities				
Other financial liabilities:				
Long-term debt	₱17,744,036,184	₱18,626,338,708	₱8,905,968,324	₱9,817,379,206
Financial guarantee obligation	64,808,414	149,763,265	65,050,205	150,850,119
	₱17,808,844,598	₱18,776,101,973	₱8,971,018,529	₱9,968,229,325



The management assessed that cash and cash equivalents, receivables, due from related parties (current), notes receivable, 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:

Derivative Assets

As at December 31, 2012, the long equity call and short put options on the Convertible Note issued by CHI were valued using standard option pricing models (i.e., closed-form and binomial approach). The valuation techniques consider the probability of CHI and CIC's share price, which is valued based on discounted cash flows, to move up or down depending on the volatility, risk-free rate and exercise price.

AFS Financial Assets

The fair value of investment in treasury bonds and notes and corporate bonds classified as AFS financial assets is based on the quoted market price of the financial instruments as at December 31, 2013 and 2012. 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, 2013.

Due from Related Parties (Noncurrent) and Financial Guarantee Obligation

Estimated fair value is based on the discounted value of future cash flows using the prevailing peso interest rates that are specific to the tenor of the instruments' cash flows ranging from 1.0% to 6.0% in 2013 and 0.7% to 6.4% in 2012.

Long-term Debt

For both fixed rate and floating rate (repriced every six months) U.S. dollar-denominated debts and peso-denominated notes and loans, 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 2013 and 2012, the prevailing peso interest rates ranged from 1.1% to 10.9% and 1.2% to 6.1%, respectively.

Fair Value Hierarchy

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

	December 31, 2013	Level 1	Level 2	Level 3
Assets measured at fair value:				
AFS financial assets:				
Investment in treasury bonds and notes	₱1,322,178,826	₱1,322,178,826	₱-	₱-
Investment in corporate bonds	199,402,000	199,402,000	-	-
Investment in UITF	1,995,120,215	-	1,995,120,215	-
	3,516,701,041	1,521,580,826	1,995,120,215	-
Assets for which fair values are disclosed:				
Loans and receivables -				
Due from related parties - noncurrent portion	149,763,265	-	149,763,265	-



	December 31, 2013	Level 1	Level 2	Level 3
Liabilities for which fair values are disclosed:				
Other financial liabilities:				
Long-term debt	₱18,626,338,708	₱-	₱18,626,338,708	₱-
Financial guarantee obligation	149,763,265	-	149,763,265	-
	18,776,101,973	-	18,776,101,973	-
	December 31, 2012	Level 1	Level 2	Level 3
Assets measured at fair value:				
Financial assets at FVPL -				
Derivative assets at FVPL	₱224,894,466	₱-	₱-	₱224,894,466
AFS financial assets -				
Investment in treasury bonds	640,316,000	640,316,000	-	-
	865,210,466	640,316,000	-	224,894,466
Assets for which fair values are disclosed:				
Loans and receivables -				
Due from related parties - noncurrent portion	150,850,119	-	150,850,119	-
Liabilities for which fair values are disclosed:				
Other financial liabilities:				
Long-term debt	9,817,379,206	-	9,817,379,206	-
Financial guarantee obligation	150,850,119	-	150,850,119	-
	9,968,229,325	-	9,968,229,325	-

During the years ended December 31, 2013 and 2012, 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.

The financial instrument classified under Level 3 pertains to the derivative asset arising from the options embedded in the Convertible Note (host instrument) acquired by the Parent Company from CHI (see Note 11). The derivative asset was valued using standard option pricing models (i.e., closed-form and binomial approach). These valuation techniques require stock prices of CHI and CIC, and also stock price volatilities which are not directly available from the market, and for which non-market-observable proxies were used. These were used as inputs to the fair value calculation of the options which were assessed by the Company as having significant impact to its fair values.

The movements in the fair value of the derivative asset for the year ended December 31, 2013 and 2012 are summarized below:

	2013	2012
Initial value of the options	₱224,894,466	₱221,672,441
Consolidation adjustment (see Note 11)	(224,894,466)	-
Net change in fair value	-	3,222,025
Derivative asset at end of year	₱-	₱224,894,466

The fair value change in 2012 was recognized as “Mark-to-market gain” under “Other income” account in the 2012 consolidated statement of income.



The fair value of the call and put options are highly sensitive to stock price volatility as follows:

	Increase/Decrease in Volatility	Effect on Income Before Income Tax
2012	+10%	₱11,251,939
	-10%	(2,546,260)

Derivative Instruments

The fair value of the Company’s derivative financial instruments outstanding as at December 31, 2012 amounted to ₱224.9 million. There were no outstanding derivative transactions as at December 31, 2013.

Derivatives Accounted for as Non-hedge Transactions.

Options Arising from the Convertible Note

As discussed in Note 11, the Parent Company acquired the Convertible Note issued by CHI which the Parent Company classified as loans and receivables. The Convertible Note contains multiple embedded derivatives which compose of long equity call option and short put option which were accounted for as compound derivatives. Such compound derivatives were bifurcated by the Parent Company from the Convertible Note (host instrument) on the acquisition date. The long equity call option pertains to the right of the Parent Company to convert the Convertible Note to CHI preferred shares, exercisable on June 27, 2013 (maturity of the Convertible Note) at the conversion price of ₱100 per convertible note unit. The short put option pertains to the right of CHI (issuer) to prepay the Convertible Note prior to maturity date, at the conversion price of ₱100 per convertible note unit, through the issuance of the CHI preferred shares subject to the fulfillment of the conditions for conversion as provided in the Convertible Note Agreement. Subject to applicable regulatory approvals and the terms and conditions of the Convertible Note Agreement, the CHI preferred shares are, under certain circumstances, also convertible into CHI or CIC common shares. The positive fair value of the options at inception amounted to ₱221.7 million.

The Convertible Note was converted into CHI Preferred Shares on June 25, 2013. As this is part of the consideration transferred on the acquisition of CIC in January 2, 2013, the investment in CHI Preferred Shares, including the derivative asset arising from the option, was eliminated upon consolidation of CIC.

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, however, the effectiveness ratio was only 58.05% and the hedging relationship failed to meet the 80% to 125% 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. Fair value changes of the swap subsequent to March 31, 2011 is recognized in the “Mark-to-market loss” account included in “Other expenses” account in the consolidated statement of income. As at December 31, 2011, the outstanding notional amount of the interest rate swap amounted to ₱1,995.0 million with a negative fair value of ₱130.2 million. As at December 31, 2013 and 2012, the unamortized amount deferred in equity amounted to ₱12.7 million (gross of ₱3.8 million tax) after amortization of ₱10.5 million and ₱23.2 million (gross of ₱7.0 million tax) after amortization of ₱10.5 million, respectively. The negative fair value change of the swap from April 1, 2011 to December 31, 2011 amounted to ₱91.2 million while the negative fair value change in 2012 amounted to ₱44.8 million.

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 20, this swap was pre-terminated on December 28, 2012.

As at December 31, 2013 and 2012, 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 reserve” account for the years ended December 31, 2013, 2012 and 2011 follow:

	2013	2012	2011
Balance at beginning of year	(₱23,219,515)	(₱33,728,171)	(₱3,475,927)
Changes in fair value of cash flow hedges	–	–	(59,250,968)
	(23,219,515)	(33,728,171)	(62,726,895)
Transferred to consolidated statements of income:			
Interest expense*	10,508,616	10,508,656	25,522,797
Mark-to-market loss	–	–	3,475,927
	10,508,616	10,508,656	28,998,724
	(12,710,899)	(23,219,515)	(33,728,171)
Tax effects of items taken directly to equity	3,813,270	6,965,854	10,118,451
Balance at end of year	(₱8,897,629)	(₱16,253,661)	(₱23,609,720)
Attributable To			
Equity holders of the Parent	(₱5,970,309)	(₱10,906,206)	(₱15,842,122)
Non-controlling interests	(2,927,320)	(5,347,455)	(7,767,598)
	(₱8,897,629)	(₱16,253,661)	(₱23,609,720)

* Included in “Interest expense on bank loans” under “Interest expense and other finance costs” account (see Note 28).



Fair Value Changes on Derivatives. The net changes in the fair values of all derivative instruments for the years ended December 31, 2013, 2012 and 2011 follow:

	2013	2012	2011
Balance at beginning of year	P224,894,466	(P130,155,566)	(P209,010,941)
Initial value of options	-	221,672,441	-
Consolidation adjustment (see Note 11)	(224,894,466)	-	-
Net changes in fair values of derivatives:			
Designated as accounting hedges	-	-	(59,250,968)
Not designated as accounting hedges* (see Note 29)	-	(41,622,409)	(112,777,098)
	-	49,894,466	(381,039,007)
Fair value of settled instruments:			
Designated as accounting hedges	-	-	20,255,865
Not designated as accounting hedges	-	175,000,000	230,627,576
Balance at end of year	P-	P224,894,466	(P130,155,566)

* In 2012, these are recorded in the consolidated statement of income as follows: (a) P44,844,434 as mark-to-market loss under "Other expenses" account and (b) P3,222,025 as mark-to-market gain under "Other income" account. In 2011, these are recorded in the consolidated statement of income as follows: (a) P91,160,464 is included in mark-to-market loss under "Other expenses" account and (b) P21,616,634 is included in "Interest expense" account.

35. Registration with the BOI

CIC is registered with the BOI to build, operate and transfer the infrastructure project for the MCTEP on a pioneer status under the Omnibus Investments Code of 1987. Under this registration, CIC enjoys certain tax and nontax incentives including a six-year ITH which expired in July 2004.

In 2004, CIC, then UMPC, filed an application for the extension of the Income Tax Holiday (ITH) by moving the reckoning period of the entitlement for another two years due to the inability of CIC to avail the ITH incentive for the first two years of operation (1998 to 1999). The first entitlement period of its ITH incentive was reckoned from the start of operation which was in July 1998 until July 2004. On June 30, 2008, the BOI granted the request of CIC to move the ITH incentive period from July 30, 1998 to July 29, 2004 to January 2005 to December 2010 but set a limit for which CIC can avail the ITH incentives in the amount of P283.5 million after deducting availments from July 30, 1998 to July 29, 2004.

In addition, the BOI also granted CIC an ITH for the sale/revenue of the R-1 Expressway Extension, Segment 4 (Zapote to Kawit, Cavite) for a period of 6 years from January 2009 or actual start of commercial operation, whichever is earlier, but in no case earlier than the date of registration (February 8, 2008). As provided under the terms of the registration, CIC shall initially be granted a four-year ITH. The additional two-year ITH shall be granted upon submission of completed or on-going projects in compliance with its corporate social responsibility, which shall be submitted before the lapse of its initial four-year ITH. CIC was not able to comply with the requirements of the BOI, thus, has not availed of the ITH in 2013.



36. 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.

Thereafter, the TRB, in its letter dated October 28, 2005, directed MNTC (and all Philippine toll expressway companies) to defer the imposition of VAT on toll fees. However, due to the possibility that MNTC may eventually be subjected to VAT by virtue of RA No. 9337 as implemented by RR No. 16-2005, MNTC, in 2005, carved out the input tax from its purchases of goods and services (includes input tax in relation to the Project construction cost) in 2004 which were previously recorded as part of service concession assets and recorded such input tax, together with the input tax in 2005 purchases and onwards, as a separate "Input value-added tax" account and accordingly reflected the input tax in the VAT returns.

In September 2005, MNTC also requested for confirmation from the BIR that MNTC can claim input VAT for the passed-on VAT on its purchases of goods and services for 2003 and prior years. The request is currently pending and has not been acted upon by the BIR as at February 20, 2014.

On December 21, 2009, the BIR issued RMC No. 72-2009, a reiteration of RMC No. 52-2005 issued on September 28, 2005, directing all internal revenue officers and other concerned on the imposition of VAT on tollway operators. However, on January 21, 2010, the Tollways Association of the Philippines (TAP) issued a letter to all tollway operators referring to a letter issued by TRB to TAP dated December 29, 2009. The 2010 letter reiterated TRB's previous instruction in the 2009 letter asking all toll operators to defer the imposition of VAT on toll fees until otherwise advised. The TRB directive was a result of a cabinet meeting held on December 29, 2009 at Baguio City where the deferment of the implementation of RMC No. 72-2009 was discussed.

On March 26, 2010, the BIR issued RMC No. 30-2010 directing the imposition of the 12% VAT starting April 1, 2010, with coverage initially limited to private vehicles. However, on March 30, 2010, the TAP issued a letter to tollway operators referring to a letter issued by TRB to TAP dated March 30, 2010 directing the deferment of collection of VAT on toll fees until further orders from their office.

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 Tax Code.



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 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 tollways 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. The input VAT were either charged to expense or capitalized to assets. Also, on September 30, 2011, pursuant to RMC No. 39-2011, a Memorandum of Understanding (MOU) was executed between the BIR and MNTC. Under the MOU, MNTC undertook that its accumulated input VAT account will have a zero balance on October 1, 2011, such that any input VAT that will thenceforth be reflected in MNTC's books will be for purchases of goods delivered and invoiced or services rendered and invoiced on or after October 1, 2011. MNTC likewise undertook not to claim any tax credit or refund for any VAT passed-on to MNTC on any of its purchases made prior to October 1, 2011. On the other hand, the BIR undertook to immediately process the application for abatement of tax liabilities, surcharge, interest and penalties on all open VAT assessments on toll fees issued against MNTC covering the period prior to October 1, 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. Meanwhile, in August 2010, MNTC, in accordance with RMC No. 63-2010 dated July 19, 2010, applied for abatement of alleged VAT liabilities for taxable year 2006. 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 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. Meanwhile, in August 2010, MNTC, in accordance with Revenue Memorandum Circular No. 63-2010 dated 19 July 2010, applied for abatement of alleged VAT liabilities for taxable year 2007. The BIR has yet to resolve the application for abatement of MNTC.
- 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 for years 2008 and 2009.

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 is also a party to certain claims and assessments relating to local business tax and real property taxes as follows:

Local Business Tax (LBT)

In 2008, MNTC received an assessment from the municipality of Guiguinto, Bulacan for alleged deficiency LBT for years 2005 to 2007 amounting to ₱67.4 million, inclusive of surcharges and penalties. MNTC, through its legal counsel, protested and subsequently, in 2009 filed a complaint for annulment of assessment (with prayer for the issuance of TRO and/or writ of preliminary injunction) with the RTC of Malolos, Bulacan claiming, among other things, that its predecessor, PNCC has never been subjected to LBT and as such MNTC continued the customary practice of obtaining the business permits solely from the local government unit where its principal office is located (Pasig City and later, Caloocan City).

On November 19, 2009, TRB informed MNTC that TRB's BOD has approved MNTC's request to intervene in the LBT case for the purposes of protecting the interests of the government and the motoring public, avoiding any disruption in the operation of the NLEX as a limited access facility and resisting collateral attack on the validity of the STOA. TRB also advised MNTC that on November 12, 2009, the omnibus motion (i) for intervention and (ii) to admit attached manifestation and motion in intervention was filed by the Office of the Solicitor General on behalf of TRB praying for the issuance of a TRO and a writ of preliminary injunction to enjoin the municipality from closing MNTC's business particularly with respect to its operations of the BuroI-Tabang and BuroI-Sta.Rita toll exits and any facility that is indispensable in the operation of the tollway.

In March 2010, MNTC received a final demand letter from the municipality to pay LBT, permits, and regulatory fees. On March 12, 2010, the RTC of Malolos, Bulacan denied MNTC's application for the issuance of a TRO and/or writ of preliminary injunction. On March 15, 2010, MNTC filed with the Court of Appeals a petition for certiorari (with application for the issuance of a TRO and/or a writ of preliminary injunction) to annul or set aside the orders of the RTC of Malolos, Bulacan denying MNTC's application for the issuance of a writ of preliminary injunction. The Court of Appeals, in its decision dated July 23, 2010, dismissed the petition. On August 17, 2010, MNTC filed a motion for reconsideration but the motion was denied by the Court of Appeals on December 3, 2010.

On July 25, 2011, MNTC received a copy of the decision of the RTC of Malolos, Bulacan dated July 7, 2011. The RTC dismissed MNTC's complaint for lack of merit and upheld the imposition of taxes and further ordered MNTC to settle the taxes upon finality of the decision. MNTC filed its motion for reconsideration on August 9, 2011, which was denied by the RTC in an order dated October 6, 2011. A proffer of excluded evidence and a petition for review with the RTC of Malolos, Bulacan and Court of Tax Appeals (CTA), respectively, were filed on November 9, 2011 by MNTC. The CTA, in a decision dated December 3, 2012, partially granted MNTC's petition for review. The CTA modified the RTC of Malolos, Bulacan's decision dated July 7, 2011 and order dated October 6, 2011. The CTA cancelled and set aside for lack of basis the notice of assessment dated 2008 issued against MNTC for ₱67.4 million LBT for the years 2005 to 2007. However, the CTA ordered MNTC to pay the municipality of Guiguinto the ₱2.3 million mayor's permit and other regulatory fees assessment for the years 2004 to 2008, inclusive of surcharges and penalties. The municipality of Guiguinto subsequently filed with the CTA a motion for reconsideration. The CTA, in a resolution dated April 25, 2013, denied the motion for reconsideration filed by the municipality of Guiguinto. As at February 20, 2014, the local government has not filed an appeal.



On April 23, 2010, the Bureau of Local Government Finance (BLGF) issued a ruling that the toll fees collected by each toll booth of MNTC shall be recorded thereat and that the LBT payable to LGU shall be solely based on 100% of the gross receipts of the toll booths located in said LGU and that the foregoing LBT allocation shall be applied prospectively. On September 23, 2010, MNTC requested for a partial reconsideration and reiterated that MNTC's gross receipts may be allocated among all LGUs where the toll roads traverse. On March 4, 2011, BLGF reaffirmed its original position that MNTC shall be classified as a contractor for purposes of local taxation and that LBT should be paid based only to LGUs that host toll plazas, thus, no LBT should be due to municipalities with no established toll plazas.

The DOF issued Local Finance Circular No. 1-2013 dated January 18, 2013 prescribing guidelines governing the power of LGUs to impose LBT on tollway operators. The guidelines state that, among other things, all receipts collected by the toll booths in a toll barrier/plaza shall be recorded in said toll barrier/plaza and the tax due thereon shall be payable to the city or municipality where the said toll booth or toll barrier/plaza is located. The LBT guideline shall apply to all LGUs that may host a toll booth or toll barrier/plaza that may be established in the future along other segments, extensions, stretches, linkages, diversions, or expansions of the toll expressway system. The LBT allocation shall apply prospectively from the time of the issuance and/or effectivity of this Circular.

Real Property Tax

In 2004, MPTDC has received real property tax assessments covering Segment 7 located in the province of Bataan for the period from 1997 to June 2005 amounting to ₱98.5 million for alleged delinquency property tax. MPTDC appealed before the LBAA of Bataan and prayed for the cancellation of the assessment. In the said appeal, MPTDC invoked that the property is owned by the ROP, hence, exempt from real property tax. 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. To date, 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, 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 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 DOF-BLGF to hold the enforcement of any collection remedies in abeyance.

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

- c. MNTC is also a party to other cases and claims arising from the ordinary course of business filed by third parties which are either pending decisions by the courts or are subject to settlement agreements. The outcome of these claims cannot be presently determined. In the opinion of management and the 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.

37. Subsequent Events

Term Loan Facility Agreement with BDO

On January 9, 2014, MPTDC entered into Term Loan Facility Agreement with BDO for up to ₱3,250.0 million loan due 2024 for the purpose of financing its acquisition of approximately 8.5% of the total issued and outstanding capital stock of MNTC from Egis and for other corporate purposes. On January 10, 2014, MPTDC availed of ₱1,000.0 million. MPTDC shall pay the availed amount semi-annually within 10 years based on the amortization schedule indicated in the Term Loan Facility Agreement.



The loan is subject to interest rate of the higher of (i) 5-year 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.

Share Purchase Agreement (SPA) with Egis

On December 23, 2013, MPTDC and Egis entered into an 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 to be paid by MPTDC to Egis is ₱2,056.68 per common share or a total purchase price of ₱1,473.0 million.

On January 10, 2014, after the fulfillment of the closing conditions and other applicable terms and conditions in the SPA, MPTDC paid the purchase price to Egis.

Issuance of Fixed-rate Bonds of up to ₱7,000.0 million due 2021 and 2024

On February 7, 2014, MNTC filed a registration statement with the SEC for the offering of fixed rate bonds with aggregate principal amount of up to ₱7,000.0 million comprised of 7-year fixed rate bonds due in 2021 and 10-year fixed rate bonds due in 2024.

Upon issuance, the bonds shall constitute direct, unconditional, unsubordinated, and unsecured obligations of MNTC. The bonds will be offered to the public at face value through the Joint Issue Managers and will be listed in the Philippine Dealing & Exchange Corporation.

The proceeds from the offer shall be used primarily by MNTC to partially fund the 5.65 km Segment 10 of the MNEP which will connect the MacArthur Highway in Valenzuela City, to C-3 Road in Caloocan City.

As at February 20, 2014, the SEC has not yet approved the registration statement.

