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

Consolidated Financial Statements
December 31, 2017 and 2016

and

Independent Auditor's Report

SGV
Building a better working world

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

INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders
Metro Pacific Tollways Corporation

Opinion

We have audited the consolidated financial statements of Metro Pacific Tollways Corporation (a subsidiary of Metro Pacific Investments Corporation) and its subsidiaries (the Company), which comprise the consolidated balance sheets as at December 31, 2017 and 2016, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

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

Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement) and SEC Form 17-A for the year ended December 31, 2017, but does not include the consolidated financial statements and our auditor's report thereon. The SEC Form 20-IS (Definitive Information Statement) and SEC Form 17-A for the year ended December 31, 2017 are expected to be made available to us after the date of this auditor's report.

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

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

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

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

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

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

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

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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

SYCIP GORRES VELAYO & CO.

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February 23, 2018

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

CONSOLIDATED BALANCE SHEETS

	December 31	
	2017	2016
ASSETS		
Current Assets		
Cash and cash equivalents (Note 7)	**₱4,337,589,716**	₱1,491,117,811
Restricted cash (Note 7)	**670,235,813**	471,568,380
Short-term deposits (Notes 15 and 34)	**1,061,775,491**	770,415,867
Receivables (Notes 8 and 21)	**695,348,350**	688,831,532
Inventories	**122,173,642**	91,219,084
Due from related parties (Note 21)	**5,505,124**	40,041,201
Available-for-sale financial assets (Notes 15 and 34)	**49,825,000**	–
Other current assets (Note 9)	**1,319,705,855**	900,614,896
Total Current Assets	**8,262,158,991**	4,453,808,771
Noncurrent Assets		
Investments in associates and a joint venture (Note 10)	**17,920,902,189**	11,318,024,503
Service concession assets (Note 11)	**66,121,803,925**	61,827,839,757
Property and equipment (Note 12)	**461,231,814**	250,547,905
Goodwill and other intangible assets (Note 13)	**8,597,005,237**	5,102,695,835
Investment properties (Note 14)	**128,980,520**	41,443,880
Available-for-sale financial assets (Notes 15 and 34)	**1,533,568,458**	1,682,654,221
Pension assets (Note 27)	**46,890,321**	904,680
Deferred tax assets - net (Note 31)	**46,601,818**	645,103
Other noncurrent assets (Note 16)	**1,741,175,938**	1,437,208,132
Total Noncurrent Assets	**96,598,160,220**	81,661,964,016
	₱104,860,319,211	₱86,115,772,787
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and other current liabilities (Notes 17 and 21)	**₱4,534,472,807**	₱3,800,742,264
Provisions (Note 18)	**718,033,328**	534,722,960
Due to related parties (Note 21)	**11,980,886**	5,079,996
Dividends payable (Note 22)	**471,006,888**	11,065,871
Long-term incentive plan payable (Note 27)	**503,842,314**	–
Income tax payable	**363,794,668**	331,024,051
Current portion of long-term debts (Notes 19 and 34)	**5,317,475,132**	1,047,265,879
Total Current Liabilities	**11,920,606,023**	5,729,901,021

(Forward)

	December 31	
	2017	2016
Noncurrent Liabilities		
Long-term debts - net of current portion (Notes 19 and 34)	**₱37,224,487,249**	₱31,308,998,500
Service concession fees payable (Notes 20 and 34)	**19,644,800,982**	18,550,601,361
Accrued retirement costs (Note 27)	**1,849,489**	3,160,542
Long-term incentive plan payable (Note 27)	**–**	261,268,267
Provisions (Note 18)	**417,435,176**	218,386,158
Deferred tax liabilities - net (Note 31)	**1,102,178,215**	1,071,869,716
Other noncurrent liabilities (Notes 5 and 32)	**634,826,223**	256,953,291
Total Noncurrent Liabilities	**59,025,577,334**	51,671,237,835
Total Liabilities	**70,946,183,357**	57,401,138,856
Equity (Note 22)		
Capital stock	**12,785,970,159**	12,717,874,859
Additional paid-in capital	**18,944,873,311**	17,583,309,088
Equity adjustment on reverse acquisition	**(581,085,463)**	(581,085,463)
Retained earnings	**9,685,043,212**	5,859,172,385
Treasury shares	**(6,965,197,437)**	(6,965,197,437)
Other comprehensive income reserve	**56,949,521**	122,486,698
Other reserves	**(2,696,225,344)**	(2,398,833,257)
Total equity attributable to equity holders of the Parent	**31,230,327,959**	26,337,726,873
Non-controlling interests	**2,683,807,895**	2,376,907,058
Total Equity	**33,914,135,854**	28,714,633,931
	₱104,860,319,211	₱86,115,772,787

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	
	2017	2016
OPERATING REVENUES		
Toll fees (net of discounts amounting to ₱154,788,618 in 2017 and ₱136,344,787 in 2016)	**₱13,106,976,118**	₱11,902,491,252
Sales of electronic tags and magnetic cards	**11,033,663**	5,000
	13,118,009,781	11,902,496,252
Non-toll revenues (Note 23)	**191,031,042**	172,989,885
TOTAL REVENUES	**13,309,040,823**	12,075,486,137
COST OF SERVICES (Note 24)	**(4,842,401,122)**	(4,815,536,128)
GROSS PROFIT	**8,466,639,701**	7,259,950,009
CONSTRUCTION REVENUE (Note 11)	**5,263,159,591**	7,277,405,906
CONSTRUCTION COSTS (Note 11)	**(5,263,159,591)**	(7,277,405,906)
GENERAL AND ADMINISTRATIVE EXPENSES (Note 25)	**(1,623,074,701)**	(1,506,465,805)
INTEREST EXPENSE AND OTHER FINANCE COSTS (Note 29)	**(1,633,879,425)**	(1,200,169,062)
EQUITY IN NET EARNINGS OF ASSOCIATES AND A JOINT VENTURE (Note 10)	**557,852,577**	459,614,748
INTEREST INCOME (Note 28)	**76,364,154**	93,902,077
FOREIGN EXCHANGE LOSS - Net	**(5,846,634)**	(18,977,268)
OTHER INCOME (Note 30)	**2,252,800,035**	384,126,617
OTHER EXPENSES	**(81,384,908)**	(69,249,057)
INCOME BEFORE INCOME TAX	**8,009,470,799**	5,402,732,259
PROVISION FOR INCOME TAX (Note 31)		
Current	**1,423,449,880**	1,246,040,246
Deferred	**13,174,472**	68,700,122
	1,436,624,352	1,314,740,368
NET INCOME	**₱6,572,846,447**	₱4,087,991,891
Attributable to:		
Equity holders of the Parent Company	**₱5,423,457,358**	₱3,103,071,489
Non-controlling interests	**1,149,389,089**	984,920,402
	₱6,572,846,447	₱4,087,991,891

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	
	2017	2016
NET INCOME	**₱6,572,846,447**	₱4,087,991,891
OTHER COMPREHENSIVE INCOME (LOSS) (Note 22)		
Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:		
Gain on fair value change in available-for-sale financial assets (Note 15)	**31,671,503**	36,553,019
Reclassification to profit or loss (Notes 15 and 30)	**(32,569,862)**	(33,911,148)
Income tax effect (Note 31)	**(2,530,016)**	(1,192,622)
	(3,428,375)	1,449,249
Exchange differences on translation of foreign operations	**(216,870,651)**	(31,964,446)
Share in other comprehensive income of associates (Note 10)	**186,139,930**	112,849,479
	(34,159,096)	82,334,282
Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods:		
Share in other comprehensive loss of associates (Note 10)	–	(1,635,506)
Remeasurement gains (losses) on defined benefit retirement plan (Note 27)	**32,403,778**	(11,173,989)
Income tax effect (Note 31)	**(8,161,389)**	3,352,197
	24,242,389	(7,821,792)
	24,242,389	(9,457,298)
TOTAL OTHER COMPREHENSIVE INCOME (LOSS)	**(9,916,707)**	72,876,984
TOTAL COMPREHENSIVE INCOME	**₱6,562,929,740**	₱4,160,868,875
Attributable to:		
Equity holders of the Parent Company	**₱5,413,570,874**	₱3,178,472,143
Non-controlling interests	**1,149,358,866**	982,396,732
	₱6,562,929,740	₱4,160,868,875

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, 2017 AND 2016

	Attributable to Equity Holders of the Parent									
	Capital Stock (Note 22)	Additional Paid-in Capital (Note 22)	Equity Adjustment on Reverse Acquisition (Note 22)	Retained Earnings (Note 22)	Treasury Shares (Note 22)	Other Comprehensive Income Reserve (Note 22)	Other Reserves (Note 22)	Total	Non-controlling Interests	Total Equity
At January 1, 2017	**₱12,717,874,859**	**₱17,583,309,088**	**(₱581,085,463)**	**₱5,859,172,385**	**(₱6,965,197,437)**	**₱122,486,698**	**(₱2,398,833,257)**	**₱26,337,726,873**	**₱2,376,907,058**	**₱28,714,633,931**
Issuance of new shares (Note 22)	**68,095,300**	**1,361,564,223**	–	–	–	–	–	**1,429,659,523**	–	**1,429,659,523**
Cash dividends (see Note 22)	–	–	–	**(1,597,586,531)**	–	–	–	**(1,597,586,531)**	–	**(1,597,586,531)**
Cash dividends of subsidiaries (Note 22)	–	–	–	–	–	–	–	–	**(882,731,093)**	**(882,731,093)**
Acquisition of subsidiaries (Note 10)	–	–	–	–	–	**8,186,466**	–	**8,186,466**	**14,793,993**	**22,980,459**
Dilution in ownership interest (Notes 5 and 22)	–	–	–	–	–	**154,748**	**(35,102,200)**	**(34,947,452)**	**34,947,452**	–
Acquisition of non-controlling interests (Notes 5 and 22)	–	–	–	–	–	**(1,064,241)**	**(325,217,553)**	**(326,281,794)**	**(9,468,381)**	**(335,750,175)**
Reclassification adjustment (see Note 22)	–	–	–	–	–	**(62,927,666)**	**62,927,666**	–	–	–
	12,785,970,159	**18,944,873,311**	**(581,085,463)**	**4,261,585,854**	**(6,965,197,437)**	**66,836,005**	**(2,696,225,344)**	**25,816,757,085**	**1,534,449,029**	**27,351,206,114**
Net income	–	–	–	**5,423,457,358**	–	–	–	**5,423,457,358**	**1,149,389,089**	**6,572,846,447**
Other comprehensive loss (Note 22)	–	–	–	–	–	**(9,886,484)**	–	**(9,886,484)**	**(30,223)**	**(9,916,707)**
Total comprehensive income (loss) for the year	–	–	–	**5,423,457,358**	–	**(9,886,484)**	–	**5,413,570,874**	**1,149,358,866**	**6,562,929,740**
At December 31, 2017	**₱12,785,970,159**	**₱18,944,873,311**	**(₱581,085,463)**	**₱9,685,043,212**	**(₱6,965,197,437)**	**₱56,949,521**	**(₱2,696,225,344)**	**₱31,230,327,959**	**₱2,683,807,895**	**₱33,914,135,854**
At January 1, 2016	₱12,684,255,959	₱13,719,905,514	(₱581,085,463)	₱3,451,804,348	(₱6,965,197,437)	(₱15,841,622)	(₱2,434,280,071)	₱19,859,561,228	₱2,118,659,193	₱21,978,220,421
Issuance of new shares (Note 22)	33,618,900	672,377,104	–	–	–	–	–	705,996,004	–	705,996,004
Transaction costs (Note 22)	–	(114,730)	–	–	–	–	–	(114,730)	–	(114,730)
Reclassification of transaction costs (Note 22)	–	(33,858,000)	–	–	–	–	33,858,000	–	–	–
Cash dividends (see Note 22)	–	–	–	(1,426,123,872)	–	–	–	(1,426,123,872)	–	(1,426,123,872)
Cash dividends of subsidiaries (Note 22)	–	–	–	–	–	–	–	–	(637,458,763)	(637,458,763)
Cost of share-based payment (Note 26)	–	–	–	–	–	–	1,244,843	1,244,843	–	1,244,843
Collection of subscription receivable (Note 22)	–	3,224,999,200	–	–	–	–	–	3,224,999,200	–	3,224,999,200
Business combination - pooling of interest	–	–	–	730,420,420	–	–	–	730,420,420	–	730,420,420
Acquisition of non-controlling interest (Notes 5 and 22)	–	–	–	–	–	62,927,666	343,971	63,271,637	(86,690,104)	(23,418,467)
	12,717,874,859	17,583,309,088	(581,085,463)	2,756,100,896	(6,965,197,437)	47,086,044	(2,398,833,257)	23,159,254,730	1,394,510,326	24,553,765,056
Net income	–	–	–	3,103,071,489	–	–	–	3,103,071,489	984,920,402	4,087,991,891
Other comprehensive loss (Note 22)	–	–	–	–	–	75,400,654	–	75,400,654	(2,523,670)	72,876,984
Total comprehensive income for the year	–	–	–	3,103,071,489	–	75,400,654	–	3,178,472,143	982,396,732	4,160,868,875
At December 31, 2016	₱12,717,874,859	₱17,583,309,088	(₱581,085,463)	₱5,859,172,385	(₱6,965,197,437)	₱122,486,698	(₱2,398,833,257)	₱26,337,726,873	₱2,376,907,058	₱28,714,633,931

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	
	2017	2016
OPERATING ACTIVITIES		
Income before income tax	**₱8,009,470,799**	₱5,402,732,259
Adjustments to reconcile income before tax to net cash flows:		
Gain on remeasurement of previously held interest (Note 5 and Note 30)	**(1,999,106,761)**	–
Interest expense and other finance costs (Note 29)	**1,633,879,425**	1,200,169,062
Amortization of service concession assets (Notes 11 and 24)	**969,195,423**	788,547,792
Equity in net earnings of associates and a joint venture (Note 10)	**(557,852,577)**	(459,614,748)
Long-term incentive plan expense (Note 27)	**169,528,080**	121,468,533
Depreciation of property and equipment (Notes 12, 24 and 25)	**122,197,760**	53,020,227
Dividend income (Note 30)	**(89,678,876)**	(137,967,501)
Interest income (Note 28)	**(76,364,154)**	(93,902,077)
Movements in:		
Provisions	**110,616,095**	17,163,125
Pension asset/Accrued retirement costs	**(22,563,580)**	1,595,484
Gain on disposals of available-for-sale financial assets (Notes 15 and 30)	**(24,200,673)**	(7,321,928)
Amortization of other intangible assets (Notes 13, 24 and 25)	**15,717,686**	7,968,664
Unrealized foreign exchange loss – net	**10,931,154**	28,499,581
Reversal of share in other comprehensive income of an associate arising from step-acquisition (see Notes 5 and 10)	**8,186,466**	–
Gain on sale of property and equipment (Note 12)	**(3,721,361)**	(861,343)
Executive stock option plan expense (Notes 26 and 27)	**–**	1,244,843
Working capital changes:		
Decrease (increase) in:		
Restricted cash	**(198,667,433)**	(36,324,058)
Receivables	**606,789,370**	(49,759,937)
Inventories	**(10,899,144)**	(15,767,196)
Due from related parties	**34,536,077**	72,398,376
Other current assets	**(8,757,994)**	(288,378,636)
Increase (decrease) in:		
Accounts payable and other current liabilities	**105,103,880**	964,501,180
Due to related parties	**(208,552,790)**	(501)
Income tax paid	**(1,464,125,521)**	(1,152,561,962)
Net cash flows from operating activities	**7,131,661,351**	6,416,849,239

(Forward)

	Years Ended December 31	
	2017	2016
INVESTING ACTIVITIES		
Decrease (increase) in other noncurrent assets	**(₱614,504,693)**	₱8,369,332
Dividends received (Notes 10 and 15)	**823,726,832**	1,008,494,365
Interest received	**69,544,373**	95,539,523
Acquisition of:		
Available-for-sale financial assets (Note 15)	**(11,523,791,758)**	(9,386,899,757)
Subsidiary (Note 5)	**(115,330,034)**	(2,951,423,747)
Associates (Note 10)	**(7,623,733,533)**	(884,660,000)
Assigned promissory notes of a subsidiary (Note 5)	**–**	(405,332,340)
Additions to:		
Service concession assets (Notes 11 and 36)	**(4,159,789,297)**	(6,314,910,254)
Property and equipment (Note 12)	**(235,737,585)**	(128,368,181)
Other intangible assets (Note 13)	**(12,051,156)**	(10,902,783)
Investment properties (Note 14)	**(87,536,640)**	(40,341,499)
Proceeds from:		
Sale of property and equipment (Note 12)	**8,522,819**	4,093,513
Sale of available-for-sale financial assets (Note 15)	**11,363,364,400**	10,039,918,208
Maturity of investment in bonds (Note 15)	**–**	200,000,000
Net cash flows used in investing activities	**(12,107,316,272)**	(8,766,423,620)
FINANCING ACTIVITIES		
Proceeds from:		
Long-term debt (Note 19)	**14,456,626,728**	2,000,000,000
Issuance of new shares (Note 22)	**1,430,000,000**	705,881,274
Collection of subscription receivable (Note 22)	**–**	3,224,999,200
Payments of:		
Dividends to stockholders (Note 22)	**(1,590,936,607)**	(2,287,608,099)
Dividends to non-controlling stockholders (Note 22)	**(429,440,000)**	(1,041,508,544)
Long-term debt	**(4,605,980,644)**	(1,467,884,295)
Interest	**(1,346,290,493)**	(1,232,195,681)
Debt issue costs (Note 19)	**(82,944,780)**	(26,888,808)
Transaction costs on issuance of new shares	**(340,477)**	–
Acquisition of non-controlling interests (Note 5)	**–**	(23,418,467)
Net cash flows from (used in) financing activities	**7,830,693,727**	(148,623,420)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**2,855,038,806**	(2,498,197,801)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**(8,566,901)**	122,580
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**1,491,117,811**	3,989,193,032
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 7)	**₱4,337,589,716**	₱1,491,117,811

See accompanying Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

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

MPTC is 99.9% owned by Metro Pacific Investments Corporation (MPIC). MPIC is a publicly listed Philippine corporation and is 41.9% owned by Metro Pacific Holdings, Inc. (MPHI) as at December 31, 2017 and 2016. As sole holder of the voting Class A Preferred Shares, MPHI's combined voting interest as a result of all of its shareholdings is estimated at 55.0% as at December 31, 2017 and 2016. MPHI is a Philippine corporation whose stockholders are Enterprise Investment Holdings, Inc. (EIH) (60.0%), Intalink B.V. (26.7%) and First Pacific International Limited (FPIL) (13.3%). First Pacific Company Limited (FPC), a company incorporated in Bermuda and listed in Hong Kong, through its subsidiaries, Intalink B.V. and FPIL, holds 40.0% equity interest in EIH and an investment financing which under Hong Kong Generally Accepted Accounting Principles, require FPC to account for the results and assets and liabilities of EIH and its subsidiaries as part of FPC group of companies in Hong Kong.

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

The registered office address of the Parent Company is 7th Floor, L.V. Locsin Building, 6752 Ayala corner Makati Avenues, Makati City.

The consolidated financial statements were approved and authorized for issuance by the Parent Company's Board of Directors (BOD) on February 23, 2018, as reviewed and recommended for approval by the Audit Committee.

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

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

The NLEX consists of three phases as follows:

Phase I	Rehabilitation and expansion of approximately 84 kilometers (km) of the existing NLEX and an 8.5-km stretch of a Greenfield expressway that connects Tipo in Hermosa, Bataan to Subic (Segment 7)
Phase II	Construction of the northern parts of the 17-km circumferential road C5 which connects the current C5 expressway to the NLEX and the 5.85-km road from McArthur Highway to Letre
Phase III	Construction of the 57-km Subic arm of the NLEX to Subic Expressway

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

Segment 8.1, a portion of Phase II, which is a 2.7 km-road designed to link Mindanao Avenue to the NLEX, had officially commenced tollway operation on June 5, 2010. Segment 9, a portion of Phase II, which is a 2.4 km-road connecting NLEX to the McArthur Highway, had officially commenced tollway operation on March 19, 2015. In May 2014, Segment 10, a portion of Phase II, which is a 5.76 km four-lane, elevated expressway that will start from the terminal of Segment 9 in Valenzuela City going to C-3 Road in Caloocan City above the alignment of Philippine National Railway (PNR) tracks, had commenced construction and is expected to be completed by first half of 2018. The remaining portion of Phase II is under pre-construction works while Phase III of the NLEX has not yet been started as at February 23, 2018.

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

NLEX-South Luzon Expressway (SLEX) Connector Road Project (NLEX-SLEX Connector Road). On November 23, 2016, NLEX Corp. was awarded the concession for the design, financing, construction and O&M of the 8-km elevated NLEX-SLEX Connector Road. The NLEX-SLEX Connector Road is an elevated four-lane toll expressway structure with a length of 8 km passing through and above the right of way of the PNR starting from NLEX Segment 10 at C-3 Road Caloocan City and seamlessly connecting to SLEX through Metro Manila Skyway Stage 3 Project in Manila. As at February 23, 2018, the construction of the NLEX-SLEX Connector Road has not yet started.

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

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

The Laguna Segment of the CALAEX had commenced construction in 2017 and expected to be completed in 2020, while the Cavite Segment is still in its pre-construction stage as at February 23, 2018.

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

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

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

Phase I	Design and improvement of the 6.5-km R-1 Expressway which connects the Airport Road to Zapote and the design and construction of the 7-km R-1 Expressway Extension which connects the existing R-1 Expressway at Zapote to Noveleta
Phase II	Design and construction of the C5 South Link Expressway which connects the R-1 Expressway to the SLEX

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

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

Phase II of the CAVITEX had commenced construction in June 2017 and is expected to be completed by 2020.

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

The CCLEX is still in its pre-construction stage as at February 23, 2018.

2. **Service Concession Arrangements**

Supplemental Toll Operation Agreement (STOA) for the NLEX
By virtue of Presidential Decree (PD) No. 1113 issued on March 31, 1977 as amended by PD No. 1894 issued on December 22, 1983, PNCC was granted the franchise for the construction, O&M of toll facilities in the NLEX, SLEX and Metro Manila Expressway. PNCC executed a Toll Operation Agreement (TOA) with the ROP, by and through the TRB.

Pursuant to the JVA entered into by PNCC and MPT North on August 29, 1995, PNCC assigned its rights, interests and privileges under its franchise to construct, operate and maintain toll facilities in the NLEX in favor of NLEX Corp., including the design, funding and rehabilitation of the NLEX, and installation of the appropriate collection system therein. MPT North in turn assigned all its rights, interests and privileges to Segment 7, as defined in the Memorandum of Agreement (MOA) dated March 6, 1995, to NLEX Corp., which assumed all the rights and obligations as a necessary and integral part of the NLEX. The assignment of PNCC's usufructuary rights, interests and privileges under its franchise, to the extent of the portion pertaining to the NLEX, was approved by the then President of the ROP. On October 10, 1995, the Department of Justice (DOJ) issued Opinion No. 102, Series of 1995, noting the authority of the TRB to grant authority to operate a toll facility and to issue the necessary TOC. On November 24, 1995, in a letter by the then Secretary of Justice to the then Secretary of Public Works and Highways, the Secretary of Justice reiterated and affirmed the authority of the TRB to grant authority to operate a toll facility and to issue the necessary TOC in favor of PNCC and its joint venture partner for the proper and orderly construction, O&M of the NLEX as a toll road during the concession period.

In April 1998, the Grantor, acting by and through the TRB, PNCC (Franchisee) and NLEX Corp. (Concessionaire) executed the STOA for the NLEX, whereby the ROP granted NLEX Corp. the rights, obligations and privileges including the authority to finance, design, construct, operate and maintain the project roads as toll roads (the Concession) commencing upon the date the STOA comes into effect until December 31, 2030 or 30 years after the issuance of the TOP for the last completed phase, whichever is earlier, unless further extended pursuant to the STOA.

The PNCC franchise expired on May 1, 2007. Pursuant to the STOA, the TRB issued the necessary TOC for the NLEX in order to allow the continuation of the Concession. As further discussed in Note 32, NLEX Corp. pays a certain amount to PNCC.

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

Upon expiry of the concession period, NLEX Corp. shall hand-over the project roads to the Grantor without cost, free from any and all liens and encumbrances and fully operational and in good working condition, including any and all existing land acquired, works, toll road facilities and equipment found therein directly related to and in connection with the operation of the toll road facilities.

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

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

On November 6, 2017, pursuant to the 2013 Revised Rules of the TRB and in accordance with Clause 3.5 of the STOA, NLEX Corp. implemented the TRB approved add-on toll rate petition for the NLEX widening project amounting to an additional ₱0.25/km (exclusive of VAT) for the Closed System.

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

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

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

In consideration for the assignment by BCDA to NLEX Corp. of its rights to and interests in SCTEX, NLEX Corp. paid BCDA an upfront cash of ₱3.5 billion (inclusive of VAT) upon effectivity of the BA (the Upfront Payment). NLEX Corp. shall also pay BCDA monthly concession fees amounting to 50% of the Audited Gross Toll Revenues of SCTEX for the relevant month from Effective Date to

October 30, 2043. NLEX Corp. shall gross up the concession fees by the 12% VAT. NLEX Corp. recorded concession fees of ₱931.6 million and ₱791.5 million in 2017 and 2016, respectively, which is included under "Cost of services" account in the consolidated statements of income (see Note 24).

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

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

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

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

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

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

Legal title to the NLEX-SLEX Connector Road, including all assets and other improvements constructed therein and all additional and/or enhancement works contributed by NLEX Corp. during the concession period, shall remain with NLEX Corp. until the termination date. At the end of the concession period or upon the termination of the concession agreement, the NLEX-SLEX Connector

Road, including all rights, title and interest in the aforesaid assets, shall be turned over to DPWH or to its successor-in-interest conformably with law, and in all cases in accordance with and subject to the terms and conditions of the Concession Agreement. NLEX Corp. shall be prohibited from transferring, alienating, selling, or otherwise disposing the NLEX-SLEX Connector Road.

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

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

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

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

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

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

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

During the concession period, MHI shall pay for the project overhead expenses to be incurred by the DPWH and the TRB in the process of their monitoring, inspecting, evaluating and the checking the progress and qualities of the activities and works undertaken by MHI. MHI's liability for the payment of the project overhead expenses due to TRB shall not exceed ₱75.0 million and the liability for the payment of the project overhead expenses due to the DPWH shall not exceed ₱150.0 million; provided, that these limits may be increased in case of inflation, or in case of additional work due to a concessionaire variation that will result in an extension of the construction period or concession period, upon mutual agreement of the parties in the concession agreement.

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

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

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

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

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

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

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

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

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

1. PRA agrees to execute and deliver a voting trust agreement which shall be coupled with an interest covering two-thirds of the outstanding capital stock of PEATC in order to transfer the voting rights over such PEATC shares in favor of CIC. Such voting rights of CIC over the shares shall be during the period of the loan from syndicated lenders covered by the Omnibus Loan Agreement or OLA (the OLA was signed by CIC and various lenders in 2006).

2. As a consequence of CIC's participation in the O&M Agreement set out in the previous paragraphs, CIC shall nominate 5 members of the BOD of PEATC while PRA shall nominate 2 members. PRA shall nominate the Chairman of the BOD and one (1) member as its second nominee as well as the Controller of PEATC, while CIC is entitled to nominate the Chief Executive Officer, Chief Operating Officer, Treasurer and the Corporate Secretary of PEATC. CIC shall further have the right to nominate other members of the BOD and other officers to the key position of PEATC as may be necessary to effectively implement the participation.

3. Effective on the first day of CIC's participation in the O&M, there will be a new and improved distribution of the share in the toll fees of PRA and CIC. PRA shall receive 8.5% of gross toll revenue while CIC shall receive 91.5% of the gross toll revenue and will absorb all O&M costs and expenses. PRA shall no longer share from any of the O&M costs and expenses. The share of PRA shall be increased by 0.5% every periodic toll rate adjustment under the TOA but not to exceed 10.0% of gross toll revenue at any one time during the repayment period of the loan.

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

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

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

   a) The 91.0% share of CIC shall absorb all O&M costs and expenses. CIC shall continue to set aside sinking fund in accordance with the TOA schedule of maintenance per segment. The sinking fund interest income shall remain intact and shall not be subject to revenue sharing of the joint venture partners;

   b) The sinking fund which shall remain with PEATC and maintained adequately at all times, shall be solely used for major road repairs and re-pavement and for extraordinary costs and expenses needed by the operation but not provided in the annual budget. Any shortage in the sinking fund shall be the sole responsibility of CIC; and

   c) All disbursements for O&M shall be authorized solely by CIC.

5. Acknowledgement of all parties that in the event of a default under the loan, the lenders shall be granted step-in rights in respect of the share of CIC on the revenues from the toll collections in favor of the lenders as security for the financing provided by such lenders.

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

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

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

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

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

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

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

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

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

3. Summary of Significant Accounting Policies

Basis of Preparation
The consolidated financial statements have been prepared on a historical cost basis, except for the available-for-sale (AFS) financial assets which are measured at fair value. The consolidated financial statements are presented in Philippine peso, which is the Company's functional and presentation currency. All values are rounded to the nearest peso, except when otherwise indicated.

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

Basis of Consolidation
The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries as at and for the years ended December 31, 2017 and 2016.

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

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

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

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

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

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

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

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

Non-controlling interests represent the interests in NLEX Corp., Metro Strategic Infrastructure Holdings, Inc. (MSIHI), Tollways Management Corporation (TMC), and Easytrip Services Corporation (ESC) 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 Company.

The Company's subsidiaries are as follows:

			December 31, 2017			December 31, 2016		
	Activity	Country of Incorporation and Operation	**MPTC Direct Interest**	**Direct Interest of Subsidiary**	**MPTC Effective Interest**	MPTC Direct Interest	Direct Interest of Subsidiary	MPTC Effective Interest
MPT North (see Notes 1 and 2)	Holding Company	Philippines	**100.0**	**–**	**100.0**	100.0	–	100.0
NLEX Corp. (see Notes 1, 2, 5 and 6)	Tollway Operations	Philippines	**–**	**71.0**	**75.3**	–	71.0	75.6
NLEX Ventures Corporation (NVC)	Service Facilities and Traffic Management	Philippines	**–**	**100.0**	**100.0**	–	100.0	100.0
CWHI	Holding Company	Philippines	**–**	**100.0**	**100.0**	–	100.0	100.0
LHI	Holding Company	Philippines	**–**	**100.0**	**100.0**	–	100.0	100.0
MHI (see Notes 1 and 2)	Tollway Operations	Philippines	**–**	**51.0**	**100.0**	–	51.0	100.0
Metro Pacific Tollways Vizmin Corporation (MPT Vizmin)	Holding Company	Philippines	**–**	**100.0**	**100.0**	–	100.0	100.0
CCLEC (see Notes 1 and 2)	Tollway Operations	Philippines	**–**	**100.0**	**100.0**	–	100.0	100.0
Luzon Tollways Corporation (LTC) (dormant)	Tollway Operations	Philippines	**–**	**100.0**	**100.0**	–	100.0	100.0
CIC and subsidiaries (see Notes 1 and 2)	Tollway Operations	Philippines	**100.0**	**–**	**100.0**	100.0	–	100.0
MSIHI (Note 5)	Holding Company	Philippines	**97.0**	**–**	**97.0**	97.0	–	97.0
Metro Pacific Tollways Management Services Inc. (MPTMSI) [(a)]	O&M of Tollways	Philippines	**100.0**	**–**	**100.0**	100.0	–	100.0
Metro Pacific Tollways South Corporation (MPT South)	Holding Company	Philippines	**100.0**	**–**	**100.0**	100.0	–	100.0
MPT Asia, Corporation (MPT Asia) (see Note 5)	Holding Company	British Virgin Islands (BVI)	**100.0**	**–**	**100.0**	100.0	–	100.0
MPT Thailand, Corporation (MPT Thailand) (see Note 5)	Holding Company	BVI	**100.0**	**–**	**100.0**	100.0	–	100.0
FPM Tollway (Thailand) Limited (FTT) (see Note 5)	Holding Company	Hong Kong	**100.0**	**–**	**100.0**	100.0	–	100.0
AIF Toll Road Holdings (Thailand) Limited (AIF) (see Note 5)	Holding Company	Thailand	**100.0**	**–**	**100.0**	100.0	–	100.0
MPT Vietnam, Corporation (MPT Vietnam)	Holding Company	BVI	**100.0**	**–**	**100.0**	100.0	–	100.0
ESC (see Note 5)	Electronic Toll Collection Services	Philippines	**66.0**	**–**	**66.0**	–	–	–
Metro Pacific Tollways South Management Corporation (MPT SMC) [(b)]	O&M of Tollways	Philippines	**–**	**100.0**	**100.0**	–	–	–
TMC (see Note 5)	O&M of Tollways	Philippines	**–**	**67.0**	**72.6**	–	–	–
PT Metro Pacific Tollways Indonesia (MPTI[(c)]	Holding Company	Indonesia	**–**	**100.0**	**100.0**	–	–	–

[(a)] *Formerly M+ Corporation.*

[(b)] *Incorporated on May 23, 2017.*

[(c)] *Incorporated on October 17, 2017.*

Changes in Accounting Policies
The accounting policies adopted are consistent with those of the previous financial year, except that the Company has adopted the following new accounting pronouncements starting January 1, 2017.

- Amendments to PFRS 12, *Disclosure of Interests in Other Entities*, *Clarification of the Scope of the Standard* (Part of *Annual Improvements to PFRSs*–2014 - 2016 Cycle)

  The amendments clarify that the disclosure requirements in PFRS 12, other than those relating to summarized financial information, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale.

  Adoption of these amendments did not have significant impact on the Company's consolidated financial statements.

- Amendments to Philippine Accounting Standard (PAS) 7, *Statement of Cash Flows*, *Disclosure Initiative*

  The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses).

  The Company has provided the required information in Note 36 to the consolidated financial statements. As allowed under the transition provisions of the standard, the Company did not present comparative information for the year ended December 31, 2016.

- Amendments to PAS 12, *Income Taxes*, *Recognition of Deferred Tax Assets for Unrealized Losses*

  The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions upon the reversal of the deductible temporary difference related to unrealized losses. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

  The Company applied the amendments retrospectively. However, their application has no effect on the Company's financial position and performance as the Company has no deductible temporary differences or assets that are in the scope of the amendments.

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

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

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

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

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

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

Where goodwill forms part of a CGU and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the CGU retained.

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

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

Common Control Business Combinations

A business combination involving entities or businesses under common control is a business combination in which all of the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory.

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

- The assets and liabilities of the combining entities are reflected in the consolidated financial statements at their carrying amounts using the carrying values reported in the consolidated financial statements of the Parent Company. No adjustments are made to reflect fair values, or recognize any new assets or liabilities, at the date of the combination. The only adjustments that are made are those adjustments to harmonize accounting policies.
- No new goodwill is recognized as a result of the combination. The only goodwill that is recognized is any existing goodwill relating to either of the combining entities. Any difference between the consideration paid or transferred and the equity acquired is reflected within equity.
- The consolidated statement of income reflects the results of the combining entities from the date combination took place. No restatement of financial information in the consolidated financial statements for periods prior to the combination.
- The equity reserves of the acquired entity are carried over at pooling of interest values that reflect the application of pooling of interests method.

Investments in Associates and a Joint Venture

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

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

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

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

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

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

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

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

After the application of the equity method, the Company determines whether it is necessary to recognize an additional impairment loss on the Company's investments in its associates or joint venture. The Company determines at each balance sheet date whether there is any objective evidence that the investment in the associate or joint venture is impaired. If this is the case, the Company calculates the amount of impairment as the difference between the recoverable amount of the investment in associate or joint venture and its carrying value and recognizes the impairment loss in the consolidated statement of income.

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

Current versus Noncurrent Classification of Assets and Liabilities

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

An asset is current when it is:

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

All other assets are classified as noncurrent.

A liability is current when:

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

The Company classifies all other liabilities as noncurrent.

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

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

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

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

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

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

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

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

The Company has no financial assets and liabilities at FVPL and HTM investments as at December 31, 2017 and 2016.

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

a. Loans and Receivables

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

Loans and receivables include cash and cash equivalents, restricted cash, receivables, due from related parties and refundable deposits (included in "Other noncurrent assets" account in the consolidated balance sheets) (see Notes 7, 8, 16, 21 and 33).

b. AFS Financial Assets

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

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

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

As at December 31, 2017 and 2016, AFS financial assets consist of investments in quoted treasury bonds and notes, corporate bonds, long-term negotiable certificate of deposits (LTNCD), unquoted equity shares and club shares (see Note 15).

c. Other Financial Liabilities

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

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

This category includes accounts payable and other current liabilities, due to related parties, dividends payable, service concession fees payable and long-term debt (see Notes 17, 19, 20, 21 and 22).

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

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

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

Offsetting of Financial Instruments
Financial assets and financial liabilities are offset and the net amount is reported in the consolidated balance sheet, if and only if, there is an enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The Company assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Company and all of the counterparties.

'Day 1' Profit or Loss
Where the transaction price in a non-active market is different from the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Company recognizes the difference between the transaction price and fair value (a 'Day 1' profit or loss) in the consolidated statement of income unless it qualifies for recognition as some other type of asset. In cases where the data used is not observable, the difference between the transaction price and model value is only recognized in the consolidated statement of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Company determines the appropriate method of recognizing the 'Day 1' profit or loss amount.

Impairment of Financial Assets
The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. An impairment exists if one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event'), has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

a. Financial Assets Carried at Amortized Cost

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

   The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original EIR.

   The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the consolidated statement of income. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The assets together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Company. If a write-off is later recovered, any amount formerly charged is credited to the consolidated statement of income.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the consolidated statement of income, to the extent that the carrying value of the asset does not exceed what its amortized cost would have been had the impairment not been recognized at the date the impairment is reversed.

b. AFS Financial Assets

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

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

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

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

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instruments that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is remeasured as the difference between the asset’s carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Contractual Obligations. The Company recognizes its contractual obligations, (i) to maintain the toll roads to a specified level of serviceability or (ii) to restore the toll roads to a specified condition before it is handed over to the grantor at end of the concession term, in accordance with PAS 37,

Provisions, Contingent Liabilities and Contingent Assets, as the obligations arise which is as a consequence of the use of the toll roads and therefore it is proportional to the number of vehicles using the toll roads and increasing in measurable annual increments.

Service Concession Assets. The service concession assets acquired through business combinations are recognized initially at the fair value of the concession agreement using multi-period excess earnings method. The service concession assets that were not acquired through business combinations are recognized initially at cost. The cost of the service concession assets consists of the construction or upgrade costs, including related borrowing costs; upfront fees payments on the concession agreements; and future fixed fee considerations in exchange for the license or right. The fixed fees are recognized at present value using the discount rate at the inception date with a corresponding liability recognized. Interest on the unwinding of discount of the liability is recognized as a borrowing cost that is capitalized as part of the service concession asset during construction of the infrastructure asset and as an expense in the period incurred starting from the commercial operations of the said infrastructure asset. Following initial recognition, the service concession assets are carried at cost less accumulated amortization and any impairment losses.

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

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

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

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

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

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

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

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

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

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

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated statement of income in the year the item is derecognized.

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

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

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

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

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

Other Intangible Assets (Franchise and Software)
Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition.

Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in the consolidated statement of income in the period in which the expenditure is incurred.

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

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each balance sheet date. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the consolidated statement of income in the expense category that is consistent with the function of the intangible assets.

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

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

Impairment of Nonfinancial Assets

Investments in Associates and a Joint Venture, Service Concession Assets, Property and Equipment, Investment Properties, Software Cost and Other Noncurrent Assets. The Company assesses at each balance sheet date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal (FVLCD) and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share price for publicly-traded companies, or other available fair value indicators.

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

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation or amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statement of income unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal, the depreciation (in case of property and equipment) and amortization (in case of service concession assets and other intangible assets) charges are adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

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

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

Provisions

General. Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. When the Company expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated statement of income, net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognized as interest expense.

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

Equity

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

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

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

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

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

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

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

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

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

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

- Revenue from toll fees is recognized upon the sale of toll tickets. Toll fees received in advance, through electronic tags or magnetic cards, are recognized as income upon the holders' availment of the toll road services, net of discounts and rebates. The unused portion of toll fees received in advance is reflected as "Unearned toll revenue" in the consolidated balance sheet.

- Revenue from sale of electronic tags and magnetic cards is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer normally upon delivery.

- Construction revenue and costs are recognized by reference to the stage of completion of the contract activity at the balance sheet date. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately.

- Income from utility facility contracts, toll service facilities (TSF) and advertising, included in "Non-toll revenues" account in the consolidated statement of income, are recognized in accordance with the terms of the agreement.

- Rental income, included in "Non-toll revenues" account in the consolidated statement of income, is accounted for on a straight-line basis over the lease term.

- Service revenue, included in "Non-toll revenues" account in the consolidated statement of income, is recognized as services are rendered in accordance with the terms of the agreements.

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

- Dividend income, included in "Other income" account in the consolidated statement of income, is recognized when the right to receive the payment is established which is upon the declaration date.

- Interest income is recognized as the interest accrues using the EIR method.

- Other income is recognized when there is an incidental economic benefits, other than the usual business operations, that will flow to the Company through an increase in asset or reduction in liability and that can be measured reliably. This includes gain on remeasurement of previously held interest, income from franchise fee, gain on disposals of property and equipment and AFS financial assets, and reversal of contingent liabilities and excess accruals.

Cost and Expenses Recognition

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

Lease

The determination of whether an arrangement is, or contains a lease, is based on the substance of the arrangement at inception date of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

A reassessment is made after inception of the lease only if one of the following applies:

a. There is a change in contractual terms, other than a renewal or extension of the arrangement;
b. A renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;
c. There is a change in the determination of whether fulfillment is dependent on a specified asset; or
d. There is a substantial change to the asset

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios (a), (c) or (d) and at the date of renewal or extension period for scenario (b).

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

Company as Lessor. Leases in which the Company does not transfer substantially all the risks and rewards of ownership of an asset are classified as operating leases. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

Foreign Currency-denominated Transactions and Translations
The consolidated financial statements are presented in Philippine peso, which is the Parent Company's functional currency. All subsidiaries, associates and joint venture evaluate their primary economic and operating environment and determine their functional currency. Items included in the financial statements of each entity are initially measured using that functional currency.

Transactions and Balances. Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency closing exchange rate ruling at the balance sheet date. All differences are taken to the consolidated statement of income with the exception of differences on foreign currency borrowings that are regarded as adjustments to interest cost, and are capitalized as part of the cost of the service concession assets during the construction period.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognized in OCI or profit or loss are also recognized in OCI or profit or loss, respectively).

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

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

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

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

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

Retirement Benefits
Defined Contribution Plan. The Parent Company and MPT North maintain defined contribution plans that cover all regular employees. Under their defined contribution plans, the Parent Company and MPT North pay fixed contributions based on the employees' monthly salaries. The Parent Company and MPT North, however, are covered under RA No. 7641, "The Philippine Retirement Law", which provides for its qualified employees a defined benefit minimum guarantee. The defined

benefit minimum guarantee is equivalent to a certain percentage of the monthly salary payable to an employee at normal retirement age with the required credited years of service based on the provisions of RA No. 7641.

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

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

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

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

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

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

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

Defined benefit costs comprise the following:

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

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

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

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

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

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

Employee Leave Entitlement

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

Share-based Payment

MPIC has an Executive Stock Option Plan (ESOP) for eligible executives to receive remuneration in the form of share-based payment transactions, whereby executives render services in exchange for the share option.

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

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

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

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

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

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

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

Taxes

Current Tax. Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the tax authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the balance sheet date where the Company operates and generates taxable income.

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

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

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

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income or loss.

- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income or loss.

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

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

Deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rate (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

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

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

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

VAT. Revenues, expenses, and assets are recognized net of the amount of VAT, if applicable.

For its VAT-registered activities, when VAT from sales of goods and/or services (output VAT) exceeds VAT passed on from purchases of goods or services (input VAT), the excess is recognized as payable in the statement of financial position. When VAT passed on from purchases of goods or services (input VAT) exceeds VAT from sales of goods and/or services (output VAT), the excess is recognized as an asset in the statement of financial position up to the extent of the recoverable amount.

For its non-VAT registered activities, the amount of VAT passed on from its purchases of goods or service is recognized as part of the cost of goods/asset acquired or as part of the expense item, as applicable.

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

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

4. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the consolidated financial statements in compliance with PFRS requires management to make judgments, estimates and assumptions that affect certain reported amounts and disclosures. In preparing the consolidated financial statements, management has made its best judgments and estimates of certain amounts, giving due consideration to materiality. The judgments and estimates used in the accompanying consolidated financial statements are based upon management's evaluation of relevant facts and circumstances as at the date of the consolidated financial statements. Actual results could differ from those estimates, and such estimates will be adjusted accordingly.

The Company believes that the following represent a summary of these significant judgments and estimates and the related impact and associated risks in the consolidated financial statements.

Judgments
In the process of applying the Company's accounting policies, management has made the following judgments, apart from those involving estimations, which has the most significant effect on the amounts recognized in the consolidated financial statements.

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

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

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

The Company also recognizes construction revenues and costs in accordance with PAS 11. It measures contract revenue at the fair value of the consideration received or receivable. Given that NLEX Corp., MHI, CIC and CCLEC have subcontracted the construction to outside contractors, the construction revenue recognized is equal to the construction costs. Construction revenue and costs recognized in the consolidated statements of income amounted to ₱5,263.3 million and ₱7,277.4 million for the years ended December 31, 2017 and 2016, respectively (see Note 11).

The Company also recognizes its contractual obligations to restore the toll roads to a specified level of serviceability. The Company recognizes a provision following PAS 37 as the obligation arises which is a consequence of the use of the toll roads and therefore it is proportional to the number of vehicles using the roads and increasing in measurable annual increments. Provision for heavy maintenance amounted to ₱402.6 million and ₱433.5 million as at December 31, 2017 and 2016, respectively (see Note 18).

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

Consolidation of Structured Entities. Subsidiaries included structured entities that were setup 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, *Consolidated Financial Statements* and, that the Company controls these structured entities. The voting shares of the third-party stockholders in these structured entities are accounted for as non-controlling interest in the consolidated financial statements.

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

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

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

In April 2017, upon acquisition by MPT North of additional 7% of the total issued and outstanding stock of TMC, the other significant shareholder ceased to hold veto rights, resulting to MPT North acquiring control over TMC. This transaction was accounted for using the acquisition method under PFRS 3, *Business Combinations* (see Note 5).

Joint Arrangement. For all joint arrangements structured in separate vehicles, the Company must assess the substance of the joint arrangement in determining whether it is classified as a joint venture or joint operation. This assessment requires the Company to consider whether it has rights to the joint arrangement's net assets (in which case it is classified as a joint venture), or rights to and obligations for specific assets, liabilities, expenses, and revenues (in which case it is classified as a joint operation). Factors the Company considers include: structure, legal form, contractual agreement, and other facts and circumstances. Upon consideration of these factors, the Company has determined that its joint arrangement, structured through ESC as a separate vehicle, gives it rights to the net assets of ESC, and therefore classified its investment in ESC's common shares, as a joint venture as at December 31, 2016. In 2016, the Company has 50% ownership interest in ESC while the other 50% is held by Egis Easytrip Services SA (EESSA).

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

In October 2017, MPTC acquired additional 16% of the total issued and outstanding stock of ESC. This transaction increased MPTC's effective ownership in ESC from 50.0% to 66.0%, resulting to MPTC acquiring control over ESC. This transaction was accounted for using the acquisition method under PFRS 3 (see Note 5).

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

The Company's investments in CII B&R amounted to ₱3,133.2 million and ₱3,869.0 million as at December 31, 2017 and 2016, respectively (see Note 10).

Estimates and Assumptions

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

Amortization of Service Concession Assets. The service concession assets are amortized using the UOP method, where the amortization is calculated based on the ratio of actual traffic volume of the underlying toll expressways compared to the total expected traffic volume of the underlying toll expressways over the remaining concession periods of the concession agreements. Adjustments may need to be made to the carrying amounts of service concession assets should there be a material difference between the total expected traffic volume and the actual results. The Company's management has reviewed the total expected traffic volume and made appropriate adjustments to the assumptions of the expected traffic volume with reference to the latest traffic studies. The management of the Company considers that these are calculated by reference to the best estimates of the total expected traffic volumes of the underlying toll expressways.

In 2017 and 2016, the Company reported amortization of service concession assets amounting to ₱969.2 million and ₱788.5 million, respectively (see Notes 11 and 24). The total carrying values of service concession assets amounted to ₱66,121.8 million and ₱61,827.8 million as at December 31, 2017 and 2016, respectively (see Note 11).

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

No impairment loss was recognized in the consolidated financial statements for the years ended December 31, 2017 and 2016. The carrying values of the Company's service concession assets not yet available for use amounted to ₱33,925.6 million and ₱30,812.2 million as at December 31, 2017 and 2016, respectively (see Note 11).

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

No impairment of goodwill was recognized in 2017 and 2016. The carrying amount of goodwill amounted to ₱8,477.3 million and ₱4,979.2 million as at December 31, 2017 and 2016 (see Note 13).

Impairment of Investments in Associates. Impairment review is performed when certain impairment indicators are present. Determining the fair value of assets requires the estimation of cash flows expected to be generated from the continued use and ultimate disposition of such assets.

While it is believed that the assumptions used in the estimation of fair values reflected in the consolidated financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse impact on the results of operations. The key assumptions used to determine the recoverable amount and test the impairment loss are disclosed and explained further in Note 10.

No impairment loss on investment in an associates was recognized in 2017 and 2016 (see Note 10). No impairment test was conducted in 2016 as there were no indicators of impairment.

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

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

Deferred tax assets amounted to ₱6,209.1 million and ₱5,833.4 million as at December 31, 2017 and 2016, respectively (see Note 31).

Temporary differences, NOLCO and MCIT for which no deferred tax assets were recognized, as management believes that it is more likely than not that there will be no sufficient taxable income to realize the benefits of the deferred tax, amounted to ₱1,208.9 million and ₱1,129.9 million as at December 31, 2017 and 2016, respectively (see Note 31).

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

Pension asset under the defined benefit plan amounted to ₱46.9 million and ₱0.9 million as at December 31, 2017 and 2016, respectively. Accrued retirement costs under the defined benefit plan amounted to ₱1.8 million and ₱3.2 million as at December 31, 2017 and 2016, respectively (see Note 27).

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

Carrying value of the LTIP, recognized under "Other reserves" in the equity section of the consolidated balance sheets, amounted to ₱23.1 million as at December 31, 2017 and 2016 (see Notes 22 and 27). LTIP payable (current and noncurrent) as at December 31, 2017 and 2016 amounted to ₱503.8 million and ₱261.3 million, respectively (see Note 27).

Provisions. The Company recognizes provisions based on estimates of whether it is probable that an outflow of resources will be required to settle an obligation. Where the final outcome of these matters is different from the amounts that were initially recognized, such differences will impact the financial performance in the current period in which such determination is made.

The provision for the heavy maintenance requires an estimation of the periodic cost, generally estimated to be every seven to nine years or the expected heavy maintenance dates, to restore the assets to a level of serviceability during the concession term and in good condition before turnover to the Grantor. This is based on the best estimate of management to be the amount expected to be incurred to settle the obligation at every heavy maintenance date discounted using a pre-tax rate that reflects the current market assessment of the time value of money and the risk specific to the liability.

Provisions (current and noncurrent) amounted to ₱1,135.5 million and ₱753.1 million as at December 31, 2017 and 2016, respectively (see Note 18).

Allowance for Doubtful Accounts. Allowance for doubtful accounts is maintained at a level considered adequate to provide for potentially uncollectible receivables. The level of allowance is based on past collection experience and other factors that may affect collectability. An evaluation of the receivables, which is designed to identify potential charges to the allowance, is performed on a continuous basis throughout the year. There were no provisions under collective assessment in 2017 and 2016.

Receivables (net of allowance for doubtful accounts of ₱26.4 million and ₱24.9 million as at December 31, 2017 and 2016, respectively) amounted to ₱695.3 million and ₱688.8 million as at December 31, 2017 and 2016, respectively (see Note 8).

Due from related parties (net of allowance for doubtful accounts of nil and ₱21.5 million as at December 31, 2017 and 2016, respectively) amounted to ₱5.5 million and ₱40.0 million as at December 31, 2017 and 2016, respectively (see Note 21).

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 counsels believe that the eventual liabilities under these lawsuits or claims, if any, will not have a material effect on the consolidated financial statements (see Note 35).

5. Business Combinations and Acquisition of Non-controlling Interests

Acquisitions in 2017

Step Acquisition of TMC

As at December 31, 2016, the Company has 60% ownership interest in TMC. However, as discussed in Note 4, TMC was accounted for as an investment in an associate as another significant shareholder held veto rights related to changes in operations and dividend policies that affect investors' returns.

On April 4, 2017, MPT North entered into a Share Sale and Purchase Agreement (SPA) with Egis Road Operation S.A. (EROSA) for the purchase by MPT North of 26,600 common shares of TMC representing 7% of total issued and outstanding stock of TMC for a total purchase price of ₱442.4 million.

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

In accordance with PFRS 3:

- gain of ₱1,801.0 million was recognized in 2017 under the "Other income" account in the consolidated statement of income as a result of the remeasurement of the 60% previously held interest in TMC (see Note 30); and

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

The Company elected to measure the non-controlling interest in the acquiree at the proportionate share of its interest in the acquiree's identifiable net assets.

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

	Fair Values
Assets	
Cash and cash equivalents	₱154,391,816
Receivables	299,795,379
Inventories	10,864,605
Other current assets	56,473,709
Property and equipment (see Note 12)	71,222,594
Deferred tax assets (see Note 31)	21,386,088
Deposits and other noncurrent assets	9,577,402
	623,711,593
Liabilities	
Accounts payable and other current liabilities	440,243,211
Income tax payable	75,439,142
Provisions (see Note 18)	174,942,878
Retention payable	19,291,367
Accrued employee benefits (see Note 27)	7,486,471
	717,403,069
Total identifiable net liabilities at fair value	(93,691,476)
Non-controlling interests	(44,328,686)
Fair value of previously held interest	(2,757,310,227)
Goodwill arising from acquisition (see Note 13)	3,109,674,487
Consideration transferred	214,344,098
Intercompany account settled	228,020,827
Total cash paid on acquisition	₱442,364,925

Net cash outflow on acquisition is as follows:

Cash acquired with the subsidiary[(a)]	₱154,391,816
Total cash paid on acquisition	(442,364,925)
Net cash outflow	(₱287,973,109)

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

The fair value and gross amount of the receivables amounted to ₱299.8 million. None of the receivables have been impaired and it is expected that the full contractual amounts can be collected.

The goodwill of ₱3,109.7 million that arose from the acquisition can be attributed to the synergies and other benefits from combining the assets and activities of TMC with the Company. None of the goodwill recognized is expected to be deductible for income tax purposes.

From the date of acquisition to December 31, 2017, TMC has not contributed any operating revenues since TMC derives its revenues from its services to NLEX Corp. and therefore eliminated at consolidated level, while the contribution to the consolidated net income of the Company amounted to ₱3.0 million. If the combination had taken place at the beginning of the year, contributions to the consolidated revenue would be nil while the contributions to the consolidated net income would have been ₱9.7 million.

Acquisitions of non-controlling interests in TMC
On April 27, 2017, EROSA and EIPPI, entered into an SPA for EIPPI's acquisition of 49,400 TMC shares, representing 13.0% of the issued and outstanding shares of TMC, held by EROSA for a total consideration of ₱821.5 million. The purchase price will be paid by EIPPI to EROSA through the receipt of dividends from TMC (pre-merger) and NLEX Corp. (from and after merger) (see Note 32).

EIPPI is jointly controlled by Egis Projects S.A. (EPSA) and MPT North with ownership of 54% and 46%, respectively. The above transaction increased the Company's effective ownership in TMC from 67.0% to 72.98% and was accounted for as an equity transaction with the net premium of ₱367.3 million recognized in equity.

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

Total consideration on credit	₱377,876,200
Carrying value of the interest acquired in TMC	(10,532,622)
Difference recognized in "Other reserves" account (see Note 22)	₱367,343,578

Step Acquisition of ESC
As at December 31, 2016, ESC is jointly controlled by MPT North and EESSA with effective ownership at 50% each and the investment in ESC is accounted for as an investment in a joint venture.

On October 10, 2017, EESSA, MPTC and ESC entered into an SPA for the purchase by MPTC of 31,999 common shares of ESC representing 16% of the total issued and outstanding stock of ESC for a total purchase price of ₱84.8 million. After taking into effect the abovementioned transaction, MPTC's effective ownership in ESC increased from 50.0% to 66.0% and was accounted for using the acquisition method under PFRS 3.

In accordance with PFRS 3:

- gain of ₱198.1 million was recognized in 2017 under the "Other income" account in the consolidated statement of income as a result of the remeasurement of the 50% previously held interest in ESC (see Note 30); and

- the intercompany relationships under the Service Agreements of ESC with NLEX Corp. and CIC are effectively settled with no gain or loss recognized as the intercompany accounts were settled at recorded amounts.

The Company elected to measure the non-controlling interest in the acquiree at the proportionate share of its interest in the acquiree's identifiable net assets.

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

	Fair Values
Assets	
Cash and cash equivalents	₱257,655,269
Receivables	118,036,103
Inventories	9,190,809
Other current assets	7,062,107
Property and equipment (see Note 12)	31,856,081
Deferred tax assets (see Note 31)	18,128,005
Deposits and other noncurrent assets	844,570
	442,772,944
Liabilities	
Accounts payable and other current liabilities	14,455,604
Customer's refundable deposits	19,570,649
Unearned toll revenue	177,298,874
Long-term payable	1,769,079
Accrued employee benefits (see Note 27)	3,727,479
Contingent liability (see Note 18)	52,898,021
	269,719,706
Total identifiable net assets at fair value	173,053,238
Non-controlling interests	(12,591,332)
Fair value of previously held interest	(327,783,931)
Goodwill arising on acquisition (see Note 13)	388,354,127
Consideration transferred	221,032,102
Intercompany account settled	(136,019,908)
Total cash paid on acquisition	₱85,012,194

The fair value and gross amount of the receivables amounted to ₱118.0 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 ₱52.9 million was recognized at the acquisition date resulting from probable claim from a third party (see Note 18). 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, 2017, the contingent liability, net of deferred tax, amounted to ₱37.0 million.

The goodwill of ₱388.4 million that arose on the acquisition can be attributed to the expected synergies arising from the acquisition. None of the goodwill recognized is expected to be deductible for income tax purposes.

From the date of acquisition to December 31, 2017, ESC contributed ₱11.0 million operating revenues, since ESC revenues pertain mainly to its services to NLEX Corp. and CIC and therefore eliminated at consolidated level and ₱0.2 million to net income of the Company. If the combination had taken place at the beginning of the year, contributions to the consolidated revenue and consolidated net income would have been ₱43.1 revenues and ₱3.4 million of net profit for ESC for the period ended December 31, 2017.

Dilution of Interest in NLEX Corp. and TMC
EIPPI is jointly controlled by MPT North (46.0%) and EPSA (54.0%). EIPPI has ownership interest in NLEX Corp. and TMC. On December 29, 2017, EPSA subscribed to 37,560 new shares of EIPPI for a total amount of ₱3.76 million by converting part of its receivable from EIPPI into equity equivalent to 3.21% equity interest in EIPPI.

As a result of the aforementioned transaction, MPT North's effective ownership in EIPPI decreased from 46.0% as at December 31, 2016 to 42.79% as at December 31, 2017. The dilution in MPT North's interest in EIPPI decreased MPT North's effective ownership in NLEX Corp. from 75.60% to 75.28% and in TMC from 72.98% to 72.57% as at December 31, 2017 and 2016, respectively.

The transaction was accounted for as an equity transaction with the net discount of ₱35.1 million recognized under "Other reserves account" in equity (see Note 22).

Acquisitions in 2016

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

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

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

Net cash outflow on the acquisition is as follows:

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

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

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

Total cash consideration paid to NOHI	₱23,418,467
Carrying value of the additional interest acquired in MSIHI	(23,762,438)
Difference recognized in "Other reserves" account (see Note 22)	(₱343,971)

In 2017, the Company adjusted the discount recognized in "Other reserves" account to effect the restatement made by MSIHI on its financial statements to reclassify deposits received from stockholders from equity to a liability account. As a result of this reclassification adjustment, the carrying value of the interest acquired increased by ₱62.9 million, thereby increasing the discount recognized in "Other reserves" account by the same amount.

6. Material Partly-Owned Subsidiary

In determining whether an NCI is material to the Company, management employs both quantitative and qualitative factors to evaluate the nature of, and risks associated with, the Company's interests in these entities; and the effects of those interests on the Company's financial position. Factors considered include, but not limited to, carrying value of the subsidiary's NCI relative to the NCI recognized in the Company's consolidated financial statements, the subsidiary's contribution to the Company's consolidated revenues and net income, and other relevant qualitative risks associated with the subsidiary's nature, purpose and size of activities.

Based on management's assessment, the Company has concluded that NLEX Corp. and its subsidiary is the subsidiary with NCI that is material to the Company.

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

	2017	2016
Proportion of equity interest held by non-controlling interests (see Note 5)	**24.7%**	24.4%
Accumulated balances of material non-controlling interests	**₱2,616,168,579**	₱2,327,199,283
Net income during the year allocated to material non-controlling interests	**1,133,194,613**	997,550,596
Dividends paid to material non-controlling interests	**429,440,000**	981,508,544

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

Summarized Consolidated Balance Sheets

	As at December 31	
	2017	2016
Current assets	**₱4,718,775,583**	₱1,857,400,349
Noncurrent assets	**35,427,245,142**	33,431,296,534
Current liabilities	**(10,212,331,923)**	(4,081,763,629)
Noncurrent liabilities	**(19,277,954,719)**	(21,595,315,519)
Total equity	**₱10,655,734,083**	₱9,611,617,735
Attributable to:		
Equity holders of the Parent Company	**₱8,039,565,504**	₱7,284,418,452
Non-controlling interests	**2,616,168,579**	2,327,199,283
	₱10,655,734,083	₱9,611,617,735

Summarized Consolidated Statements of Comprehensive Income

	Years Ended December 31	
	2017	2016
Operating revenues	**₱11,760,438,792**	₱10,696,347,946
Cost of services	**(4,554,360,218)**	(4,392,888,455)
General and administrative expenses	**(845,452,952)**	(726,169,402)
Interest expense and other finance costs	**(523,371,725)**	(442,912,617)
Other income (including construction revenue)	**3,882,577,850**	6,242,375,746
Construction costs	**(3,763,578,479)**	(6,170,060,989)
Income before income tax	**5,956,253,268**	5,206,692,229
Provision for income tax	**(1,312,113,054)**	(1,119,614,957)
Net income	**4,644,140,214**	4,087,077,272
Other comprehensive loss	**(123,866)**	(10,342,908)
Total comprehensive income	**₱4,644,016,348**	₱4,076,734,364
Attributable to non-controlling interests	**₱1,133,164,390**	₱997,550,596

Summarized Consolidated Cash Flow Information

	Years Ended December 31	
	2017	2016
Operating	**₱6,632,112,357**	₱5,867,182,445
Investing	**(3,648,542,498)**	(4,658,148,449)
Financing	**(658,328,870)**	(3,488,690,744)
Net increase (decrease) in cash and cash equivalents	**₱2,325,240,989**	(₱2,279,656,748)

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

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

As at December 31, 2017, NLEX Corp. has unpaid dividends to non-controlling shareholders amounting to ₱449.0 million, respectively. NLEX Corp. has no unpaid dividends as of December 31, 2016.

7. Cash and Cash Equivalents and Restricted Cash

Cash and cash equivalents consist of:

	2017	2016
Cash on hand and in banks	**₱1,224,331,853**	₱835,466,321
Short-term deposits as cash equivalents	**3,113,257,863**	655,651,490
	₱4,337,589,716	₱1,491,117,811

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

As at December 31, 2016, cash in banks also include Transaction Accounts maintained by Manila Cavite Toll Road Finance Company (a special purpose entity or SPE of CIC) amounting to ₱262.3 million. The Transaction Accounts, which mainly consist of the O&M Account, Major Maintenance Reserve Account, Cash Trapping Event Reserve Account, Construction Cost Account, Coverage Reserve Account and Series 2010-1 Debt Service Reserve Account, are established in compliance with the Indenture Supplement Agreement entered into by the SPE, CIC and the Indenture Trustee pursuant to the issuance of Series 2010-1 Notes. These Transaction Accounts were released in July 2017 when CIC prepaid the Series 2010-1 Notes (see Note 19).

Restricted Cash
Restricted cash comprise revenue and debt service reserve and payment accounts amounting to ₱670.2 million and ₱471.6 million as at December 31, 2017 and 2016, respectively, which are established and maintained for debt servicing of CIC's, MPT Asia's, MPT North's and MPTC's long-term debt. The revenue and debt service reserve and payment accounts also form part of the securities for CIC's, MPT Asia's, MPT North's and MPTC's long-term debt (see Note 19).

Interest earned from cash and cash equivalents and restricted cash amounted to ₱31.8 million and ₱50.3 million for the years ended December 31, 2017 and 2016, respectively (see Note 28).

NLEX Corp. had ₱5.0 billion of available undrawn committed term loan facilities as at December 31, 2016. In 2017, NLEX Corp. had drawn ₱2.0 billion of the committed term loan facilities (see Note 19). NLEX opted not to extend the availability period of the remaining undrawn ₱3.0 billion term loan facility.

8. Receivables

This account consists of:

	2017	2016
Trade receivables from:		
Third parties	**₱282,981,998**	₱59,666,238
Related parties (see Note 21)	**42,616,875**	304,124,441
Advances to DPWH	**179,535,742**	180,361,049
Advances to officers and employees (see Note 21)	**33,876,307**	20,681,048
Interest receivables	**20,434,847**	14,738,854
Dividend receivable (see Note 15)	**–**	55,187,000
Other receivables	**162,341,746**	79,011,492
	721,787,515	713,770,122
Less allowance for doubtful accounts	**26,439,165**	24,938,590
	₱695,348,350	₱688,831,532

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

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

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

Interest receivables are collectible within three to six months.

Other receivables are noninterest-bearing and are collectible within a year. As at December 31, 2017 and 2016, other receivables include those receivables from motorists who caused accidental damage to NLEX property from day-to-day operations amounting to ₱43.6 million and ₱38.2 million, respectively.

Movements in the allowance for individually assessed impaired receivables in 2017 and 2016 are as follows:

	2017		
	Trade Receivables	**Other Receivables**	**Total**
Balance at beginning of year	**₱3,053,951**	**₱21,884,639**	**₱24,938,590**
Provision for doubtful accounts (see Note 25)	**1,327,250**	**1,717,712**	**3,044,962**
Write-offs	**(1,176,604)**	**(367,783)**	**(1,544,387)**
Balance at end of year	**₱3,204,597**	**₱23,234,568**	**₱26,439,165**

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

9. Other Current Assets

This account consists of:

	2017	2016
Input VAT	**₱497,417,835**	₱461,896,847
Restricted cash (see Note 32)	**321,000,000**	–
Creditable taxes	**168,122,040**	142,485,362
Deferred input VAT	**157,945,670**	186,898,381
Prepaid expenses	**103,406,699**	80,992,340
Advances to contractors and consultants (see Note 21)	**69,774,916**	29,911,065
Advances to suppliers	**9,506,689**	6,298,339
Others	**7,912,467**	7,513,023
	1,335,086,316	915,995,357
Less allowance for unusable creditable taxes	**15,380,461**	15,380,461
	₱1,319,705,855	₱900,614,896

Restricted cash pertains to cash held in escrow account in relation with the construction contract for the NLEX Segment 10 (see Note 32).

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

Advances to contractors and consultants amounting to ₱268.7 million presented under "Other current assets" in the 2016 consolidated financial statements and supporting notes disclosures have been reclassified to "Other noncurrent assets" to conform with the current year presentation. This reclassification did not affect the total assets, total liabilities and total equity in the consolidated balance sheets as at December 31, 2016 and the total comprehensive income in the consolidated statements of comprehensive income for the year ended December 31, 2016.

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

This account consists of:

	Relationship	**2017**	2016
PT Nusantara Infrastructure Tbk (PT Nusantara)	Associate	**₱7,777,469,718**	₱–
Don Muang Tollway Public Ltd. (DMT)	Associate	**7,010,212,637**	6,381,299,410
CII B&R	Associate	**3,133,219,834**	3,869,019,589
TMC	Associate	**–**	942,644,603
ESC	Joint Venture	**–**	125,060,901
		₱17,920,902,189	₱11,318,024,503

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

	Place of Business	Principal Activities	Ownership Interest in %	
			2017	2016
Associates:				
PT Nusantara	Indonesia	Tollway Operation	**49.5**	–
CII B&R	Vietnam	Tollway Operation	**44.9**	44.9
DMT	Thailand	Tollway Operation	**29.5**	29.5
TMC	Philippines	O&M of Tollways	**–**	60.0
Joint Venture:				
ESC	Philippines	Electronic Toll Collection Services	**–**	50.0

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

	2017	2016
Acquisition cost:		
Balance at beginning of year	**₱11,351,043,283**	₱4,241,744,081
Additions during the year	**7,623,733,533**	7,109,299,202
Change in ownership from associate to subsidiary	**(1,005,140,000)**	–
Balance at end of year	**17,969,636,816**	11,351,043,283
Accumulated equity in net earnings:		
Balance at beginning of year	**(137,681,793)**	146,289,370
Equity in net earnings for the year	**557,852,577**	459,614,748
Dividends received	**(678,860,957)**	(743,585,911)
Change in ownership from associate to subsidiary	**(89,033,863)**	–
Balance at end of year	**(347,724,036)**	(137,681,793)

(Forward)

	2017	2016
Share in remeasurements of defined benefit retirement plan:		
Balance at beginning of year	**(₱8,186,466)**	(₱6,550,960)
Remeasurements of defined benefit retirement plan during the year	**–**	(1,635,506)
Change in ownership from associate to subsidiary	**8,186,466**	–
Balance at end of year	**–**	(8,186,466)
Share in cumulative translation adjustment (CTA):		
Balance at beginning of year	**112,849,479**	–
Share in CTA of an associate during the year	**186,139,930**	112,849,479
Balance at end of year	**298,989,409**	112,849,479
	₱17,920,902,189	₱11,318,024,503

PT Nusantara

On October 31, 2017, MPTI acquired 754.4 million shares representing 5.08% interest in PT Nusantara from BCA Sekuritas at a cost of Indonesian Rupiah (IDR) 202 per share or IDR152.4 billion.

On November 3, 2017, MPTI further acquired a total of 6.6 billion shares of PT Nusantara at a consideration of IDR 270 per share or a total purchase price of IDR1,782 billion (₱6.8 billion). The acquired shares represent approximately 44.44% of the total issued and outstanding capital stock of PT Nusantara. Together with MPTI's earlier acquisitions, MPTI holds a total of about 49.52% of the total outstanding capital stock of PT Nusantara. The transaction was executed by way of a cross sale on the Indonesian Stock Exchange (IDX) pursuant to definitive transaction documents entered into with PT Matahari Kapital Indonesia and other related parties.

PT Nusantara is a publicly listed limited liability company duly established and existing under the laws of the Republic of Indonesia. Its infrastructure portfolio in Indonesia includes toll roads, ports, energy, water and telecommunication towers although approximately 80% of its core income is attributable to the toll roads.

Based on the initial purchase price allocation, the difference of ₱843.9 million between the Company's share on the total fair value of PT Nusantara and subsidiaries' identified assets and liabilities and the Company's total cost of investment was allocated to goodwill and was included in the carrying value of the investment in PT Nusantara.

Fair Value of Investment in PT Nusantara. The fair value of PT Nusantara shares held by the Company amounted to IDR1,588.6 billion (₱5,852.7 million) as at December 31, 2017.

Impairment Testing of the Investment in PT Nusantara. For the purposes of impairment testing related to the investment in the associate, under the requirements of PAS 36, *Impairment of Assets*, the Company has performed the analysis by comparing the recoverable amount and the carrying amount of the investment as at reporting date.

The recoverable amount of the investment has been determined based on a value in use computation using the cash flow projections from most recent financial budgets and forecast of the Company. For the impairment testing conducted, growth rates used were 2% to 9.0% and the pre-tax discount rate applied was 12.6%, which was based on the weighted average cost of capital with estimated premium of 4.0% over cost of equity. The forecast period used in the computation is 25 years. The forecast period is greater than 5 years as management can reliably estimate the cash flow for the entire duration of the concession period.

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

DMT

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

On July 31, 2014, FPC transferred its 75% shareholding in MPT Asia to MIHL for a consideration of approximately US$101.25 million. As discussed in Note 5, MPT Asia became wholly-owned subsidiary of MPTC after it was transferred by MPIC in September 2016. MPT Asia's sole asset is a 29.45% interest in DMT. DMT is a major toll road operator in Bangkok, Thailand. The concession for DMT runs until 2034 for the operation of a 21.9 km six-lane elevated toll road from central Bangkok to Don Muang International Airport and further to the National Monument in the north of Bangkok. On December 22, 2014, DMT secured toll rate increases of 17% and 20% on its Original road and Northern extension, respectively.

Cash Dividends. On March 29, 2017 and August 15, 2017, DMT's BOD declared cash dividends amounting to Baht 780.9 million (₱1,144.4 million) and Baht 260.3 million (₱381.5 million), payable on April 27, 2017 and September 14, 2017, respectively. The Company's share in the total dividends declared amounted to ₱449.4 million.

On October 18, 2016, DMT's BOD declared cash dividends amounting Baht 260.3 million (₱358.2 million), payable on within November 2017. The Company's share in the dividends declared amounted to ₱105.5 million.

CII B&R

On January 14, 2015, MPTC entered into an equity investment and financing transaction with CII that will result in MPTC holding a significant minority equity interest equal to about 44.94% of the outstanding capital of CII B&R through a combination of purchase of CII B&R secondary shares from CII, and subscription to Vietnamese dong (VND)-denominated bonds to be issued by CII, which are exchangeable into secondary shares in CII B&R. Aggregate acquisition costs for the CII B&R shares and CII bonds amounted to VND1,955 billion (approximately ₱4.1 billion). The CII bond and the acquired shares in CII B&R are accounted for as equity investment with CII B&R as an associate starting March 2015. The first and second tranches of the exchangeable bonds were exchanged to CII B&R shares in April and October 2016, respectively.

CII B&R and its subsidiaries are primarily engaged in the construction, development and operation in urban infrastructure sector under the BOT contracts and Built-Transfer contracts.

CII B&R is incorporated in Vietnam and listed in Ho Chi Minh City Stock Exchange.

Based on the purchase price allocation, the difference of ₱1,243.1 million between the Company's share on the total fair value of CII B&R and subsidiaries' identified assets and liabilities and the Company's total cost of investment was allocated to goodwill and was included in the carrying value of the investment in CII B&R.

Cash Dividends. On March 31, 2017, CII B&R's BOD declared cash dividends amounting to VND185.1 billion (₱408.2 million) payable on May 29, 2017. The Company's share in the total dividends declared amounted to ₱183.9 million.

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

Fair Value of Investment in CII B&R. The fair value of CII B&R shares held by the Company (including the equivalent shares of the potential voting rights) amounted to VND2,032.3 billion (₱4,474.4 million) and VND2,106.0 billion (₱4,589.3 million) as at December 31, 2017 and 2016, respectively.

TMC

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

On December 28, 2016, MPT North acquired additional 53,200 TMC common shares from EROSA, representing 14% of the total issued and outstanding capital stock of TMC, for a total purchase price of ₱884.7 million. This transaction increased MPT North's interest in TMC to 60% and was accounted for as an investment in associate as another significant shareholder held veto rights related to changes in operations and dividend policies that affect investors' returns.

Based on the purchase price allocation, the difference of ₱345.6 million between the Company's share on the total fair value of TMC's identified assets and liabilities and the Company's total cost of investment was allocated to goodwill and was included in the carrying value of the investment in TMC.

Further, as discussed in Note 5, the Company obtained control over TMC starting April 2017.

Cash Dividends. TMC's BOD approved the declaration of cash dividends aggregating to ₱87.5 million and ₱900.2 million in 2017 and 2016, respectively. The Company's share in the dividends declared amounted to ₱40.3 million and ₱414.1 million in 2017 and 2016, respectively.

ESC

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

Cash Dividends. ESC's BOD approved the declaration of cash dividends aggregating to ₱10.6 million in 2017. The Company's share in the dividends declared amounted to ₱5.3 million. No dividends were declared by ESC's BOD in 2016.

Further, as discussed in Note 5, the Company obtained control over ESC starting October 2017.

Summarized financial information in respect of DMT, CII B&R, TMC and ESC as at December 31 2017 and 2016 are as follows:

	2017			2016			
	Nusantara	**DMT**	**CII B&R**	DMT	CII B&R	TMC	ESC
Current assets	**₱4,685,181,714**	**₱776,186,569**	**₱3,990,449,108**	₱474,701,631	₱4,504,986,220	₱692,510,484	₱469,337,865
Noncurrent assets	**21,626,835,122**	**29,228,672,412**	**15,070,626,803**	25,554,661,921	12,749,545,264	144,124,779	41,350,981
Current liabilities	**(1,397,439,761)**	**(4,138,940,065)**	**(3,898,734,591)**	(2,845,660,080)	(2,494,668,199)	(706,341,050)	(440,610,398)
Noncurrent liabilities	**(10,913,022,552)**	**(6,676,108,223)**	**(10,956,561,917)**	(6,129,421,565)	(8,916,790,256)	(4,240,729)	(4,740,558)
Equity	**14,001,554,523**	**19,189,810,693**	**4,205,779,403**	17,054,281,907	5,843,073,029	126,053,484	65,337,890
Proportion of the Company's ownership	**49.52%**	**29.45%**	**44.94%**	29.45%	44.94%	60%	50%
Share in equity of the investees	**6,933,569,800**	**5,651,399,249**	**1,890,077,264**	5,022,486,022	2,625,877,019	75,632,090	32,668,945
Goodwill	**843,899,918**	**1,358,813,388**	**1,243,142,570**	1,358,813,388	1,243,142,570	867,012,512	92,391,956
Carrying amount of the investment	**₱7,777,469,718**	**₱7,010,212,637**	**₱3,133,219,834**	₱6,381,299,410	₱3,869,019,589	₱942,644,602	₱125,060,901

	Years Ended December 31						
	2017			2016			
	Nusantara	**DMT**	**CII B&R**	DMT	CII B&R	TMC	ESC
Operating revenues	**₱1,015,935,929**	**₱4,428,656,331**	**₱734,820,953**	₱1,049,291,017	₱448,772,479	₱2,046,814,922	₱138,025,583
Cost of services	**(377,462,651)**	**(1,637,368,482)**	**(446,558,497)**	(337,707,281)	(102,616,908)	(1,086,449,883)	(18,905,867)
General and administrative expenses	**(305,662,012)**	**(216,679,608)**	**(146,390,289)**	(32,465,973)	(309,606,669)	(308,990,678)	(87,798,373)
Other income (expenses) - net	**(232,422,983)**	**(226,635,382)**	**(217,517,913)**	(41,058,906)	274,325,666	242,114,023	(37,688)
Income before income tax	**100,388,283**	**2,347,972,859**	**(75,645,746)**	638,058,857	310,874,568	893,488,384	31,283,655
Provision for income tax	**(86,727,463)**	**(524,340,753)**	**(34,839,571)**	(130,998,300)	(11,561,836)	(216,828,603)	(10,269,835)
Net income	**13,660,820**	**1,823,632,106**	**(110,485,317)**	507,060,557	299,312,732	676,659,781	21,013,820
Other comprehensive income (loss)	**297,136,727**	**1,837,746,350**	**(1,117,531,101)**	–	383,190,081	(3,555,448)	–
Total comprehensive income	**₱310,797,547**	**₱3,661,378,456**	**(₱1,228,016,418)**	₱507,060,557	₱682,502,813	₱673,104,333	₱21,013,820
Company's share of:							
Net income	**₱6,594,078**	**₱537,059,655**	**(₱49,652,101)**	₱149,329,057	₱134,511,141	₱311,263,499	₱10,506,910
Total comprehensive income	**153,736,185**	**1,078,275,955**	**(551,870,578)**	149,329,057	247,360,620	309,627,993	10,506,910

11. Service Concession Assets

The movements in the service concession assets follow:

	NLEX	SCTEX	NLEX-SLEX Connector Road	CALAEX	CAVITEX	CCLEX	Total
Cost:							
At January 1, 2016	₱26,129,296,078	₱3,177,555,625	₱–	₱20,898,235,546	₱9,787,488,770	₱–	₱59,992,576,019
Additions (see Note 36)	5,602,509,836	378,504,587	2,507,847,423	975,195,805	32,860,171	132,149,112	9,629,066,934
At December 31, 2016	31,731,805,914	3,556,060,212	2,507,847,423	21,873,431,351	9,820,348,941	132,149,112	69,621,642,953
Additions (see Note 36)	**2,765,345,336**	**783,222,842**	**214,910,301**	**1,180,071,762**	**88,027,844**	**231,581,506**	**5,263,159,591**
At December 31, 2017	**₱34,497,151,250**	**₱4,339,283,054**	**₱2,722,757,724**	**₱23,053,503,113**	**₱9,908,376,785**	**₱363,730,618**	**₱74,884,802,544**
Accumulated amortization:							
At January 1, 2016	₱6,501,741,058	₱11,364,125	₱–	₱–	₱492,150,221	₱–	₱7,005,255,404
Amortization (see Note 24)	540,223,703	74,896,760	–	–	173,427,329	–	788,547,792
At December 31, 2016	7,041,964,761	86,260,885	–	–	665,577,550	–	7,793,803,196
Amortization (see Note 24)	**654,699,391**	**108,095,210**	**–**	**–**	**206,400,822**	**–**	**969,195,423**
At December 31, 2017	**₱7,696,664,152**	**₱194,356,095**	**₱–**	**₱–**	**₱871,978,372**	**₱–**	**₱8,762,998,619**
Carrying value:							
At December 31, 2017	**₱26,800,487,098**	**₱4,144,926,959**	**₱2,722,757,724**	**₱23,053,503,113**	**₱9,036,398,413**	**₱363,730,618**	**₱66,121,803,925**
At December 31, 2016	24,689,841,153	3,469,799,327	2,507,847,423	21,873,431,351	9,154,771,391	132,149,112	61,827,839,757

<u>NLEX</u>

Additions during 2017 and 2016 pertain mainly to lane widening project on Segments 2 and 3 (portions of Phase I); civil works construction for Segment 10 (portion of Phase II); and fixed operating equipment (FOE) design, supply and installation on Segment 10 (portion of Phase II). Additions also include the pre-construction costs of Segment 8.2, portion of Phase II.

Borrowing costs capitalized amounted to ₱653.8 million and ₱653.7 million for the years ended December 31, 2017 and 2016, respectively. The interest rate used to determine the amount of borrowing costs eligible for capitalization ranges from 5.0% to 5.8% in 2017 and 2016.

The concession term for fully operational Phase I and Segments 8.1 and 9 of Phase II of the NLEX is until December 31, 2037. As at December 31, 2017 and 2016, the remaining concession term is 20 years and 21 years, respectively.

As at February 23, 2018, Segment 10, portion of Phase II, with a carrying amount of ₱7,694.5 million and ₱6,265.9 million as at December 31, 2017 and 2016, respectively, has not yet started its tollway operation. Accordingly, no amortization was recognized in 2017 and 2016.

SCTEX
Additions during 2017 and 2016 pertain to the cost of pavement rehabilitation in certain portion of SCTEX and other costs incurred for upgrading the toll road facilities and equipment in SCTEX.

The concession term for SCTEX is until October 30, 2043. As at December 31, 2017 and 2016, the remaining concession term for SCTEX is 26 years and 27 years, respectively.

NLEX-SLEX Connector Road
Additions during 2017 pertain to the pre-construction costs of ₱29.4 million and borrowing costs. Additions during 2016 pertain mainly to the present value of the service concession fees payable of ₱2,318.8 million and pre-construction costs of ₱171.9 million.

Borrowing costs capitalized amounted to ₱185.5 million and ₱17.1 million for the years ended December 31, 2017 and 2016, respectively. The borrowing rate used to determine the amount of borrowing costs eligible for capitalization is 7.1%.

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

No amortization was recognized in 2017 and 2016 as the service concession asset is not yet available for use as at December 31, 2017 and 2016.

CALAEX
Additions during 2017 and 2016 pertain to the structural works and pre-construction cost and borrowing costs. Borrowing cost capitalized amounted to ₱908.7 million and ₱860.5 million for the years ended December 31, 2017 and 2016, respectively. The borrowing rate used to determine the amount of borrowing costs eligible for capitalization is 5.6% in 2017 and 2016.

The concession term for CALAEX is until July 10, 2050. As at December 31, 2017 and 2016, the remaining concession term for CALAEX is 32.5 years and 33.5 years, respectively.

No amortization was recognized in 2017 and 2016 as the service concession asset is not yet available for use as at December 31, 2017 and 2016.

CAVITEX
Additions during 2017 pertain to the civil works of R1 Enhancements and C5 South Link Project. Additions during 2016 pertain mainly to pre-constructions costs of the C5 South Link Project.

The concession terms for R-1 Expressway and R-1 Expressway Extension are until May 23, 2033 and April 30, 2046, respectively. As at December 31, 2017, the remaining concession terms for R-1 Expressway and R-1 Expressway Extension are 16 years and 29 years, respectively. C5 South Link Project has not yet commenced tollway operation as at December 31, 2017 and 2016, accordingly, no amortization was recognized.

CCLEX
As discussed in Note 2, CCLEC took over the construction and O&M of the CCLEX project on October 3, 2016. Additions during 2017 and 2016 pertain to pre-construction costs.

The expected concession period for CCLEX is until 2052, which is 35 years after the expected issuance by the LGUs of the notice to proceed the construction of the CCLEX. No amortization was recognized in 2017 and 2016 as the service concession asset is not yet available for use as at December 31, 2017 and 2016.

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

As at December 31, 2017 and 2016, the total carrying amount of service concession assets not yet available for use amounted to ₱33,925.6 million and ₱30,812.2 million, respectively.

The recoverable amount of these service concession assets have been determined based on a value in use computation using the cash flow projections from most recent financial budgets and forecast of the Company. For the impairment testing conducted, average traffic volume growth rates used were 0.4% to 13.7% and the pre-tax discount rates applied range from 9.5% to 10.8%, which was based on the weighted average cost of capital with estimated premium of 2.0% to 4.0% over cost of equity. The average forecast period used in the computation is 20 years to 39 years. The forecast period is greater than 5 years as management can reliably estimate the cash flow for the entire duration of the concession period.

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

12. Property and Equipment

The movements in this account follow:

	Building, Building Improvements and Leasehold Improvements	Transportation Equipment	Office Equipment and Others	Total
Cost:				
At January 1, 2016	₱98,802,335	₱120,902,654	₱213,903,195	₱433,608,184
Additions	6,084,304	45,772,230	76,511,647	128,368,181
Disposals	–	(18,221,191)	(3,591,447)	(21,812,638)
Reclassification	–	1,013,393	(1,013,393)	–
At December 31, 2016	104,886,639	149,467,086	285,810,002	540,163,727
Additions	43,541,040	66,140,859	126,055,686	235,737,585
Acquisition of subsidiaries (Note 5)	15,990,116	38,552,751	48,535,808	103,078,675
Disposals	(5,442,624)	(12,673,896)	(494,724)	(18,611,244)
At December 31, 2017	**₱158,975,171**	**₱241,486,800**	**₱459,906,772**	**₱860,368,743**
Accumulated depreciation:				
At January 1, 2016	₱40,386,028	₱68,909,146	₱145,880,889	₱255,176,063
Depreciation (see Notes 24 and 25)	4,742,667	20,352,993	27,924,567	53,020,227
Disposals	–	(15,048,990)	(3,531,478)	(18,580,468)
Reclassification	–	1,013,393	(1,013,393)	–
At December 31, 2016	45,128,695	75,226,542	169,260,585	289,615,822
Depreciation (see Notes 24 and 25)	12,452,169	42,535,611	68,343,113	123,330,893
Disposals	(5,442,624)	(7,876,160)	(491,002)	(13,809,786)
At December 31, 2017	**₱52,138,240**	**₱109,885,993**	**₱237,112,696**	**₱399,136,929**
Net book value:				
At December 31, 2017	**₱106,836,931**	**₱131,600,807**	**₱222,794,076**	**₱461,231,814**
At December 31, 2016	59,757,944	74,240,544	116,549,417	250,547,905

Proceeds from the sale of property and equipment amounted to ₱8.5 million in 2017 and ₱4.1 million in 2016. Gain on disposals of property and equipment included in "Other income" account in the consolidated statements of income amounted to ₱3.7 million and ₱0.9 million in 2017 and 2016, respectively (see Note 30).

The depreciation of the property and equipment of CCLEC amounting to ₱1.1 million was capitalized in 2017 as part of the service concession assets (see Note 11).

The gross carrying amounts of fully depreciated property and equipment that are still in use amounted to ₱173.6 million and ₱182.0 million as at December 31, 2017 and 2016, respectively.

13. Goodwill and Other Intangible Assets

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

	Goodwill	Franchise	Software	Total
Cost:				
At January 1, 2016	₱4,979,245,878	₱100,000,000	₱111,785,474	₱5,191,031,352
Additions	–	–	10,902,783	10,902,783
At December 31, 2016	4,979,245,878	100,000,000	122,688,257	5,201,934,135
Additions (see Note 5)	3,498,028,614	–	12,051,156	3,510,079,770
At December 31, 2017	**₱8,477,274,492**	**₱100,000,000**	**₱134,739,413**	**₱8,712,013,905**

(Forward)

	Goodwill	Franchise	Software	Total
Accumulated amortization:				
At January 1, 2016	₱–	₱–	₱91,269,636	₱91,269,636
Amortization (see Notes 24 and 25)	–	–	7,968,664	7,968,664
At December 31, 2016	–	–	99,238,300	99,238,300
Amortization (see Notes 24 and 25)	–	–	15,770,368	15,770,368
At December 31, 2017	**₱–**	**₱–**	**₱115,008,668**	**₱115,008,668**
Carrying value:				
At December 31, 2017	**₱8,477,274,492**	**₱100,000,000**	**₱19,730,745**	**₱8,597,005,237**
At December 31, 2016	4,979,245,878	100,000,000	23,449,957	5,102,695,835

Goodwill. Goodwill is the difference between the cost of business combination and the fair values of identifiable assets and liabilities. Goodwill amounting to ₱13.6 million arose from the reverse acquisition in 2007 when the then shareholders of MPT North transferred all their shares in MPT North (then FPIDC, regarded as the accounting acquirer) in exchange for shares of MPTC. The additional goodwill of ₱4,965.7 million arose from the Company's acquisition of CIC in 2013. Additions in 2017 arose from the acquisitions of TMC and ESC (see Note 5).

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

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

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

In 2017, the Company earned income from franchise fee amounting to ₱11.0 million in "Others" under "Other income" account in the consolidated statement of income (see Note 30). No income from franchise fee was earned in 2016.

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

The amortization of the software of CCLEC amounting to ₱52,682 was capitalized in 2017 as part of the service concession assets (see Note 11).

Impairment Testing of Goodwill

CIC

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

The recoverable amounts of the CIC CGU as at December 31, 2017 and 2016 have been determined based on a value in use computation using the cash flow projections from most recent financial budgets and forecast of CIC. For the impairment testing conducted for the years ended December 31, 2017 and 2016, average traffic volume growth rates used are 1.92% to 7.2% and 0.9% to 5.2%, respectively, for R-1 Expressway, R-1 Expressway Extension and C5 South Link Project.

The pre-tax discount rates applied were 11.5% in 2017 and 2016, which was based on the weighted average cost of capital with estimated premium of 4.0% over cost of equity. The average forecast period used in the computation is 16 years and 17 years for the R-1 Expressway for 2017 and 2016, respectively, 29 years and 30 years for R-1 Expressway, in 2017 and 2016, respectively, and 36 years for C5 South Link Project. 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.

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.

Based on the impairment tests, management did not identify impairment losses for these CGUs. 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.

TMC
The recoverable amounts of the TMC CGU as at December 31, 2017 have been determined based on a value in use computation using the cash flow projections from most recent financial budgets and forecast of NLEX Corp., which was determined as the smallest identifiable group of assets that generates cash inflows. For the impairment testing conducted for the year ended December 31, 2017, average traffic volume growth rates used are 2.6% average growth rate of daily vehicle traffic for NLEX open system and 2.5% average growth rate of daily kilometers travelled under the NLEX closed system. The pre-tax discount rate applied were 12.4% which was based on the weighted average cost of capital with estimated premium of 4.0% over cost of equity. The average forecast period used in the computation is 20 years, based on the concession remaining concession term. The forecasted period is greater than five years as management can reliably estimate the cash flow for the entire duration of NLEX Corp.'s concession period.

Based on the impairment tests, management did not identify impairment losses for these CGUs. 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.

ESC
Goodwill arising from the acquisition of ESC amounting ₱388.4 million was based on the initial purchase price allocation, thus, was not tested for impairment.

<u>Impairment Testing of Franchise Cost</u>
The intangible asset (franchise cost) acquired by the Company has been determined to have an indefinite useful life. As at December 31, 2017 and 2016, the intangible asset was tested for impairment.

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

14. **Investment Properties**

Details of this account as at December 31, 2017 and 2016 are as follows:

	2017	2016
Land	**₱117,401,719**	₱37,761,270
Land improvements	**11,578,801**	3,682,610
Total	**₱128,980,520**	₱41,443,880

In 2017 and 2016, NVC purchased parcels of land located in Valenzuela City from certain land owners. A parcel of land acquired in 2016 is presently the site of a service facility while the other parcels of land acquired in 2017 and 2016, respectively, are being developed as a service facility and/or a property for lease with business proponents.

As discussed in Note 32, the land acquired with a service facility was leased to a third party. Rental income earned from this investment property amounted to ₱4.3 million 2017 and 2016 (see Note 23).

Fair Value of Investment Properties
As at December 31, 2017 and 2016, the fair value of investment properties amounted to ₱50.3 million based on a recent valuation performed by an accredited independent appraiser. A valuation model in accordance with that recommended by the International Valuation Standards Committee has been applied.

	Valuation Technique	**Significant Unobservable Inputs**	**Range (Weighted Average)**
Land and land improvements	Direct Sales Comparison Approach	Price per square meter (sqm)	₱6,200 per sqm

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

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

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

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

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

The Company has no obligations to purchase, construct or develop, or an obligation for repairs, maintenance and enhancements.

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

This account consists of:

	2017	2016
Current:		
Unit investment trust funds (UITFs)*	**₱1,061,775,491**	₱770,415,867
Investment in quoted treasury bonds	**49,825,000**	–
	1,111,600,491	770,415,867
Noncurrent:		
Investments in unquoted equity shares:		
Citra Metro Manila Tollways Corporation (CMMTC)	**315,746,526**	315,746,526
Pacific Global One Aviation Company, Inc (PGOACI)	**12,500,000**	12,500,000
Investments in quoted treasury bonds and notes	**651,705,432**	802,356,695
Investments in quoted corporate bonds	**453,879,000**	453,095,000
Investments in quoted LTNCD	**98,997,500**	98,216,000
Investment in quoted club shares	**740,000**	740,000
	1,533,568,458	1,682,654,221
	₱2,645,168,949	₱2,453,070,088

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

The movements in this account follow:

	2017	2016
Balance at beginning of year	**₱2,453,070,088**	₱3,269,535,520
Additions	**11,523,791,758**	9,386,899,757
Sale of AFS financial assets	**(11,363,364,400)**	(10,039,918,208)
Maturity	**–**	(200,000,000)
Gain on fair value change during the year	**31,671,503**	36,553,019
Balance at end of year	**₱2,645,168,949**	₱2,453,070,088

CMMTC

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

Cash Dividends. The Company's share in the dividends declared by CMMTC's BOD in 2017 and 2016 amounted to ₱89.7 million and ₱138.0 million, respectively (see Note 30). The Company's dividend receivable amounting to ₱55.2 million as at December 31, 2016 was received in 2017 (see Note 8).

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

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

Investment in quoted corporate bonds are fixed rate bonds of Manila Electric Company (Meralco), PLDT, and First Metro Investment Corporation (FMIC) with interest rates ranging from 4.38% to 5.75% and maturing within August 2019 to February 2021.

Investments in quoted treasury bonds and notes are fixed rate bonds and notes of the ROP with interest rates ranging from 2.13% to 4.75% and maturing within May 2018 to August 2023.

LTNCD are quoted certificates of deposits of various banks with interest rates ranging from 4.13% to 4.25% maturing from June 2020 to November 2021.

The fair values of the investments in treasury bonds and notes, corporate bonds, LTNCD and club shares are based on quoted market price of the instruments as at December 31, 2017 and 2016.

The movements in the net unrealized gain on fair value change in AFS financial assets under "Other comprehensive income reserve" account as at and for the years ended December 31, 2017 and 2016 follow:

	2017	2016
Balance at beginning of year	**(₱34,890,236)**	(₱37,532,107)
Gain on changes in fair value	**31,671,503**	36,553,019
Reclassification to profit or loss* (see Note 30)	**(32,569,862)**	(33,911,148)
Balance at end of year	**(35,788,595)**	(34,890,236)
Tax effects of items taken directly in equity (see Note 31)	**(1,065,486)**	1,464,530
	(₱36,854,081)	(₱33,425,706)
Attributable to:		
Equity holders of the Parent	**(₱27,456,658)**	(₱24,498,262)
Non-controlling interests	**(9,397,423)**	(8,927,444)
	(₱36,854,081)	(₱33,425,706)

**Includes gain on sale of UITF deducted from borrowing costs capitalized to service concession assets amounting to ₱8,369,189* and *₱22,635,560 in 2017 and 2016, respectively.*

Interest earned from AFS financial assets amounted to ₱42.3 million and ₱40.1 million for the years ended December 31, 2017 and 2016, respectively (see Note 28).

16. Other Noncurrent Assets

Other noncurrent assets consist of:

	2017	2016
Advances to contractors and consultants (see Note 32)	**₱1,421,524,684**	₱333,193,960
Sinking fund	**159,170,880**	154,520,887
Input VAT - deferred	**79,312,484**	36,796,128
Advance payment for the purchase of lot (see Note 32)	**30,000,000**	–
Refundable deposits	**28,518,065**	8,117,415
Deferred project costs	**22,649,825**	13,295,516
Restricted cash (see Note 32)	**–**	889,000,000
Others	**–**	2,284,226
	₱1,741,175,938	₱1,437,208,132

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.

17. Accounts Payable and Other Current Liabilities

This account consists of:

	2017	2016
Trade payables (see Notes 21 and 33)	**₱967,730,928**	₱378,090,776
Accrued expenses (see Notes 21 and 33)	**1,725,385,143**	2,304,695,534
Retention payable	**670,979,215**	431,675,061
Interest payable	**271,529,702**	173,356,597
Output VAT	**238,224,047**	183,388,453
Unearned toll revenue	**205,931,859**	11,439,532
Payable to CHI	**163,428,840**	163,428,840
Withholding taxes payable	**147,040,559**	113,184,947
Customer deposits	**19,570,649**	–
Unearned rental income (see Note 32)	**–**	2,132,223
Others	**124,651,865**	39,350,301
	₱4,534,472,807	₱3,800,742,264

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

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

Interest payable is settled within three to six months.

Customer deposits represent amount received from postpaid customers. The amount serves as security in case of customer's default and is refundable when the contract is terminated.

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

Accrued expenses consist of:

	2017	2016
Construction costs	**₱910,261,489**	₱1,551,445,903
Professional fees	**211,364,347**	145,142,306
Outside services	**150,617,631**	27,967,780
Concession fees	**102,864,022**	87,422,800
Repairs and maintenance	**95,326,776**	8,941,759
Loan transaction costs	**68,464,663**	–
PNCC fees (see Note 32)	**60,483,648**	52,539,032
Salaries and employee benefits (see Note 27)	**52,422,300**	27,206,476
Advertising and marketing expenses	**36,985,994**	52,599,331
Operator's fees (see Notes 21 and 24)	**–**	254,782,016
Insurance	**–**	12,806,822
Others	**36,594,273**	83,841,309
	₱1,725,385,143	₱2,304,695,534

18. **Provisions**

The movements in this account follow:

	Heavy Maintenance*	Contingent Liabilities	Others	Total
At January 1, 2016	₱354,449,358	₱232,374,869	₱98,658,328	₱685,482,555
Additions (see Notes 24 and 25)	157,545,596	–	227,726,455	385,272,051
Accretion (see Note 29)	13,355,182	–	–	13,355,182
Reversals (see Note 30)	–	(152,955,420)	–	(152,955,420)
Payments	(91,888,750)	(79,419,449)	(6,737,051)	(178,045,250)
At December 31, 2016	433,461,386	–	319,647,732	753,109,118
Acquisition of a subsidiary (see Note 5)	–	52,898,021	174,942,878	227,840,899
Additions (see Notes 24 and 25)	279,251,548	111,434,751	247,383,024	638,069,323
Accretion (see Note 29)	16,112,359	–	–	16,112,359
Payments	(326,221,566)	(16,541,505)	(156,900,124)	(499,663,195)
At December 31, 2017	**₱402,603,727**	**₱147,791,267**	**₱585,073,510**	**₱1,135,468,504**
At December 31, 2017:				
Current	**₱146,800,001**	**₱–**	**₱571,233,327**	**₱718,033,328**
Noncurrent	**255,803,726**	**147,791,267**	**13,840,183**	**417,435,176**
	₱402,603,727	**₱147,791,267**	**₱585,073,510**	**₱1,135,468,504**
At December 31, 2016:				
Current	₱228,915,410	₱–	₱305,807,550	₱534,722,960
Noncurrent	204,545,976	–	13,840,182	218,386,158
	₱433,461,386	₱–	₱319,647,732	₱753,109,118

**Additions include Input VAT amounting to ₱27. 8 million and ₱16.2 million in 2017 and 2016, respectively.*

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

Contingent Liability. The contingent liability in 2016 pertains to net of portions that have been settled, reversed and/or have expired from the initially recognized fair value of contingent liability at the acquisition date of CIC resulting from probable claim from a third party (see Note 30). In 2017, the Company reassessed the contingent liability of CIC and the Company deemed that ₱94.9 million should still be recognized as at December 31, 2017. Additions in 2017 also includes ESC's probable claim from a third party initially recognized at fair value at the acquisition date of ESC (see Note 5). No further disclosures regarding the contingent liability arising from the probable claim are 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 include 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. This also include estimates of incentives and bonuses to employees.

19. Long-term Debts

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

	2017	2016
Peso-denominated Notes, Loans and Bonds:		
Term Loan Facilities	**₱23,035,000,000**	₱12,171,250,000
Series A Notes	**4,897,616,998**	4,949,719,307
Rizal Commercial Banking Corporation and BDO Unibank, Inc. (RCBC/BDO) Loan	**5,520,557,438**	5,679,599,242
Fixed-rate Bonds	**6,957,430,000**	6,957,430,000
	40,410,604,436	29,757,998,549
Foreign currency-denominated Notes and Loans:		
Series 2010-1 Notes	–	657,674,740
Term Loan Facility	**2,318,441,475**	2,089,704,247
	42,729,045,911	32,505,377,536
Less unamortized debt issue costs	**187,083,530**	149,113,157
	42,541,962,381	32,356,264,379
Less current portion of long-term–debt - net of unamortized debt issue costs of ₱54,610,291 in 2017 and ₱27,337,004 in 2016	**5,317,475,132**	1,047,265,879
	₱37,224,487,249	₱31,308,998,500

The unamortized debt issue costs incurred in connection with the availment of long-term debt amounting to ₱187.1 million and ₱149.1 million as at December 31, 2017 and 2016, respectively, were deducted against the long-term debt. The movements in debt issue costs are as follows:

	2017	2016
Balance at beginning of year	**₱149,113,157**	₱173,174,134
Amortization during the year* (see Note 29)	**(44,974,407)**	(35,949,785)
Debt issue costs incurred during the year	**82,944,780**	11,888,808
Balance at end of year	**₱187,083,530**	₱149,113,157

**Includes amortization of debt issue costs capitalized to service concession assets amounting to ₱12,808,080 and ₱12,158,913 in 2017 and 2016, respectively.*

MPTC

Term Loan Facilities

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

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

As at December 31, 2017 and 2016, the outstanding principal balance on the loan amounted to ₱1,995.0 million and ₱2,100.0 million respectively.

BDO - ₱4.0 Billion Loan Facility
On October 9, 2017, MPTC entered into Term Loan Facility Agreement with BDO for up to ₱4.0 billion loan due 2027 for the purpose of financing its acquisition of PT Nusantara. MPTC shall pay semi-annually within 10 years.

On October 18, 2017, the facility was fully drawn subject to an interest rate of the higher of (i) 7-year PDST-R2 rate on the drawdown date plus a margin of 1.01% per annum; and (ii) 5.3030% per annum, for the first five-year tenor of the loan; and the higher of (i) 7-year PDST-R2 rate on the drawdown date plus a margin of 1.05% per annum; and (ii) 5.263% per annum, for the next two-year tenor of the loan. The interest will be repriced after 7 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) 4.7368% per annum; and (ii) 7-year PDST-R2 rate on the repricing date plus a margin of 1.05% per annum. The interest shall be payable semi-annually.

As at December 31, 2017, the outstanding principal balance on the loan amounted to ₱4,000.0 million.

Metropolitan Bank & Trust Company (MBTC) - ₱4.0 Billion Loan Facility
On October 13, 2017, MPTC entered into Term Loan Facility Agreement with MBTC for up to ₱4.0 billion loan due 2027. MPTC shall pay semi-annually within 10 years.

On October 23, 2017, the facility was fully drawn subject to an interest rate of 5.4% per annum, which will be repriced after 5 years from the 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 5-year PDST-R2 rate on the repricing date plus a margin of 1% per annum. The interest shall be payable quarterly.

As at December 31, 2017, the outstanding principal balance on the loan amounted to ₱4,000.0 million.

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

As at December 31, 2017 and 2016, MPTC is in compliance with the required financial ratios and other loan covenants.

MPT North

Term Loan Facilities

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

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

As at December 31, 2017 and 2016, the outstanding principal balance on the loan amounted to ₱2,990.0 million and ₱3,071.3 million respectively.

BDO - ₱1.4 Billion Loan Facility
On March 27, 2017, MPT North entered into Term Loan Facility Agreement with BDO for up to ₱1.4 billion for the purpose of financing its acquisition of TMC from EROSA. The loan is payable semi-annually up to a maximum term of ten (10) years from initial drawdown date.

On March 30, 2017, the facility was fully drawn subject to an interest rate of the higher of (i) 5-year PDST-R2 rate on the drawdown date plus a margin of 1.0% per annum divided by 0.99; and (ii) 5.0505% 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) 5.2632% per annum; and (ii) 5-year PDST-R2 rate on the repricing date plus a margin of 1.0% per annum divided by 0.95. The interest shall be payable semi-annually.

As at December 31, 2017, the outstanding principal balance on the loan amounted to ₱1,400.0 million.

Compliance with Loan Covenants
The Term Loan Facility Agreements provide, among others, that for as long as the loans remain outstanding, MPT North is subject to certain negative covenants requiring prior approval of the creditors for specified corporate acts. In addition, MPT North is required to maintain certain financial ratios. Under the Term Loan Facility Agreements, MPT North shall provide collateral security which consist of debt service reserve and payment accounts.

As at December 31, 2017 and 2016, MPT North is in compliance with the required financial ratios and other loan covenants.

NLEX Corp.

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

Term Loan Facilities

Sun Life of Canada (Philippines) Inc. (Sun Life). On October 8, 2013, NLEX Corp. entered into a Term Loan Facility Agreement with Sun Life 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.

The Insular Life Assurance Company, Ltd. (Insular). On November 26, 2013, NLEX Corp. entered into Term Loan Facility Agreement with Insular for a ₱200.0 million fixed-rate loan payable in lump sum after 10 years. The fixed interest rate on the loan is 5.03% per annum.

Philippine American Life and General Insurance Company (Philam). On December 5, 2013, NLEX Corp. entered into a Term Loan Facility Agreement with Philam for a ₱1.0 billion fixed-rate loan payable in lump sum after 15 years. The fixed interest rate on the loan is 5.80% per annum.

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

Philippine National Bank (PNB). On December 4, 2015, NLEX Corp. entered into a new ten-year term loan facility agreement with PNB for a facility amount of ₱5.0 billion to finance capital expenditures such as the NLEX Lane Widening Project, NLEX-SCTEX Integration Project and the upgrade of the SCTEX. On December 10, 2015, NLEX Corp. made its initial drawdown amounting to ₱3.0 billion. On October 24, 2017, NLEX Corp. made its second and final drawdown amounting to ₱2.0 billion.

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

As at December 31, 2017 and 2016, the outstanding principal balance on the loan amounted to ₱4,750.0 million and ₱3,000.0 million respectively.

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

In July 2017, NLEX Corp. opted not to extend the availability period of the undrawn amount of the term loan facility. In August 2017, NLEX Corp. paid the commitment fee of ₱12.1 million equivalent to 0.25% per annum of the undrawn amount. This commitment fee was recognized as part of "Interest expense and other finance costs" (see Note 29).

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

As at December 31, 2017 and 2016, the outstanding principal balance on the loan amounted to ₱1,900.0 million and ₱2,000.0 million respectively.

Fixed-rate Bonds

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

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

Compliance with Loan Covenants

As at December 31, 2017 and 2016, NLEX Corp. is in compliance with the required financial ratios and other loan covenants. NLEX Corp.'s long-term debts are unsecured as at December 31, 2017 and 2016.

CIC

RCBC/BDO Loan

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

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

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

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

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

On May 31, 2017, the Company issued confirmation of waiver of provisions of the amendment and restated loan agreement dated December 13, 2013 with regard to its prepayment of the 2010-1 Series Notes, for which the creditors waived and confirmed.

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

- The principal amount is US$160.0 million with a coupon rate of 12.0%. Interest on the Series 2010-1 Notes shall be payable quarterly in arrears, on the 15th day of each March, June, September and December.

- Principal payments shall be made quarterly in accordance with the amortization schedule for the Series 2010-1 Notes, commencing on the March 2013 payment date. Unless redeemed, repurchased or amortized prior thereto, the final payment on the Series 2010-1 Notes is expected to be made on the September 2022 payment date.

- The Series 2010-1 Notes is subject to mandatory redemption upon the occurrence of any of the repurchase events at the redemption price of the sum in US dollars of (a) the Principal Balance of such Series 2010-1 Notes, (b) all accrued and unpaid interest on such Series 2010-1 Notes (if any) on such redeemed principal amount to but excluding the date set for redemption (the Redemption Date), (c) all unpaid Additional Amounts with respect to such Series 2010-1 Notes.

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

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

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

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

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

a. Pledge over all Transaction Accounts.

b. Concession collections under the concession agreements and all other agreements to the extent relating to the R-1 Expressway and R-1 Expressway Extension portion of the toll road.

c. Pledge of the shares of CIC as owned by CHI.

On June 15, 2017, CIC prepaid its Series 2010-1 Notes with a carrying value of ₱624.1 million. Total payments made amounted to ₱706.9 million, including principal, accrued interest and transaction costs. The difference of ₱82.8 million between the carrying value and the total payments made was recognized as loss on extinguishment of debt under "Interest expense and other finance costs" (see Note 29).

<u>RCBC/BDO Bridge Loan</u>
On June 7, 2017, CIC entered into a Bridge Loan Facility Agreement with BDO and RCBC for a 4.47% bridge loan amounting to ₱600.0 million with quarterly interest payment and principal which was fully paid on July 11, 2017. The proceeds were used to finance the payment of Series 2010-1 Notes.

Interest expense and other finance costs on this loan amounted to ₱7.4 million in 2017 (see Note 29).

<u>Compliance with Loan Covenants</u>
As at December 31, 2017 and 2016, CIC is in compliance with its loan covenants.

AIF

<u>Term Loan Facilities</u>

Thanachart Bank Public Company Limited (Thanachart)
On August 1, 2014, AIF entered into Term Loan Facility Agreement with Thanachart, a bank incorporated under the laws of Thailand, of up to Baht 2,100 million (or approximately US$65 million) loan for the purpose of reorganizing AIF's capital structure. AIF availed of the full

amount of the facility on August 6, 2014. Interest is to be paid monthly while the principal is to be paid semi-annually in 15 installments with the final installment due November 2021. The loan is subject to a floating interest rate of Minimum Lending Rate minus 1.50% per annum, and is secured by a standby letter of credit issued by MPIC with a face amount of US$45 million and a pledge over all the AIF shares owned by MPT Thailand, then FPM Tollway (Thailand) Limited and substantially all the DMT shares owned by AIF.

On May 2, 2017, AIF prepaid its Term Loan Facility with Thanachart with a carrying value of ₱2,225.1 million. Total payments made amounted to to ₱2,306.0 million, including principal, accrued interest and transaction costs. The difference of ₱80.9 million between the carrying value and the total payments made was recognized as loss on extinguishment of debt under "Interest expense and other finance costs" (see Note 29).

Mizuho Bank, Ltd. (Mizuho) and Sumitomo Mitsui Banking Corporation (SMBC)
On March 30, 2017, AIF entered into a Term Loan Facility Agreement with Mizuho and SMBC for up to Baht 1.7 billion (₱2.5 Billion) loan due on 2022.

On May 2, 2017, AIF drew an amount of Baht 1.6 Billion from the loan and applied the proceeds to prepay its existing Baht 2.1 billion Term Loan Facility Agreement with Thanachart (including interest accrued thereon, outstanding principal and other related costs).

Interest is to be paid quarterly while the principal is to be paid semi-annually in 10 installments with the final installment due April 2022. The loan is subject to a floating interest rate which is the aggregate of the applicable BIBOR and margin of 1.65% and is secured by a pledge over all the AIF shares owned by MPT Thailand and substantially all the DMT shares owned by AIF.

<u>Compliance with Loan Covenants</u>
All dividend proceeds in respect of the investment in DMT shall be applied to repay this loan. The loan agreement also contains, among others, covenants regarding the maintenance of certain financial ratios such as (1) debt-to-equity ratio and Debt Service Coverage Ratio (DSCR), maintenance of ownership in DMT of at least 29.45%, and maintenance of debt-service reserve account.

As at December 31, 2017 and 2016, AIF is in compliance with the required financial ratios and other loan covenants.

Interest charged to operations amounted to ₱1,384.5 million and ₱1,155.0 million for the years ended December 31, 2017 and 2016, respectively (see Note 29).

20. **Service Concession Fees Payable**

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

	CALAEX	NLEX-SLEX Connector Road	Total
At January 1, 2016	₱15,354,219,727	₱–	₱15,354,219,727
Additions	–	2,318,800,856	2,318,800,856
Accretion	860,465,405	17,115,373	877,580,778
At December 31, 2016	16,214,685,132	2,335,916,229	18,550,601,361
Accretion	908,686,723	185,512,898	1,094,199,621
At December 31, 2017	**₱17,123,371,855**	**₱2,521,429,127**	**₱19,644,800,982**

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

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

The schedule of undiscounted estimated future service concession fees payments, based on the Concession Agreement as at December 31, 2017, is as follows:

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

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

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

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

21. Related Party Disclosures

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

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

Related Party	Relationship		Management Fees (see Note 30)	Income from Utility Facilities (see Note 23)	Income from Advertising (see Note 23)	Operator's Fee (see Note 24)	Repairs and Maintenance (see Note 24)	Communication, Light and Water (see Notes 24 and 25)	Outside Services (see Note 24)	Rentals (see Note 25)
TMC [(a)]		**2017**	**₱14,063,087**	**₱–**	**₱–**	**₱379,858,691**	**₱15,587,725**	**₱–**	**₱2,518,278**	**₱–**
	Subsidiary	2016	56,252,346	–	–	2,001,498,970	6,234,952	–	787,437	–
ESC [(b)]		**2017**	**–**	**–**	**100,000**	**–**	**–**	**–**	**54,444,597**	**–**
	Subsidiary	2016	–	–	920,000	–	–	–	67,861,426	–
SMART Communications, Inc. (SMART)	Associate of FPC	**2017**	**–**	**373,855**	**18,661,707**	**–**	**–**	**4,381,917**	**–**	**–**
		2016	–	357,756	43,480,000	–	–	–	–	–
PLDT	Associate of FPC	**2017**	**–**	**2,473,344**	**830,356**	**–**	**516,418**	**9,282,491**	**–**	**828,004**
		2016	–	6,628,069	1,009,000	–	610,801	–	–	1,552,234
Maynilad Water Services Inc. (Maynilad)	Subsidiary of MPIC	**2017**	**–**	**–**	**–**	**–**	**–**	**4,263,997**	**–**	**–**
		2016	–	–	–	–	–	–	–	–
Meralco	Associate of MPIC	**2017**	**–**	**360,000**	**–**	**–**	**–**	**54,114,887**	**–**	**–**
		2016	–	–	–	–	–	5,975,142	–	–
Total		**2017**	**₱14,063,087**	**₱3,207,199**	**₱19,592,063**	**₱379,858,691**	**₱16,104,143**	**₱72,043,292**	**₱56,962,875**	**₱828,004**
		2016	56,252,346	6,985,825	45,409,000	2,001,498,970	6,845,753	5,975,142	68,648,863	1,552,234

[(a)] *Amounts in 2017 pertain to the period beginning January 1, 2017 up to April 4, 2017, before the Company acquired control over TMC in April 2017 (see Note 5).*
[(b)] *Amounts in 2017 pertain to the period beginning January 1, 2017 up to October 10, 2017, before the Company acquired control over ESC in October 2017 (see Note 5).*

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

Related Party	Relationship		Trade Receivables (see Note 8)	Advances to Contractors and Consultants (see Note 9)	Accounts payable and other current liabilities[1] (see Note 17)	Due from Related Parties[2]	Due to Related Parties	Terms	Conditions
MPIC	Parent Company	**2017**	**₱–**	**₱–**	**₱–**	**₱2,333,367**	**₱1,424,758**	On demand; noninterest-bearing	Unsecured; no impairment
		2016	–	–	–	2,061,896	1,424,758		
TMC	Subsidiary	**2017**	–	–	–	–	–	(1) 30-45 days; noninterest-bearing	Unsecured; with allowance for doubtful account of ₱21.5 million in 2016
		2016	43,010	58,000	337,023,444	37,640,700	–	(2) On demand; noninterest-bearing	
ESC	Subsidiary	**2017**	–	–	–	–	–	(1) 7 days; noninterest-bearing	Unsecured; no impairment
		2016	246,967,216	–	92,637,081	107,171	–	(2) On demand; noninterest-bearing	
PLDT	Associate of FPC	**2017**	**778,450**	**–**	**9,091,387**	**–**	**40,495**	30-45 days; noninterest-bearing	Unsecured; no impairment
		2016	7,057,761	–	445,162	–	–		
SMART	Associate of FPC	**2017**	**36,681,225**	**–**	**631,656**	**–**	**6,860,395**	30-45 days; noninterest-bearing	Unsecured; no impairment
		2016	44,949,254	–	131,972	–	–		
Digitel	Associate of FPC	**2017**	**5,107,200**	**–**	**1,400**	**–**	**–**	30-45 days; noninterest-bearing	Unsecured; no impairment
		2016	5,107,200	–	2,781	–	–		
Indra	Associate of MPIC	**2017**	**–**	**6,273,074**	**28,715,707**	**–**	**–**	Within one year; noninterest-bearing	Unsecured; no impairment
		2016	–	493,728	19,776,883	–	–		
Meralco	Associate of MPIC	**2017**	**–**	**15,405,542**	**2,712,205**	**–**	**–**	Within one year; noninterest-bearing	Unsecured; no impairment
		2016	–	6,727,892	–	–	–		
Maynilad	Subsidiary of MPIC	**2017**	**50,000**	**–**	**103,820**	**3,171,757**	**–**	On demand; noninterest-bearing	Unsecured; no impairment
		2016	–	–	–	231,434	–		
Others	Other Related Party	**2017**	**–**	**–**	**–**	**–**	**3,655,238**	On demand; noninterest-bearing	Unsecured
		2016	–	–	–	–	3,655,238		
Total		**2017**	**₱42,616,875**	**₱21,678,616**	**₱41,256,175**	**₱5,505,124**	**₱11,980,886**		
		2016	304,124,441	7,279,620	450,017,323	40,041,201	5,079,996		

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 2017 and 2016, MPIC billed MPTC for various operating expenses paid in behalf of MPTC.
- In 2017 and 2016, MPT North billed MPIC for certain expenses paid in behalf of MPIC.

Transactions with an Associate

O&M of NLEX

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

- In 2014, in view of the latest publication of the National Statistics Office (NSO) for CPI values issued in July 2011, with different commodity grouping compared with those stipulated in the O&M Agreement, NLEX Corp. and TMC agreed to amend the base fee, effective January 9, 2012 as follows:

  - ₱1,312.6 million for the existing NLEX;
  - ₱84.2 million for Segment 7;
  - ₱6.9 million for Dau Interchange; and
  - ₱32.9 million for Segment 8.1.

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

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

- On February 24, 2017, pursuant to the O&M and relating to the operation and maintenance of Phase 1, NLEX Corp. and TMC agreed to the new base fee amounting to ₱1,136.8 million (exclusive of VAT) for NLEX, Segment 7, Dau Interchange, Segment 8.1, Balagtas Interchange, Bocaue Interchange Northbound Exit and Segment 9 effective on February 9, 2017.

O&M of SCTEX

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

Management Services to TMC

- MPTC and MPT North perform management, operational and financial advisory services for TMC. In April 2017, the agreement to perform management services was effectively settled following the acquisition of control by MPT North over TMC.

- As discussed in Note 5, TMC became a subsidiary of the Company in April 2017. Accordingly, intercompany transactions and balances were eliminated starting April 2017.

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

NLEX
- On December 5, 2007, NLEX Corp. engaged the services of ESC to assist NLEX Corp. in increasing the usage of the ETC facility along the NLEX which ended on April 30, 2010. On

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

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

CAVITEX

- On July 15, 2014, CIC executed a Service Agreement, engaging the services of ESC to exclusively promote and distribute radio frequency identification (RFID) sticker tags to CAVITEX users as well as the account management services for all ETC customers. The said agreement is for five years effective on September 1, 2014 and with five year extension. In accordance with the Service Agreement, CIC will pay ESC an annual fixed fee of ₱6.3 million, which is to be escalated every year for labor index and CPI. CIC shall also pay for variable fees of ₱1.0, ₱3.5 and ₱4.6 per transaction for Class 1, Class 2 and Class 3 vehicles, which are also to be escalated every year for labor index and CPI. In October 2017, the Service Agreement between CIC and ESC was effectively settled following the acquisition of control by MPTC over ESC.

- As discussed in Note 5, ESC became a subsidiary of the Company in October 2017. Accordingly, intercompany transactions and balances were eliminated starting October 2017.

Transactions with Other Related Parties

Indra

- On May 8, 2015, NLEX Corp. entered into a Contract Agreement with EPPI and Indra Consortium for the design, supply, installation, testing and commissioning of the FOE for Segment 10, part of Phase II of the NLEX. The total contract amount is €1.8 million (₱92.7 million), inclusive of VAT. The target completion of the works shall be within 2 years from contract date.

- On August 7, 2015, NLEX Corp. issued a letter of acceptance to EPPI and Indra Consortium relating to the revised proposal dated August 3, 2015 for the design, supply, installation, testing and commissioning of the FOE for the NLEX-SCTEX integration project. The revised contract price amounted to €10.2 million (₱507.2 million). The project was completed on March 15, 2016.

PLDT, SMART and Digitel

- On November 1, 2015, a new lease agreement was executed between MPTC and PLDT covering certain office units and parking spaces for a period of five years from November 1, 2015 to

October 31, 2020 for a monthly payment of ₱0.2 million, subject to annual escalation of 5.0%. The lease agreement may be terminated at the option of the parties. On May 1, 2017, MPTC pre-terminated the said agreement with no penalties.

- On March 17, 2010, NLEX Corp. and PLDT entered into an agreement with respect to the commercial aspect of the Utility Facilities Contract for the Fiber Optic Overlay along Phase I of the NLEX, the contract of which was signed on February 18, 2013. Pursuant to the agreement, PLDT shall pay NLEX Corp. an annual fee of ₱1.3 million starting in the year 2010 which shall then be escalated annually by 9.0% on the succeeding years. The contract shall be effective for a period of 20 years from April 15, 2010 and may be renewed or extended upon mutual agreement by NLEX Corp. and PLDT.

- On January 5, 2011, NLEX Corp. and SMART (a subsidiary of PLDT) signed a Utility Facilities Contract where NLEX Corp. provides SMART an access for the construction, O&M of a cell site inside the NLEX right of way for an annual fee of ₱0.3 million which shall then be escalated annually to 4.5% starting on the fourth year of the contract and every year thereafter. The contract is effective from April 26, 2010 for a period of five years which may be renewed or extended upon mutual agreement by NLEX Corp. and SMART.

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

- On March 26, 2012, NLEX Corp. and SMART agreed on the terms of the grant to SMART of exclusive rights to name the NLEX-Mindanao Avenue Cloverleaf as a SMART Connect Interchange and put up outdoor advertising structures near the interchange. The annual package is based on a predetermined timetable of when the official road signs are progressively built. The base price is from ₱175.0 million to ₱228.2 million and may increase depending on the final features and characteristics of the cloverleaf. This agreement shall take effect from April 1, 2012 until April 30, 2017, unless pre-terminated or renewed by mutual written agreement of the parties. The agreement was not renewed upon its expiration in April 2017.

- In 2017 and 2016, NLEX Corp. entered into advertising arrangement with SMART related to various advertising mediums which include rental, material production, installation and maintenance at several locations along NLEX.

Meralco

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

- As at December 31, 2017, NLEX Corp. has advances to Meralco for its new electric line applications for Segment 9, portion of Phase II of NLEX, and Balintawak and Valenzuela drainage system. These advances are either refundable or consumable upon activation of the electric lines in Segment 9 and Balintawak and Valenzuela drainage system.

Other Transactions

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

	2017	2016
Short-term employee benefits	**₱211,178,843**	₱211,330,359
LTIP expense (see Note 27)	**169,528,080**	121,468,533
Retirement costs (see Note 27)	**8,447,159**	9,059,351
ESOP expense (see Notes 26 and 27)	**–**	1,244,843
	₱389,154,082	₱343,103,086

- The Company acts as a surety or co-obligor with certain Company officers for the payment of valid corporate expenses through the use of corporate credit cards at specified approved amounts ranging from ₱0.04 million to ₱0.4 million.

- The Company paid its directors amounting to ₱1.6 million and ₱2.9 million in 2017 and 2016, respectively, recorded under "General and administrative expenses" account in the consolidated statement of income (see Note 25).

- Total advances to officers and employees amounted to ₱33.9 million and ₱20.7 million as at December 31, 2017 and 2016, respectively (see Note 8).

- In the normal course of business, the Company also grants and avails noninterest-bearing advances to/from subsidiaries, associates and other related parties.

22. Equity

Capital Stock
As at December 31, 2017 and 2016 the capital stock of the Parent Company consists of:

	2017	2016
Issued capital stock:		
Common shares	**₱6,014,246,237**	₱5,946,150,937
7% Preferred shares	**6,771,600,000**	6,771,600,000
	12,785,846,237	12,717,750,937
Subscribed capital stock	**495,690**	495,690
Less subscriptions receivable	**371,768**	371,768
	123,922	123,922
	₱12,785,970,159	₱12,717,874,859

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

	2017		2016	
	Number of Shares			
	Common Shares	**Preferred Shares**	Common Shares	Preferred Shares
Authorized - ₱100 par value:	**75,000,000**	**70,000,000**	75,000,000	70,000,000

(Forward)

	2017		2016	
	Number of Shares			
	Common Shares	**Preferred Shares**	Common Shares	Preferred Shares
Issued and outstanding:				
Balance at beginning of year	**59,461,509**	**67,716,000**	59,125,320	67,716,000
Issuance during the year	**680,953**	–	336,189	–
	60,142,462	**67,716,000**	59,461,509	67,716,000
Treasury shares	**(870,202)**	**(67,716,000)**	(870,202)	(67,716,000)
Balance at end of year	**59,272,260**	–	58,591,307	–
Subscribed	**4,957**	–	4,957	–

a. On July 23, 2008, the BOD of the Parent Company made a call for the payment of unpaid subscriptions and stockholders were given until August 29, 2008 to fully pay their subscriptions. As at December 31, 2017 and 2016, the subscriptions were not yet paid in full.

b. Features of the Preferred Shares follow:

- The Preferred Shares shall have the full voting rights as common shares of the Parent Company.

- Subject to and upon declaration by the Parent Company's BOD, the holders of Preferred shares shall be entitled to receive out of the unrestricted retained earnings of the Company, yearly cumulative dividends at 7% of the issue value of the Preferred Shares, before any dividends shall be set apart and paid to the holders of common shares. The holders of Preferred Shares shall not be entitled to participate with the holders of common shares in any further dividends payable by the Parent Company.

- The Preferred Shares shall not be convertible to common shares or any stock of the Parent Company.

- The Preferred Shares shall be redeemable at any time at the option of the Parent Company by paying the issue value of the Preferred Shares and all outstanding dividends due on the Preferred Shares at the time of redemption. Once redeemed, the Preferred Shares shall become treasury shares.

- In the event of any dissolution, liquidation or winding up of the Parent Company, the holders of the Preferred Shares shall be entitled to be paid in full, or pro rata insofar as the assets and properties of the Parent Company will permit, the issue value of the Preferred Shares and any accrued but unpaid dividends, in respect of such Preferred Shares before any distribution shall be made to the holders of common shares. The holders of Preferred Shares shall not be entitled to any other distribution.

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

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

   On June 22, 2017, the Parent Company issued 680,953 new common shares to MPIC to be issued out of the unissued portion of the existing authorized capital stock at a subscription price of ₱2,100 per share or a total subscription price of ₱1,430.0 million.

d. On January 23, 2018, the Parent Company issued 833,334 new common shares to MPIC to be issued out of the unissued portion of the existing authorized capital stock at a subscription price of 2,100 per share or a total subscription price of ₱1,750.0 million (inclusive of a premium over par of ₱1,666.7 million).

APIC

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

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

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

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

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

In June 2017, the excess of consideration received over the par value on issuance of 680,953 common shares to MPIC amounted to ₱1,361.9 million.

The transaction cost on the issuance of the common shares amounting to ₱0.3 million in 2017 and ₱0.1 million in 2016 were deducted against APIC.

As at December 31, 2017 and 2016, APIC amounted to ₱18,944.9 million and ₱17,583.3 million, respectively.

Equity Adjustment on Reverse Acquisition

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

Cash Dividends

The Parent Company's BOD declared the following cash dividends to common stockholders in 2017 and 2016:

Declaration Date	Record Date	Payment Date	Cash Dividend per Share	Total
February 20, 2017	**March 6, 2017**	**March 30, 2017**	**₱13.15**	**₱770,738,504**
August 2, 2017	**August 16, 2017**	**September 1, 2017**	**13.95**	**826,848,027**
February 18, 2016	March 4, 2016	April 1, 2016	11.24	637,000,000
July 29, 2016	August 12, 2016	September 9, 2016	13.55	789,123,872

As at December 31, 2017 and 2016, the unpaid cash dividends to common stockholders of the Parent Company amounted to ₱9.9 million and ₱3.2 million, respectively.

On February 15, 2018, the Parent Company's BOD declared cash dividends of ₱14.92 per share or total amount of ₱896.8 million to common stockholders of record as at March 2, 2018 payable on or before March 28, 2018.

Cash dividends declared by NLEX Corp. and MSIHI to non-controlling stockholders in 2017 and 2016 amounted to ₱882.7 million and ₱637.5 million, respectively. In 2017 and 2016, NLEX Corp. and MSIHI paid cash dividends to non-controlling stockholders amounting to ₱429.4 million and ₱1,041.5 million, respectively. As at December 31, 2017 and 2016, NLEX Corp. and MSIHI have unpaid dividends to non-controlling stockholders amounting to ₱460.8 million and ₱7.6 million, respectively.

Scrip Dividends

On October 16, 2008, the BOD of MPTC declared scrip dividends to all stockholders of record as at October 30, 2008 amounting to US$3.9 million (₱181.5 million). As at December 31, 2017 and 2016, unpaid scrip dividends amounted to ₱0.3 million and is included under the "Dividends payable" account.

Retained Earnings Not Available for Dividend Distribution

The Parent Company's retained earnings includes undistributed earnings of subsidiaries, associates and a joint venture amounting to ₱9,498.5 million and ₱5,812.0 million as at December 31, 2017 and 2016, respectively, which are not currently available for dividend distribution.

Treasury Shares

In 2008, the Parent Company's BOD authorized the repurchase of 87,020,160 common shares from other shareholders at a price of ₱2.22 per share or a total amount of ₱193.6 million.

In 2015, pursuant to the subscription agreements between MPTC and MPIC, the Parent Company redeemed all its issued and outstanding preferred shares consisting of 67,716,000 preferred shares issued to MPIC at a redemption price of ₱100 per share or a total amount of ₱6,771.6 million.

Other Comprehensive Income Reserve

	Cumulative Translation Adjustment (CTA)	AFS Financial Assets	Income Tax Related to AFS Financial Assets	Re-measurement of Defined Benefit Plan	Income Tax Related to Defined Benefit Plan	Share in OCI of an associate	Total	Attributable to Parent Company Owners	Non-controlling Interest
Balance at January 1, 2017	(₱31,964,446)	(₱34,890,236)	₱1,464,530	₱16,113,650	(₱4,834,102)	₱104,663,013	₱50,552,409	₱122,486,698	(₱71,934,289)
Net movement in CTA	(216,870,651)	–	–	–	–	186,139,930	(30,730,721)	(30,730,721)	–
Change in fair value of AFS financial assets (see Note 15) [(a)]	–	(898,359)	(2,530,016)	–	–	–	(3,428,375)	(2,958,396)	(469,979)
Remeasurement gain (see Note 27)	–	–	–	32,403,778	(8,161,389)	–	24,242,389	23,802,633	439,756
Acquisition of a subsidiary (see Note 5)	–	–	–	–	–	8,186,466	8,186,466	8,186,466	–
Acquisition of non-controlling interest (see Note 5)	–	–	–	–	–	–	–	(1,064,241)	1,064,241
Dilution of interest - increase in NCI (see Note 5)	–	–	–	–	–	–	–	154,748	(154,748)
Reclassification adjustment	–	–	–	–	–	–	–	(62,927,666)	62,927,666
Balance at December 31, 2017	(₱248,835,097)	(₱35,788,595)	(₱1,065,486)	₱48,517,428	(₱12,995,491)	₱298,989,409	₱48,822,168	₱56,949,521	(₱8,127,353)

(Forward)

	Cumulative Translation Adjustment (CTA)	AFS Financial Assets	Income Tax Related to AFS Financial Assets	Re-measurement of Defined Benefit Plan	Income Tax Related to Defined Benefit Plan	Share in OCI of an associate	Total	Attributable to Parent Company Owners	Non-controlling Interest
Balance at January 1, 2016	₱–	(₱37,532,107)	₱2,657,152	₱27,287,639	(₱8,186,299)	(₱6,550,960)	(₱22,324,575)	(₱15,841,622)	(₱6,482,953)
Net movement in CTA	(31,964,446)	–	–	–	–	112,849,479	80,885,033	80,885,033	–
Change in fair value of AFS financial assets (see Note 15)[(a)]	–	2,641,871	(1,192,622)	–	–	–	1,449,249	2,145,756	(696,507)
Remeasurement loss (see Note 27)	–	–	–	(11,173,989)	3,352,197	(1,635,506)	(9,457,298)	(7,630,135)	(1,827,163)
Acquisition of non-controlling interest (see Note 5)	–	–	–	–	–	–	–	62,927,666	62,927,666
Balance at December 31, 2016	(₱31,964,446)	(₱34,890,236)	₱1,464,530	₱16,113,650	(₱4,834,102)	₱104,663,013	₱50,552,409	₱122,486,698	(₱71,934,289)

(a) *Includes gain on changes in fair value of AFS, net of reclassifications to profit or loss.*

<u>Other Reserves</u>

As at December 31, 2017 and 2016 other reserves of the Company consists of:

	2017	2016
Long-term incentive plan reserves (see Note 27)	**₱23,100,000**	₱23,100,000
Executive stock option plan reserves (see Note 26)	**26,479,225**	26,479,225
Premium paid on acquisition of non-controlling interests (see Note 5)	**(2,710,702,369)**	(2,448,412,482)
Dilution of ownership interest in subsidiaries without loss of control (see Note 5)	**(35,102,200)**	–
	(₱2,696,225,344)	(₱2,398,833,257)

In 2017, the Company reclassified the discount on the acquisition of non-controlling interest in MSIHI amounting to ₱62.9 million from “Other comprehensive income reserve” account to “Other reserves account. Both accounts are under equity in the Company’s consolidated balance sheets.

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

23. Non-toll Revenues

Details of non-toll revenues follow:

	2017	2016
Income from advertising (see Note 21)	**₱112,248,474**	₱122,021,355
Income from TSF	**41,650,549**	36,414,084
Service revenue	**29,697,402**	2,410,563
Rental income (see Notes 14 and 32)	**4,307,205**	4,307,205
Income from utility facilities (see Note 21)	**3,127,412**	7,836,678
	₱191,031,042	₱172,989,885

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

24. Cost of Services

This account consists of:

	2017	2016
Amortization of service concession assets (see Note 11)	**₱969,195,423**	₱788,547,792
Concession fees (see Note 2)	**931,554,970**	791,493,044
PNCC fee (see Note 32)	**571,525,093**	527,740,201
Operator's fee (see Note 21)	**567,776,028**	2,146,344,375
Salaries and employee benefits (see Note 27)	**436,113,896**	59,100,500
Outside services (see Note 21)	**316,992,270**	72,622,640
Repairs and maintenance (see Note 21)	**290,811,455**	89,691,007
Provision for heavy maintenance (see Note 18)	**251,461,515**	141,355,169
Insurance	**90,140,372**	93,445,423
Communication, light and water (see Note 21)	**77,711,529**	19,330,862
Provisions for employee incentives and bonuses (see Note 18)	**74,649,915**	–
Depreciation of property and equipment (see Note 12)	**66,547,704**	12,682,000
Amortization of other intangible assets (see Note 13)	**–**	1,985,473
Transportation and travel	**35,165,067**	–
Toll collection and medical services	**27,056,449**	25,484,409
Professional fees	**22,660,173**	6,763,246
Cost of advertising	**18,582,496**	13,061,190
Cost of inventories	**2,079,298**	2,380
Others	**92,377,469**	25,886,417
	₱4,842,401,122	₱4,815,536,128

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

25. General and Administrative Expenses

This account consists of:

	2017	2016
Salaries and employee benefits (see Notes 26 and 27)	**₱513,195,614**	₱471,628,676
Provisions (see Note 18)	**284,167,860**	201,504,175
Advertising and marketing expenses	**248,196,456**	182,128,960
Professional fees	**129,361,029**	218,004,157
Taxes and licenses	**107,709,347**	160,232,449
Representation and travel	**68,593,627**	50,142,766
Depreciation of property and equipment (see Note 12)	**55,650,056**	40,338,227

(Forward)

	2017	2016
Outside services	**₱22,755,321**	₱27,352,449
Communication, light and water (see Note 21)	**17,234,716**	14,248,653
Amortization of other intangible assets (see Note 13)	**15,717,686**	5,983,191
Rentals (see Note 21)	**14,340,305**	5,513,351
Training and development costs	**14,205,706**	7,037,700
Office supplies	**11,061,984**	7,030,469
Repairs and maintenance	**9,799,694**	14,144,483
Donations and contributions	**7,938,848**	3,489,616
Management fees	**5,933,506**	–
Provisions for doubtful accounts (see Notes 8, 16 and 21)	**5,329,188**	32,242,822
Directors' fees (see Note 21)	**1,560,000**	2,850,911
Miscellaneous	**90,323,758**	62,592,750
	₱1,623,074,701	₱1,506,465,805

26. **Share-based Payments**

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

As amended, the overall limit on the number of shares which may be issued upon exercise of all options to be granted and yet to be exercised under the Plan must not exceed 5% of the shares in issue from time to time.

The exercise price in relation to each option shall be determined by MPIC's Compensation Committee, but shall not be lower than the highest of: (i) the closing price of the shares for one or more board lots of such shares on the PSE on the option offer date; (ii) the average closing price of the shares for one or more board lots of such shares on the PSE for the five (5) business days on which dealings in the shares are made immediately preceding the option offer date; and (iii) the par value of the shares.

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

A summary of the Company's stock option activity received from MPIC and related information for the years ended December 31, 2017 and 2016 follows:

	2013 Grant	
	Number of Shares	**Exercise Price**
Outstanding at January 1, 2016	14,000,000	₱4.60
Exercised during the year	1,400,000	4.60
Outstanding at December 31, 2016	12,600,000	₱4.60
Exercised during the year	550,000	4.60
Outstanding at December 31, 2017	**12,050,000**	**₱4.60**
Exercisable at:		
December 31, 2017	**12,050,000**	**₱4.60**
December 31, 2016	12,600,000	₱4.60

The weighted average remaining contractual life for the 2013 share options outstanding as at December 31, 2017 and 2016 is 0.8 years and 1.8 years, respectively.

The fair value of the options granted is estimated at the date of grant using Black-Scholes-Merton formula, taking into account the terms and conditions upon which the options were granted. The following tables list the inputs to the model used for the ESOP in 2013:

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

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

Executive stock options expense, recognized by the Company in "Salaries and employee benefits" account, under "General and administrative expenses" in the consolidated statements of income, amounted to nil and ₱1.2 million in 2017 and 2016, respectively (see Notes 21, 25 and 27).

Carrying value of the ESOP, recognized under "Other reserves" in the consolidated statements of changes in equity, amounted to ₱26.5 million as at December 31, 2017 and 2016 (see Note 22).

27. **Personnel Cost and Employee Benefits**

This account consists of:

	2017	2016
Salaries expense	**₱686,313,081**	₱348,331,080
LTIP expense (see Note 21)	**169,528,080**	121,468,533
Retirement costs	**19,435,562**	11,914,463
ESOP expense (see Note 26)	–	1,244,843
Other employee benefits	**74,032,787**	47,770,257
	₱949,309,510	₱530,729,176
Cost of services (see Note 24)	**₱436,113,896**	₱59,100,500
General and administrative expenses (see Note 25)	**513,195,614**	471,628,676
	₱949,309,510	₱530,729,176

LTIP

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

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

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

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

The total cost of the LTIP recognized by the Company in 2017 and 2016, included in "Salaries and employee benefits" account under "Cost of services" and "General and administrative expenses" accounts in the consolidated statements of income, amounted to ₱169.5 million and ₱121.5 million, respectively (see Notes 21, 24 and 25).

Carrying value of the 2010 to 2012 LTIP cost recognized under "Other reserves" in the consolidated balance sheets amounted to ₱23.1 million as at December 31, 2017 and 2016, representing MPIC's share in the LTIP cost of the Company as per 2010 to 2012 LTIP (see Note 22).

The carrying value of the 2015 to 2017 LTIP amounting to ₱503.8 million and ₱261.3 million was presented as LTIP payable in the current and noncurrent liability sections of the consolidated balance sheets as at December 31, 2017 and 2016, respectively.

As at December 31, 2017 and 2016, the LTIP payable is as follows:

	2017	2016
Balance at beginning of year	**₱261,268,267**	₱139,799,734
LTIP expense (see Notes 24 and 25)	**169,528,080**	121,468,533
Acquisition of a subsidiary (see Note 5)	**66,000,000**	–
Capitalized as part of service concession assets (see Note 11)	**3,545,967**	–
Reclassification from accrued expenses	**3,500,000**	–
	₱503,842,314	₱261,268,267
Current	**₱503,842,314**	₱–
Noncurrent	**–**	261,268,267
	₱503,842,314	₱261,268,267

Defined Contribution Retirement Plan
Retirement benefits of the employees of the Parent Company and MPT North are provided through a defined contribution scheme as approved by the BOD of the Parent Company and MPT North on June 21, 2011 and April 1, 2010, respectively. The Parent Company and MPT North operate a retirement plan which is a contributory plan wherein the Parent Company and MPT North 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 MPT North. 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 MPT North'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 MPT North 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.

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.

Although the plan has a defined contribution format, the Parent Company and MPT North regularly monitor compliance with RA No. 7641. As at December 31, 2017 and 2016, the Parent Company and MPT North are in compliance with the requirements of RA No. 7641.

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

Defined Benefit Retirement Plan

NLEX Corp., CIC, TMC and ESC have noncontributory defined benefit retirement plans covering all of their regular and full time employees. The plans provide for a lump sum benefit payments upon retirement. Contributions and costs are determined in accordance with the actuarial study made for the plan. The most recent actuarial valuation of plan assets and the present value of the defined benefit obligation were carried out as at December 31, 2017 by certified actuaries.

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

As at December 31, 2017, the retirement plan of ESC is unfunded.

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

Changes in accrued retirement costs (pension asset) of the Company in 2017 are as follows:

	Present Value of Defined Benefit Obligation	Fair Value of Plan Assets	Accrued Retirement Costs (Pension Asset)
At January 1, 2017	**₱211,819,878**	**₱209,564,016**	**₱2,255,862**
Acquisition of subsidiaries (see Note 5)	**125,511,254**	**114,297,304**	**11,213,950**
Net benefit cost in consolidated statement of income:			
Current service cost	**35,339,998**	**–**	**35,339,998**
Net interest	**17,684,387**	**33,554,448**	**(15,870,061)**
Past service costs	**–**	**34,375**	**(34,375)**
	53,024,385	**33,588,823**	**19,435,562**
Benefits paid	**(28,126,184)**	**(27,035,910)**	**(1,090,274)**
Remeasurements in OCI:			
Return on plan assets (excluding amount included in net interest)	**–**	**15,081,796**	**(15,081,796)**
Actuarial changes arising from changes in financial assumptions	**(15,783,168)**	**118,851**	**(15,902,019)**
Actuarial changes due to experience adjustments	**(7,678,548)**	**(6,258,585)**	**(1,419,963)**
	(23,461,716)	**8,942,062**	**(32,403,778)**
Contributions	**–**	**40,941,955**	**(40,941,955)**
Reversals	**(4,308,368)**	**(798,169)**	**(3,510,199)**
At December 31, 2017	**₱334,459,249**	**₱379,500,081**	**(₱45,040,832)**
Pension asset			**(₱46,890,321)**
Accrued retirement costs			**1,849,489**
			(₱45,040,832)

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

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

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 ₱33.6 million and ₱3.4 million in 2017 and 2016, respectively.

NLEX Corp. and CIC expect to contribute ₱17.9 million to their defined benefit retirement plans in 2018. MPTC and MPT North expect to contribute ₱4.3 million and ₱5.4 million, respectively, to their defined contribution retirement plans in 2018.

The major categories of plan assets follow:

	2017		2016	
	Amount	**Percentage**	Amount	Percentage
Investments in:				
Government securities	**₱220,792,449**	**58.18%**	₱101,273,767	48.33%
Debt securities	**43,451,868**	**11.45%**	41,849,207	19.97%
UITF	**49,784,221**	**13.12%**	22,554,959	10.76%
Equity securities	**35,855,362**	**9.45%**	3,716,110	1.77%
Cash and cash equivalents	**25,660,152**	**6.76%**	35,940,457	17.15%
Loans/notes receivable	**866,709**	**0.23%**	992,723	0.47%
Receivables and others	**3,089,320**	**0.81%**	3,236,793	1.55%
	₱379,500,081	**100.00%**	₱209,564,016	100.00%

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

As at December 31, 2017 and 2016, the plan assets consist of the following:

- Investments in government securities consist primarily of fixed-rate treasury notes and retail treasury bonds that bear interest ranging from 2.13% to 8.63% per annum and have maturities from 2018 to 2035.
- Investments in debt instruments consist of quoted, unsecured, long-term corporate bonds and subordinated notes of unrelated parties, which bear interest ranging from 3.92% to 6.27% per annum and have maturities from 2019 to 2026.
- Investment in equity securities include non-voting preferred shares of various companies. The carrying amounts of investments in equity securities approximate their fair values since they are marked-to-market.
- Cash and cash equivalents include regular savings and time deposits, which bear interest of 1.25% to 4.75% per annum in 2017.
- Loans and notes receivables include of unsecured fixed rate corporate notes of SMART, a related party, which bear interest of 6.26% and are due in 2022.
- 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, 2017 and 2016 are as follows:

	2017	2016
Discount rate	**4.86% - 5.85%**	4.86% - 5.33%
Salary increase rate	**3.00% - 7.00%**	5.00% - 7.00%

For subsidiaries with defined benefit retirement plans, the sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as at December 31, 2017, assuming if all other assumptions were held constant:

		Balance of Defined Benefit Obligation
Discount rate	(Actual + 1.00%)	**(₱119,545,758)**
	(Actual - 1.00%)	**183,096,802**
Salary increase rate	(Actual + 1.00%)	**₱182,887,020**
	(Actual - 1.00%)	**(118,896,331)**

For the Parent Company and MPT North, which have defined contribution retirement plans, the retirement benefit obligation is the higher of the defined contribution accumulation and the legal minimum benefit. Both amounts are projected to retirement date and compared. Under the current assumptions used in the latest valuation, the defined contribution accumulation turns out to be higher. In such a case, the recognized retirement benefit obligation is the sum of the personal retirement balances at balance sheet date. When the assumptions in discount rate and salary rate increase or decrease to reasonably possible changes (+/-100 basis points), the same conclusion and therefore, the retirement benefit obligation will still be the personal retirement balances.

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

The average duration of the defined benefit obligation at December 31, 2017 and 2016 is 15.1 years and 16.1 years, respectively.

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

	2017	2016
Less than 1 year	**₱71,131,649**	₱65,529,258
More than 1 year to 5 years	**122,470,191**	67,610,010
More than 5 years to 10 years	**212,279,459**	99,640,066
More than 10 years to 15 years	**346,687,410**	107,530,708
More than 15 years to 20 years	**265,151,984**	224,102,985
More than 20 years	**552,151,484**	427,204,958

28. **Interest Income**

Sources of interest income follow:

	2017	2016
AFS financial assets (see Note 15)	**₱42,293,468**	₱40,128,011
Cash and cash equivalents and restricted cash (see Note 7)	**31,795,482**	50,254,222
Others	**2,275,204**	3,519,844
	₱76,364,154	₱93,902,077

29. **Interest Expense and Other Finance Costs**

Details of interest expense and other finance costs follow:

	2017	2016
Interest expense on:		
Long-term debt (see Notes 19 and 34)	**₱1,384,480,020**	₱1,154,983,089
Provision for heavy maintenance (see Note 18)	**16,112,359**	13,355,182
Short-term loan (see Note 19)	**7,448,028**	–
Rental deposits	**7,588**	–
Other finance costs:		
Loss on extinguishment of debt (see Note 19)	**163,705,673**	–
Amortization of debt issue costs (see Note 19)	**32,166,327**	27,217,000
Bank charges	**14,302,397**	2,336,594
Commitment fees (see Note 19)	**12,141,577**	–
Lenders' fees	**3,515,456**	2,277,197
	₱1,633,879,425	₱1,200,169,062

30. Other Income

Details of other income follow:

	2017	2016
Gain on remeasurement of previously held interest (see Note 5)	**₱1,999,106,761**	₱–
Dividend income (see Note 15)	**89,678,876**	137,967,501
Reversal of excess accruals	**62,095,019**	–
Gain on sale of AFS financial assets (see Note 15)	**24,200,673**	7,321,928
Management fees (see Note 21)	**14,063,087**	56,252,346
Gain on sale of property and equipment (see Note 12)	**3,721,361**	861,343
Reversal of contingent liability (see Note 18)	**–**	152,955,420
Others	**59,934,258**	28,768,079
	₱2,252,800,035	₱384,126,617

31. Income Taxes

The provision for current income tax consists of:

	2017	2016
Regular corporate income tax (RCIT)	**₱1,408,268,636**	₱1,141,095,679
Final tax on interest income	**14,283,964**	18,523,511
MCIT	**897,280**	86,421,056
	₱1,423,449,880	₱1,246,040,246

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

	2017	2016
Deferred Tax Liabilities		
Present value of concession fees capitalized as service concession asset	**₱5,893,440,294**	₱5,565,180,409
Difference in method of amortization of service concession assets	**855,016,683**	823,993,360
Excess of fair values over book values arising from business combinations	**447,919,454**	441,303,637
Capitalized debt issue costs	**37,730,450**	54,267,314
Unamortized realized foreign exchange losses capitalized	**17,811,727**	18,702,313
Pension asset	**10,944,080**	423,947
Fair value changes on AFS financial assets	**1,065,484**	–
Accrued rental income	**649,237**	–
Unamortized present value of rental deposits	**41,177**	36,904
Unrealized foreign exchange gains - net	**24,013**	73,649
Reimbursement rights	**–**	685,268
	7,264,642,599	6,904,666,801

(Forward)

	2017	2016
Deferred Tax Assets		
Service concession fees payable	**₱5,893,440,294**	₱5,565,180,409
Provision for heavy maintenance	**114,396,279**	121,504,893
Provisions and accruals	**102,593,590**	43,886,956
Long-term incentive plan payable	**58,032,694**	38,832,694
Allowance for impairment loss	**25,262,812**	24,077,449
Unamortized past service cost	**8,783,939**	7,036,469
Accrued retirement costs	**4,454,807**	948,163
Unearned toll revenues	**1,442,654**	2,660,303
Unearned rent income	**620,049**	639,667
Unamortized deferred lease income	**39,084**	42,341
Unrealized foreign exchange loss - net	**–**	27,168,314
Fair value changes on AFS financial assets	**–**	1,464,530
	6,209,066,202	5,833,442,188
Deferred tax liabilities - net	**₱1,055,576,397**	₱1,071,224,613

Reflected in the consolidated balance sheets as follows:

	2017	2016
Deferred tax assets - net	**₱46,601,818**	₱645,103
Deferred tax liabilities - net	**(1,102,178,215)**	(1,071,869,716)
	(₱1,055,576,397)	(₱1,071,224,613)

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

Certain subsidiaries under the Company 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:

	2017	2016
NOLCO	**₱1,154,464,883**	₱1,085,494,301
Accrued expenses and provisions	**37,091,950**	29,152,645
MCIT	**17,173,178**	15,081,627
Unrealized foreign exchange loss	**124,780**	122,915
	₱1,208,854,791	₱1,129,851,488

As at December 31, 2017, certain subsidiaries under the Company 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
2015	December 31, 2018	₱7,421,045	₱317,460,437
2016	December 31, 2019	4,953,062	495,914,557
2017	December 31, 2020	4,799,071	341,089,889
		₱17,173,178	₱1,154,464,883

The movements in NOLCO are as follows:

	2017	2016
Balance at beginning of year	**₱1,085,494,301**	₱751,709,126
Additions	**341,089,889**	495,914,557
Expirations	**(272,119,307)**	(162,129,382)
Balance at end of year	**₱1,154,464,883**	₱1,085,494,301

The movements in MCIT are as follows:

	2017	2016
Balance at beginning of year	**₱15,081,627**	₱40,470,674
Additions	**4,799,071**	4,953,062
Applications	**–**	(27,029,295)
Expirations	**(2,707,520)**	(3,312,814)
Balance at end of year	**₱17,173,178**	₱15,081,627

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:

	2017	2016
Income before income tax	**₱8,009,470,799**	₱5,402,732,259
Income tax computed at statutory tax rate of 30%	**₱2,402,841,240**	₱1,620,819,678
Add (deduct) tax effects of:		
Gain on remeasurement of previously held interest in an associate and joint venture company	**(599,732,028)**	–
Effect of optional standard deduction (OSD)	**(437,438,523)**	(443,264,106)
Equity in net earnings of associates and a joint venture	**(167,355,773)**	(137,884,424)
Nondeductible expenses and others	**107,403,175**	101,936,310
Dividend income subject to tax	**55,178,518**	67,193,151
Dividend income not subject to tax	**(26,903,665)**	(41,390,252)
Interest income subjected to final tax	**(21,332,595)**	(27,719,289)
Fair value adjustments	**–**	11,653,717
Transaction cost on the issuance of shares	**–**	(34,419)
Movement in NOLCO	**106,019,467**	118,296,097
Final tax on interest income	**14,283,964**	18,523,511
MCIT	**4,799,071**	4,953,062
Change in unrecognized deferred tax assets	**(1,138,499)**	13,310,416
Deferred tax adjustment	**–**	8,346,916
	₱1,436,624,352	₱1,314,740,368

On December 18, 2008, the BIR issued Revenue Regulation (RR) 16-2008, which implemented the provisions of RA No. 9504 on OSD, which allowed both individual and corporate tax payers to use OSD in computing their taxable income. For corporations, they may elect a standard deduction in an amount equivalent to 40% of gross income, as provided by law, in lieu of the itemized allowed deductions. NLEX Corp. opted to avail of the OSD for the taxable years 2017 and 2016, while TMC opted to avail of the OSD for the taxable year 2017.

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

	2017	2016
Balance at beginning of year	**₱1,071,224,613**	₱977,597,311
Acquisition of subsidiaries (see Note 5)	**(39,514,093)**	–
Provision for deferred income tax during the year recognized in the consolidated statements of income	**13,174,472**	68,700,122
Application against excess MCIT	–	27,086,755
Income tax effect during the year recognized in the consolidated statements of comprehensive income	**10,691,405**	(2,159,575)
Balance at end of year	**₱1,055,576,397**	₱1,071,224,613

Registration with the Board of Investments (BOI)
On August 3, 2017, the CALAEX project was registered with the BOI as a new project on a non-pioneer status under the Omnibus Investment Code of 1987. Under this registration, MHI will enjoy certain tax and nontax incentives including a four-year Income Tax Holiday (ITH) on the income arising the CALAEX project starting from July 2020 or actual start of commercial operations, whichever is earlier and subject to certain conditions. Among others, (i) MHI shall increase its stockholder's equity to at least ₱12.1 billion equivalent to 25% of the project cost; (ii) MHI shall submit proof of upgraded service quality as result of the implementation of the modernization project; (iii) the ITH's entitlement shall be based on the project's ability to contribute to the economy's development based on certain parameter indicated in Certificate of Registration; and (iv) MHI shall endeavor to undertake meaningful and sustainable corporate social responsibility activities.

Tax Reform for Acceleration and Inclusion Act (TRAIN)
Republic Act No.10963 or the TRAIN was signed into law on December 19, 2017 and took effect January 1, 2018, making the new tax law enacted as of the reporting date. Although the TRAIN changes existing tax law and includes several provisions that will generally affect businesses on a prospective basis, the management assessed that the same will not have any significant impact on the financial statement balances as of the reporting date.

32. Significant Contracts and Commitments

PNCC Fee
In consideration of the assignment by PNCC of its usufructuary rights, interests and privileges under its franchise, PNCC is entitled to receive payment equivalent to 6% and 2% of the toll revenues from the NLEX and Segment 7, respectively. Any unpaid balance carried forward will accrue interest at the rate of the latest Philippine 91-day Treasury bill rate plus 1% per annum. This entitlement, as affirmed in the Amended and Restated Shareholders' Agreement (ARSA) dated September 30, 2004, shall be subordinated to operating expenses and the requirements of the financing agreements and shall be paid out subject to availability of funds. In December 2006, NLEX Corp. entered into a letter agreement with PNCC to set out the detailed procedure for payment.

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

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

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

In accordance with the TRB directive, 90% of the PNCC fee and dividends payable are to be remitted to the TRB, while the balance of 10% to PNCC. NLEX Corp. recorded PNCC fee amounting to ₱571.5 million and ₱527.7 million in 2017 and 2016, respectively (see Note 24).

Construction of Segment 10 of Phase II of NLEX

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

On May 8, 2014, NLEX Corp. issued the NTP to LCAL, signaling the start of the pre-construction activities. Pursuant to the contract, NLEX Corp. placed a reserve amount of ₱889.0 million in an escrow account on July 28, 2014 to cover payment default leading to suspension of works.

On January 12, 2017, pursuant to the escrow agreement, NLEX Corp. exercised its option to reduce the escrow account balance to the new minimum balance of ₱669.0 million. The balance was further reduced to ₱321.0 million on May 12, 2017. The new minimum balance is the amount equal to the forecast of LCAL's maximum committed costs over any given seven (7) weeks from the relevant calculation date until the forecast completion date plus a reasonable contingency allowance as agreed upon by both parties.

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

As at December 31, 2017, the balance of the escrow account amounting to ₱321.0 million is presented as "Restricted Cash" under "Other current assets" account (see Note 9). In 2016 the balance of ₱889.0 million was presented under "Other noncurrent assets" account (see Note 16).

NLEX Widening Project

On February 22, 2016, NLEX Corp. signed a construction contract with First Balfour, Inc. and Haidee Construction and Development Corporation / 4B Construction Corporation for the NLEX lane widening covering the construction of an additional lane on each direction in Segment 2, portion of Phase 1 of NLEX (from Sta. Rita to San Fernando), and the expansion of the carriageway in Segment 3, portion of Phase 1 of NLEX (from Dau to Sta. Ines) from one by two to two by two lanes.

It also covers the lane configuration of Candaba Viaduct from 2 to 3 lanes. The total project costs including civil works, independent design checking services, detailed engineering design and financing cost amounted to ₱2.4 billion for both Segment 2 and Segment 3. On December 2, 2016, the Segment 3 of the project has started commercial operations while Segment 2 of the project was completed and has started commercial operations in May 2017.

Unapplied advances to First Balfour, Inc. amounted to ₱21.7 million and ₱195.5 million as at December 31, 2017 and 2016, respectively (see Note 16).

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

Lease Contract
On January 1, 2016, NVC, as lessor, entered into a contract of lease with RDL Fuel Point, Inc, as lessee, covering a parcel of land adjacent to the NLEX and is presently the site of a service facility. The lease term shall be for 14 years starting from January 1, 2016, unless earlier terminated or otherwise extended by the parties in writing. The amount of the rent for the first 2 years shall be ₱4.3 million per year (inclusive of VAT). On the third year of the lease and every year thereafter, the rent shall be escalated by 5%. The lessee shall likewise pay the lessor additional fees based on the sales proceeds of the service facility.

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

Unearned rental income related to the advance rent amounted to nil and ₱2.1 million as at December 31, 2017 and 2016, respectively.

As at December 31, 2017 and 2016, the minimum lease receivables are as follows:

	2017	2016
Within one year	**₱3,375,000**	₱3,214,286
After one year but not more than five years	**19,581,456**	18,649,005
After five years	**30,763,846**	35,071,297
	₱53,720,302	₱56,934,588

NLEX Drive and Dine Project
In 2017, NVC entered into a contract agreement with a third party for the design and construction of the NLEX Drive and Dine Project.

On October 6, 2017, an advance payment was made by NVC to the contractor amounting to ₱29.9 million (inclusive of VAT) (see Note 16). The NLEX Drive and Dine Project is estimated to commence operations on the third quarter of 2018.

Merger between NLEX Corp. and TMC
On October 19, 2016, the NLEX Corp.'s BOD approved the proposed merger between NLEX Corp. and TMC, with NLEX Corp. as the surviving entity. On November 17, 2016, majority of the stockholders of NLEX Corp. confirmed and ratified the proposed merger between NLEX Corp. and TMC. On December 15, 2016, TMC's majority stockholders approved the said proposal. On April 17, 2017, NLEX Corp. and TMC, signed the plan of merger and articles of merger, pursuant to which NLEX Corp. and TMC will be merged, with NLEX Corp. as the surviving corporation.

As the surviving corporation, NLEX Corp's corporate existence shall continue and shall: (a) acquire all respective rights, businesses, assets and other properties of TMC, and (b) assume all the debts and liabilities of TMC.

The execution of the merger shall be subject to regulatory approvals, including the Philippine Competition Commission, and shall take effect 15 days from and after the approval by the SEC of the Articles of Merger and the issuance of Filing of the Articles of Merger. Upon the effective date of the merger, each TMC shareholder participating in the merger shall receive common shares in NLEX using the exchange ratio of 2.7 NLEX common shares for every 1 TMC common share (or such other exchange ratio prescribed by the SEC). Alternatively, a TMC shareholder who has exercised its appraisal right under the law will instead sell its TMC common shares to TMC for cash consideration, pursuant to the Corporation Code of the Philippine. Upon the effectivity of the merger, NLEX shall be deemed as having acquired all the assets, and assumed all the liabilities of TMC.

Construction of Feeder Roads
On October 20, 2011, CIC and CHI executed a MOA, wherein, CHI shall grant CIC a right-of-way to certain segments of the property CHI plans to reclaim to allow CIC to construct four feeder roads. The four feeder roads are estimated to cost ₱520.0 million where CHI shall be liable for approximately fifty percent (50%) of construction costs. Actual contribution of CHI amounting to ₱256.7 million was received by CIC in 2012 and presented as "Other noncurrent liabilities" as at December 31, 2017 and 2016. As at February 23, 2018, the construction of the feeder roads has not yet started.

As at February 23, 2018, the Articles of Merger has been filed at the SEC and is awaiting approval.

Construction of the CALAEX

Laguna Segment. On February 14, 2017, MHI awarded the contract to DM Consunji (DMCI) amounting to ₱7.2 billion (inclusive of VAT) for the construction of the 18.15 km Laguna segment of the CALAEX project. A formal groundbreaking ceremony was held last June 19, 2017 and construction officially commenced last July 3, 2017. Target completion is on July 2020, thirty six (36) months from the date of the issuance of the notice to proceed, with partial (sectional) completion in late 2018 to early 2019.

Unapplied advance payment to DMCI amounting to ₱964.3 million as at December 31, 2017 is presented as part of "Other noncurrent assets" (see Note 16).

Cavite Segment. In July 2017, MHI signed a contract with Leighton Contractors (Asia) Limited (LCAL) for the construction of the 26.48 km Cavite segment of the CALAEX project. The construction cost covering Civil Works amounted to ₱7.0 billion (exclusive of VAT). The project is expected to be completed in thirty-six (36) months from the date of the notice to proceed, with partial (sectional) completion within 2020. As at January 14, 2018, the notice to proceed was put on hold.

The expected mobilization of construction is on May 2018, subject to the Certification of Availability of Right-of-Way from the DPWH, which is expected in April 2018.

Construction of the CCLEX
On December 19, 2017, CCLEC and Cebu Link Joint Venture (CLJV) entered into the Engineering, Procurement and Construction (EPC) contract for the design, engineering, procurement and construction of CCLEX. The contract price is up to ₱22.55 billion. CLJV is a joint venture composed of Acciona Construction Philippines, Inc., First Balfour Inc., and DMCI. Commencement date of the EPC contract was January 8, 2018 until August 8, 2021 or 1,308 days.

Agreement to Purchase Land
On July 20, 2017, CCLEC entered into an option agreement with an individual with respect to a parcel of land in Cordova, Cebu. Under the terms of the agreement, CCLEC may purchase all or part of the subject land, measuring 41,098 square meters, for ₱5,000/sq.m on or before the option period of 120 days. CCLEC paid an option money amounting to ₱10.0 million which will be applied as part of the agreed purchase price.

On November 23, 2017, the parties entered into a supplemental agreement extending the option period from 120 days to 150 days, ending on April 22, 2018. On the same date, CCLEC made an advance payment amounting to ₱20.0 million which will also be applied as part of the agreed purchase price. Under the provisions of the supplemental agreement, CCLEC may exercise the option to buy a portion of the land equivalent to the total amount of ₱30.0 million in the event that the CCLEX project does not materialize.

The advance payment amounting to ₱30.0 million as at December 31, 2017 is presented as part of "Other noncurrent assets" (see Note 16).

Contract with Technical Consultants
On August 16, 2016, CCLEC signed an agreement with COWI A/S (Sweden) and DCCD Engineering Corporation (Philippines) for the technical assistance necessary for developing an alternative design of the main bridge, preparation of tender documents, procurement of a suitable contractor, and design and construction of the CCLEX project. The contract price is split in Philippine Peso (₱) and in Euro (€), amounting to ₱92.2 million and €5.7 million, respectively.

Unapplied advance payment to COWI and DCCD amounted to ₱10.4 million as at December 31, 2017 is presented as part of "Other noncurrent assets" (see Note 16).

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

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

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

Interest Rate Risk
Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to interest rate risk

relates primarily to the Company's long-term debt obligations with floating interest rates. In accordance with its interest rate management policy, the Company converted most of its outstanding loans into fixed-rate debt, effectively locking in the interest rate on its loan obligations and reducing exposure to interest rate fluctuations.

The Company consistently monitors fluctuations of interest rates 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, 2017		
	Interest Rate	**Within the Year ('000)**	**2-3 Years ('000)**	**4-5 Years ('000)**	**More than 5 Years ('000)**	**Total ('000)**
Fixed-rate financial assets:						
Cash and cash equivalents and restricted cash[(a)]	**0.25% - 3.13%**	**₱4,915,331**	**₱–**	**₱–**	**₱–**	**₱4,915,331**
AFS financial assets	**1.63% - 6.00%**	**50,000**	**431,230**	**250,000**	**565,100**	**1,296,330**
Restricted cash[(b)]	**1.00%**	**321,000**	**–**	**–**	**–**	**321,000**
		₱5,286,331	**₱431,230**	**₱250,000**	**₱565,100**	**₱6,532,661**
Fixed-rate financial liabilities:						
Term-loan facilities	**5.00% - 5.80%**	**₱617,500**	**₱2,611,500**	**₱3,514,500**	**₱16,291,500**	**₱23,035,000**
Series A-7	**7.27%**	**3,957,617**	**–**	**–**	**–**	**3,957,617**
RCBC/BDO Loan	**6.50%**	**305,000**	**1,220,000**	**2,440,000**	**1,525,000**	**5,490,000**
Series A-10	**7.70%**	**10,000**	**20,000**	**910,000**	**–**	**940,000**
Fixed-rate Bonds	**5.07% - 5.50%**			**4,357,430**	**2,600,000**	**6,957,430**
Service concession fees payable	**5.60 - 7.09%**	**–**	**4,368,000**	**9,222,309**	**16,760,101**	**30,350,410**
		4,890,117	**8,219,500**	**20,444,239**	**37,176,601**	**70,730,457**
Floating-rate loan - Mizuho and SMBC Term Loan	**Bangkok Interbank Offered Rate plus 1.65%**	**445,264**	**1,059,420**	**813,758**	**–**	**2,318,442**
		₱5,335,381	**₱9,278,920**	**₱21,257,997**	**₱37,176,601**	**₱73,048,899**

[(a)] *Excluding cash on hand amounting to ₱92.5 million as at December 31, 2017.*
[(b)] *Included under "Other current assets" account in the consolidated balance sheet.*

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

[(a)] *Excluding cash on hand amounting to ₱61.5 million as at December 31, 2016.*
[(b)] *Included under "Other noncurrent assets" account in the consolidated balance sheet.*

Interest on financial instruments classified as floating rate is repriced semi-annually on each interest payment date. Interest on financial instruments classified as fixed rate is fixed until the maturity of the instrument, except for certain term-loan facilities and the RCBC/BDO Loan which will be repriced after five (5) or seven (7) years from their initial drawdown dates. The other financial instruments of the Company that are not included in the above table are noninterest-bearing and are therefore not subject to cash flow interest rate risk.

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

	Increase/Decrease in Basis Points	Effect on Income Before Income Tax
2017	**+50**	**(₱11,592,207)**
	-50	**11,592,207**
2016	+50	(10,448,525)
	-50	10,448,525

Foreign Currency Risk

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

The Company's exposure to foreign exchange currency risk in 2016 relates mainly to CIC's dollar denominated Series 2010-1 Notes amounting to $13.7 million (₱657.7 million) as at December 31, 2016. The Series 2010-1 Notes were prepaid in 2017 (see Note 19). The Company also has minimal foreign currency denominated cash and cash equivalents and trade payables as at December 31, 2017 and 2016.

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

The Company's practice is to refinance outstanding U.S. dollar loans with peso loans to reduce the exposure to foreign currency risk. The Company also aims to minimize economic and material transactional exposures arising from currency movements against the peso.

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

	Increase/Decrease in Foreign Exchange Rates	Effect on Income Before Income Tax
2017	**+4%**	**(₱17,988,028)**
	-4%	**17,988,028**
2016	+4%	(27,251,677)
	-4%	27,251,677

Credit Risk

Credit risk is the risk that the Company will incur 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 non-toll revenues in the form of advertising services particularly from Smart. These receivables are considered as low-risk as these came from a well-established company. Receivables also arose from motorists who cause accidental damage to NLEX property from day-today operations. Property damage claims are initially processed by TMC and are eventually turned over to NLEX Corp. The Company also has advances to DPWH, a Philippine government entity, which is covered by a Reimbursement Agreement.

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

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

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

	2017	2016
Cash and cash equivalents[(a)]	**₱4,245,094,793**	₱1,429,591,834
Restricted cash	**670,235,813**	471,568,380
Short-term deposits	**1,061,775,491**	770,415,867
Receivables[(b)]	**661,472,043**	668,150,484
Due from related parties	**5,505,124**	40,041,201
AFS financial assets[(c)]	**1,254,406,932**	1,353,667,695
Restricted cash[(d)]	**321,000,000**	889,000,000
Refundable deposits[(e)]	**28,518,065**	8,117,415
Total credit risk exposure	**₱8,248,008,261**	₱5,630,552,876

[(a)] *Excluding cash on hand amounting to ₱92.5 million and ₱61.5 million as at December 31, 2017 and 2016, respectively.*
[(b)] *Excluding advances to officers and employees amounting to ₱33.9 million and ₱20.7 million as at December 31, 2017 and 2016, respectively.*
[(c)] *Excluding equity investments in club shares, CMMTC and PGOACI amounting to ₱329.0 million as at December 31, 2017 and 2016.*
[(d)] *Included in "Other current assets" and "Other noncurrent assets" account in the consolidated balance sheets in 2017 and 2016, respectively.*
[(e)] *Included in "Other noncurrent asset" account in the consolidated balance sheets.*

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

As at December 31, 2017 and 2016, 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, 2017 and 2016, except for the impaired trade receivables amounting to ₱3.2 million and ₱3.1 million as at December 31, 2017 and 2016, respectively.

	Neither Past Due nor Impaired	**Past Due but not Impaired**						**Total**
		<31 Days	**31-60 Days**	**61-90 Days**	**91-180 Days**	**181 days - 1 year**	**Total**	
2017	**₱46,670,472**	**₱139,118,498**	**₱30,125,183**	**₱15,240,522**	**₱36,679,179**	**₱54,560,422**	**₱275,723,804**	**₱322,394,276**
2016	261,417,478	11,135,229	41,126,262	10,338,069	8,075,166	28,644,523	99,319,249	360,736,727

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

	December 31, 2017			
	Neither Past Due nor Impaired - High-grade	**Past Due but not Impaired**	**Impaired**	**Total**
Cash and cash equivalents[(a)]	**₱4,245,094,793**	**₱–**	**₱–**	**₱4,245,094,793**
Restricted cash	**670,235,813**	**–**	**–**	**670,235,813**
Short-term deposits	**1,061,775,491**	**–**	**–**	**1,061,775,491**
Receivables				
Trade receivables	**46,670,472**	**275,723,804**	**3,204,597**	**325,598,873**
Advances to DPWH	**179,535,742**	**–**	**–**	**179,535,742**
Interest receivables	**20,434,847**	**–**	**–**	**20,434,847**
Other receivables	**139,107,178**	**–**	**23,234,568**	**162,341,746**
Due from related parties	**5,505,124**	**–**	**–**	**5,505,124**
AFS financial assets[(b)]	**1,254,406,932**	**–**	**–**	**1,254,406,932**
Restricted cash[(c)]	**321,000,000**	**–**	**–**	**321,000,000**
Refundable deposits[(c)]	**28,518,065**	**–**	**–**	**28,518,065**
	₱7,972,284,457	**₱275,723,804**	**₱26,439,165**	**₱8,274,447,429**

[(a)] *Excluding cash on hand amounting to ₱92.5 million as at December 31, 2017.*
[(b)] *Excluding equity investments in club shares, CMMTC and PGOACI amounting to ₱329.0 million as at December 31, 2017.*
[(c)] *Included in "Other current assets" and "Other noncurrent assets" account in the consolidated balance sheets in 2017 and 2016, respectively.*

	December 31, 2016			
	Neither Past Due nor Impaired - High-grade	Past Due but not Impaired	Impaired	Total
Cash and cash equivalents[(a)]	₱1,429,591,834	₱–	₱–	₱1,429,591,834
Restricted cash	471,568,380	–	–	471,568,380
Short-term deposits	770,415,867	–	–	770,415,867
Receivables				
Trade receivables	261,417,479	99,319,249	3,053,951	363,790,679
Advances to DPWH	180,361,049	–	–	180,361,049
Interest receivables	14,738,854	–	–	14,738,854
Dividend receivables	55,187,000	–	–	55,187,000
Other receivables	57,126,853	–	21,884,639	79,011,492
Due from related parties	40,041,201	–	–	40,041,201
AFS financial assets[(b)]	1,353,667,695	–	–	1,353,667,695
Restricted cash[(c)]	889,000,000	–	–	889,000,000
Refundable deposits[(d)]	8,117,415	–	–	8,117,415
	₱5,531,233,627	₱99,319,249	₱24,938,590	₱5,655,491,466

[(a)] *Excluding cash on hand amounting to ₱61.5 million as at December 31, 2016.*
[(b)] *Excluding equity investments in club shares, CMMTC and PGOACI amounting to ₱329.0 million as at December 31, 2016.*
[(c)] *Included in "Other noncurrent assets" account in the consolidated balance sheet.*
[(d)] *Included in "Other noncurrent asset" account in the consolidated balance sheets.*

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 ₱14,872.0 million and ₱12,750.0 million as at December 31, 2017 and 2016, respectively, and cash and cash equivalents amounting to ₱4,337.6 million and ₱1,491.1 million as at December 31, 2017 and 2016, 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, 2017 and 2016 based on undiscounted payments:

	December 31, 2017				
	Within the Year	**2-3 Years**	**4-5 Years**	**More than 5 Years**	**Total**
Financial Assets					
Cash and cash equivalents	**₱4,337,589,716**	**₱–**	**₱–**	**₱–**	**₱4,337,589,716**
Restricted cash	**670,235,813**	**–**	**–**	**–**	**670,235,813**
Short-term deposits	**1,061,775,491**	**–**	**–**	**–**	**1,061,775,491**
Receivables[(a)]	**661,472,043**	**–**	**–**	**–**	**661,472,043**
Due from related parties	**5,505,124**	**–**	**–**	**–**	**5,505,124**
AFS financial assets[(b)]	**100,355,867**	**527,394,473**	**273,388,981**	**926,634,716**	**1,827,774,037**
Restricted cash[(c)]	**321,000,000**		**–**	**–**	**321,000,000**
Refundable deposits[(d)]	**–**	**1,570,446**	**–**	**26,947,619**	**28,518,065**
	₱7,157,934,054	**₱528,964,919**	**₱273,388,981**	**₱953,582,335**	**₱8,913,870,289**
Financial Liabilities					
Accounts payable and other current liabilities[(e)]	**₱3,941,584,612**	**₱–**	**₱–**	**₱–**	**₱3,941,584,612**
Due to related parties	**11,980,886**	**–**	**–**	**–**	**11,980,886**
Dividends payable	**471,006,888**	**–**	**–**	**–**	**471,006,888**
Long-term debt[(f)]	**7,561,557,063**	**8,907,296,781**	**14,869,113,902**	**23,243,298,660**	**54,581,266,406**
Service concession fees payable	**–**	**4,368,000,000**	**9,222,309,163**	**16,760,101,186**	**30,350,410,349**
	₱11,986,129,449	**₱13,275,296,781**	**₱24,091,423,065**	**₱40,003,399,846**	**₱89,356,249,141**

(a) *Excluding advances to officers and employees amounting to ₱33.9 million as at December 31, 2017.*
(b) *Including interest to be received.*
(c) *Included in "Other current assets" and "Other noncurrent assets" account in the consolidated balance sheets in 2017 and 2016, respectively.*
(d) *Excluding statutory liabilities amounting to ₱592.9 million as at December 31, 2017.*
(f) *Including interest to be paid.*

	December 31, 2016				
	Within the Year	2-3 Years	4-5 Years	More than 5 Years	Total
Financial Assets					
Cash and cash equivalents	₱1,491,117,811	₱–	₱–	–	₱1,491,117,811
Restricted cash	471,568,380	–	–	–	471,568,380
Short-term deposits	770,415,867	–	–	–	770,415,867
Receivables[(a)]	668,150,484	–	–	–	668,150,484
Due from related parties	40,041,201	–	–	–	40,041,201
AFS financial assets[(b)]	50,895,971	404,460,065	585,477,806	926,634,716	1,967,468,558
Restricted cash[(c)]	–	889,000,000	–	–	889,000,000
Refundable deposits[(c)]	–	–	–	8,117,415	8,117,415
	₱3,492,189,714	₱1,293,460,065	₱585,477,806	₱934,752,131	₱6,305,879,716
Financial Liabilities					
Accounts payable and other current liabilities[(d)]	₱3,490,198,175	₱–	₱–	₱–	₱3,490,198,175
Due to related parties	5,079,996	–	–	–	5,079,996
Dividends payable	11,065,871	–	–	–	11,065,871
Long-term debt[(e)]	2,971,506,804	10,474,451,406	12,402,009,627	16,022,706,717	41,870,674,554
Service concession fees payable	–	–	8,979,154,581	20,884,946,605	29,864,101,186
	₱6,477,850,846	₱10,474,451,406	₱21,381,164,208	₱36,907,653,322	₱75,241,119,782

(a) *Excluding advances to officers and employees amounting to ₱20.7 million as at December 31, 2016.*
(b) *Including interest to be received.*
(c) *Included in "Other noncurrent assets" account in the consolidated balance sheet.*
(d) *Excluding statutory liabilities amounting to ₱308.4 million as at December 31, 2016.*
(e) *Including interest to be paid.*

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

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

As at December 31, 2017 and 2016, NLEX Corp. has the capacity to incur additional long-term debt to build up its capital and in preparation for the financing of expansion projects.

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

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

CIC has not paid any dividends in 2017 and 2016. Other than the restriction in dividends and distribution of its share capital, CIC is not subject to other externally imposed capital requirements.

Under the Amended and Restated Omnibus Agreement for the RCBC/BDO loan, CIC is required to maintain a DSCR of at least 1.05 times at all times until full payment of the long-term debt and at least 1.20 times for declaration of dividends and other distributions. CIC shall also maintain a maximum DER of 3.0 times at all times until full payment of the long-term debt. As also discussed in Note 19, CIC issued a supplemental disclosures and exceptions to the amendment and restated representations and warranties, covenants and events of defaults under the Amended and Restated Omnibus Agreement dated December 16, 2013 which includes the exemption on the required financial ratios as at December 31, 2017 and 2016.

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

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

AIF. Under the loan agreement, AIF is required to maintain a DER not exceeding 1:1 and a DSCR of not less than 1.10 times during the term of the loan.

MPTC Group. As also discussed in Note 19, the Group is in compliance with the above capital ratios and financial covenants. The Company manages its capital structure and adjusts to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may obtain additional advances from shareholders, return capital to shareholders, issue new shares or issue new debt or redemption of existing debt. No changes were made in the objectives, policies or processes during the years ended December 31, 2017 and 2016. The Company monitors capital on the basis of DER. DER is calculated as long-term debt over equity.

During 2017, the Company's strategy, which was unchanged from 2016, was to maintain a sustainable DER. The DER as at December 31, 2017 and 2016 are:

	2017	2016
Long-term debt (see Note 19)	**₱42,541,962,381**	₱32,356,264,379
Total equity	**33,914,135,854**	28,714,633,931
Total capital	**₱76,456,098,235**	₱61,070,898,310
DER	**1.25**	1.13

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, 2017 and 2016 follows:

	2017		2016	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Financial Assets				
AFS financial assets:				
UITFs*	**₱1,061,775,491**	**₱1,061,775,491**	₱770,415,867	₱770,415,867
Investment in treasury bonds and notes	**701,530,432**	**701,530,432**	802,356,695	802,356,695
Investment in corporate bonds	**453,879,000**	**453,879,000**	453,095,000	453,095,000
Investment in LTNCD	**98,997,500**	**98,997,500**	98,216,000	98,216,000
Investment in club shares	**740,000**	**740,000**	740,000	740,000
	₱2,316,922,423	**₱2,316,922,423**	₱2,124,823,562	₱2,124,823,562
Financial Liabilities				
Other financial liabilities:				
Long-term debts	**₱42,541,962,381**	**₱43,542,634,383**	₱32,356,264,379	₱32,429,768,073
Service concession fees payable	**19,644,800,982**	**19,002,761,241**	18,550,601,361	18,170,250,304
	₱62,186,763,363	**₱62,545,395,624**	₱50,906,865,740	₱50,600,018,377

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

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

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value:

AFS Financial Assets

The fair value of investment in treasury bonds and notes, corporate bonds, LTNCD and club shares is based on the quoted market price of the financial instruments as at December 31, 2017 and 2016. 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, 2017 and 2016.

Long-term Debt
For both fixed rate and floating rate Thai baht-denominated debts and peso-denominated notes and loans, except the fixed-rate bonds where the fair value is based on its quoted market price as at December 31, 2017 and 2016, estimated fair value is based on the discounted value of future cash flows using the prevailing credit adjusted Thai baht risk-free rates and prevailing peso interest rates. In 2017 and 2016, the prevailing credit adjusted Thai baht interest rates and peso interest rates ranged from 3.2% to 8.2% and 3.0% to 10.0%, respectively.

Service Concession Fees Payable
The estimated fair value of the service concession fees payable is based on the discounted value of future cash flows using the prevailing peso interest rates. In 2017 and 2016, the prevailing peso interest rates ranged from 4.6% to 7.2% and 4.0% to 6.9%, respectively.

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

	December 31, 2017	**Level 1**	**Level 2**	**Level 3**
Assets measured at fair value:				
AFS financial assets:				
UITF	**₱1,061,775,491**	**₱–**	**₱1,061,775,491**	**₱–**
Investment in treasury bonds and notes	**701,530,432**	**169,432,400**	**532,098,032**	–
Investment in corporate bonds	**453,879,000**	**453,879,000**	**–**	**–**
Investment in LTNCD	**98,997,500**	**98,997,500**		
Investment in club shares	**740,000**	**740,000**	**–**	**–**
	₱2,316,922,423	**₱723,048,900**	**₱1,593,873,523**	**₱–**
Liabilities for which fair values are disclosed:				
Other financial liability:				
Long-term debts	**₱43,542,634,383**	**₱6,996,087,340**	**₱36,546,547,043**	**₱–**
Service concession fees payable	**19,002,761,241**	**–**	**–**	**19,002,761,241**
	₱62,545,395,624	**₱6,996,087,340**	**₱36,546,547,043**	**₱19,002,761,241**

	December 31, 2016	Level 1	Level 2	Level 3
Assets measured at fair value:				
AFS financial assets:				
UITF	₱770,415,867	₱–	₱770,415,867	₱–
Investment in treasury bonds and notes	802,356,695	267,160,000	535,196,695	–
Investment in corporate bonds	453,095,000	453,095,000	–	–
Investment in LTNCD	98,216,000	98,216,000	–	–
Investment in club shares	740,000	740,000	–	–
	₱2,124,823,562	₱819,211,000	₱1,305,612,562	₱–

(Forward)

	December 31, 2016	Level 1	Level 2	Level 3
Liabilities for which fair values are disclosed:				
Other financial liability:				
Long-term debts	₱32,429,768,073	₱6,984,615,480	₱25,445,152,593	₱–
Service concession fees payable	18,170,250,304	–	–	18,170,250,304
	₱50,600,018,377	₱6,984,615,480	₱25,445,152,593	₱18,170,250,304

In 2016, portions of the investment in treasury bonds and notes amounting to ₱524.0 million was transferred from Level 1 to Level 2. These investments were proven to be inactively traded due to the lower average daily trading volume in December 31, 2017 and 2016, as well as no availability of bid-offer on value date.

35. Contingencies

a. VAT

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

- The BIR issued a Formal Letter of Demand on March 16, 2009 requesting NLEX Corp. to pay deficiency VAT plus penalties amounting to ₱1,010.5 million for taxable year 2006.

- A Final Assessment Notice was received from the BIR dated November 15, 2009 assessing NLEX Corp. deficiency VAT plus penalties amounting to ₱557.6 million for taxable year 2007.

- The BIR issued a Notice of Informal Conference dated October 5, 2009 assessing NLEX Corp. for deficiency VAT plus penalties amounting to ₱470.9 million for taxable year 2008. On May 21, 2010, the BIR issued another notice increasing the deficiency VAT for taxable year 2008 to ₱1,209.2 million (including penalties). On June 11, 2010, NLEX Corp. filed its Position Paper with the BIR reiterating its claim that it is not subject to VAT on toll fees.

- The BIR issued a Notice of Informal Conference on May 21, 2010 assessing NLEX Corp. deficiency VAT plus penalties amounting to ₱1,026.6 million for taxable year 2009. On June 11, 2010, NLEX Corp. filed its Position Paper with the BIR reiterating its claim that it is not subject to VAT on toll fees.

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

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

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

In 2004, MPT North has received RPT assessments covering Segment 7 located in the province of Bataan for the period from 1997 to June 2005 amounting to ₱98.5 million for alleged delinquency property tax. MPT North appealed before the Local Board of Assessment Appeals (LBAA) of Bataan and prayed for the cancellation of the assessment. In the said appeal, MPT North invoked that the property is owned by the ROP, hence, exempt from RPT. The case is still pending before the LBAA of Bataan.

In July 2008 and April 2013, NLEX Corp. filed Petitions for Review under Section 226 of the Local Government Code with the Local Board of Assessment Appeals (LBAA) of the Province of Bulacan seeking to declare as null and void tax declarations issued by the Provincial Assessor of the Province of Bulacan. The said tax declarations were issued in the name of NLEX Corp. as owner/administrator/beneficial user of the NLEX and categorized the NLEX as a commercial property subject to RPT. The LBAA has yet to conduct an ocular inspection to determine whether the properties, subject of the tax declarations, form part of the NLEX, which NLEX Corp. argues is property of the public dominion and exempt from RPT.

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

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

c. Toll Rate Adjustments

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

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

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

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

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

In August 2015, NLEX Corp. wrote the ROP, acting by and through the TRB, a Final Demand for Compensation based on overdue 2013 and 2015 Toll Rate Adjustments (Final Demand). In the letter, NLEX Corp. stated that the ROP's/TRB's inexcusable refusal to act on the 2012 Petition and 2014 Petition is in total disregard and a culpable violation of applicable laws and contractual provisions on the matter, to the great prejudice of NLEX Corp., which has continuously relied in good faith on such contractual provisions as well as on the timely and proper performance of the ROP's/TRB's legal and contractual duties.

In view of the failure of the ROP/TRB to heed the Final Demand, NLEX Corp. sent a Notice of Dispute to the ROP/TRB dated September 11, 2015 invoking STOA Clause 19 (Settlement of Disputes). STOA Clause 19.1 states that the parties shall endeavor to amicably settle the dispute within sixty (60) calendar days. The TRB sent several letters to NLEX Corp. requesting the extension of the amicable settlement period. However, NLEX Corp. has not received any feasible settlement offer from the ROP/TRB.

Accordingly, on April 4, 2016, NLEX Corp. was compelled to issue a Notice of Arbitration and Statement of Claim (Notice of Arbitration) to the ROP, acting by and through the TRB, consistent with STOA Clause 19 in order to preserve its rights under the STOA. In the Notice of Arbitration, NLEX Corp. appointed retired SC Justice Jose C. Vitug as its nominee to the arbitral tribunal.

In a letter dated May 3, 2016, the ROP, acting by and through the Office of the Solicitor General (OSG), notified NLEX Corp. of its appointment of retired SC Chief Justice Reynato S. Puno as its nominee to the arbitral tribunal.

In a letter dated June 1, 2016, NLEX Corp. proposed that the arbitration be held in Singapore which is the seat of arbitration that the ROP has chosen for its various PPP projects, and proposed the Singapore International Arbitration Center as the Appointing Authority.

In a letter dated July 13, 2016, the ROP, acting by and through the OSG, stated that it accepts Singapore as the venue of arbitration, but reiterated its previous proposal that a Philippine-based institution/person be the Appointing Authority.

On December 11, 2017, NLEX Corp. submitted its Updated Statement of Claim.

On December 27, 2017, Respondent ROP/TRB filed its request for bifurcation, which was accordingly granted, i.e., the proceedings were divided into two parts: first, the issue on whether or not the tribunal has jurisdiction over NLEX Corp.'s claim, and second, the main merits of the claim as set forth in the Updated Statement of Claim.

The ROP/TRB has submitted its Jurisdictional Objections, to which NLEX Corp. responded with its Opposition. The tribunal has set the early part of February 2018 for resolution of the Respondent ROP's/TRB's Jurisdictional Objections.

As of December 31, 2017 and 2016, total amount of compensation for TRB's inaction on lawful toll rate adjustments which were due since January 1, 2013 for NLEX and SCTEX, is approximately at ₱5.7 billion and ₱4.3 billion (VAT-exclusive), respectively.

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

ii. CIC has a pending claim for compensation against the ROP, acting by and through the TRB, in the amount of ₱1.3 billion (VAT-exclusive) as of December 31, 2017. The Company's claim is based on TRB's inaction on lawful toll rate adjustments which were due in January 1, 2012, 2014, and 2015. CIC sent a demand letter in August 2015 to TRB seeking payment of the said amount. TRB disputed the demand letter and claimed that no compensation is due to CIC as the toll rate adjustment petitions have not yet been resolved. Subsequently, CIC sent a Notice of Dispute to the TRB in September 2015 pursuant to the dispute resolution provisions of the TOA. CIC filed a Petition for Periodic Toll Rate Adjustment on September 20, 2016. TRB replied, stating that they are studying the petition based on their Rule of Procedure.

On November 16, 2016, CIC filed a Motion for Provisional Approval of Toll Rates under petition filed in 2014. As at February 23, 2018, TRB has not yet replied on the petition.

On February 7, 2017, the Company received a notice from the Permanent Court of Arbitration that Chelva Retnam Rajah has been designated the appointing authority who will appoint the chairperson of the Arbitration Panel.

In December 2017, Claimants CIC and PRA submitted their updated statement of claim with the Arbitration Tribunal. On December 29, 2017, the Arbitration Tribunal issued a ruling bifurcating the proceedings, i.e., separating the issue on its jurisdiction from the merits of the main claim for arbitration. On January 12, 2018, TRB has filed with the Arbitration Tribunal its jurisdictional objections, essentially alleging arguments in support of its intention to immediately have the arbitration case dismissed for lack of jurisdiction on the part of the Tribunal. The Respondent has filed its jurisdictional objections and CIC and PRA filed their opposition to those objections on January 26, 2018. As at February 23, 2018, the Company and PRA are still awaiting the Tribunal's resolution on the jurisdictional objections.

d. Garlitos, Jr. vs. Bases Conversion and Development Authority, Manila North Tollways Corporation and the Executive Secretary, SC (G.R. No. 217001)

Atty. Onofre G. Garlitos, Jr. filed with the SC a Petition for Prohibition and Mandamus with Prayer for Issuance of Temporary Restraining Order and/or Writ of Preliminary Injunction dated March 17, 2015 (Petition) against the BCDA, NLEX Corp., and the Executive Secretary. The Petition prays that (a) a writ of preliminary mandatory and prohibitory injunction be issued enjoining the BCDA, NLEX Corp., and Executive Secretary from proceeding with the SCTEX project and compelling the BCDA to rebid the SCTEX operation and maintenance project, and (b) an order be issued (i) annulling the bidding procedure, direct negotiations, and the Price Challenge conducted by the BCDA, and the Concession Agreement, Business and Operating Agreement, and all subsequent amendments and modifications thereto and (ii) compelling the BCDA to rebid the operation and maintenance of the SCTEX.

NLEX Corp. filed its comment praying that the Petition be denied. The BCDA, through the Office of the Government Corporate Counsel, and the Executive Secretary, through the OSG, also filed their respective Comment praying that the Petition be denied due course and dismissed for lack of merit. The case is pending as at February 23, 2018.

e. NLEX Corp., CIC, TMC and ESC are also parties to other cases and claims arising from the ordinary course of business filed by third parties which are either pending decisions by the courts or are subject to settlement agreements. The outcome of these claims cannot be presently determined. In the opinion of management and the Company's legal counsel, the eventual liability from these lawsuits or claims, if any, will not have a material adverse effect on the Company's financial position and financial performance.

36. Supplemental Cash Flow Information

Changes in liabilities arising from financing activities

			Non-cash changes			
	January 1, 2017	Cash flows	Amortization of DIC	Interest accretion	Others	December 31, 2017
Current portion of long-term debt (see Note 19)	₱1,047,265,879	(₱956,644,681)	₱27,337,004	₱–	₱5,199,516,930	₱5,317,475,132
Long-term debt (see Note 19)	31,308,998,500	10,724,345,986	17,637,403	–	(4,826,494,640)	37,224,487,249
Interest payable	173,356,597	(1,346,290,493)	–	–	1,444,463,598	271,529,702
Dividends payable (see Note 22)	11,065,871	(2,020,376,607)	–	–	2,480,317,624	471,006,888
Service concession fees payable (see Note 20)	18,550,601,361	–	–	1,094,199,621	–	19,644,800,982
Total liabilities from financing activities	₱51,091,288,208	₱6,401,034,205	₱44,974,407	₱1,094,199,621	₱4,320,379,633	₱62,929,299,951

The 'Others' column includes the effect of foreign-currency translation adjustments of U.S. dollar and Thai Baht denominated loans, loss on extinguishment of Series 2010-1 Notes and Thanachart bank loan, the interest expense on interest-bearing loans and borrowings, and dividends declared to stockholders and non-controlling interests. The 'Other' column also includes the effect of reclassification of noncurrent portion of interest-bearing loans and borrowings

Non-cash investing activities

The following table shows the Company's significant non-cash investing and corresponding transaction amounts for the years ended December 31, 2017 and 2016:

	2017	2016
Additions to service concession assets and service concession fees payable pertaining to accretion of service concession fees payable (see Notes 11 and 20)	**₱1,094,199,621**	₱877,580,778
Acquisition of non-controlling interest in TMC on credit (see Note 5)	**377,876,200**	–
Additions to service concession assets arising from amortization of debt issue costs, investment income, depreciation and amortization of property and equipment and accrued employee benefits (see Note 11)	**17,539,862**	12,158,913

	2017	2016
Adjustments to borrowing costs capitalized to service concession assets due to changes in fair values of AFS (see Note 15)	**(₱8,369,189)**	(₱26,589,220)
Additions to service concession assets and service concession fees payable pertaining to present value of concession fees recognized on effective date of the concession agreement (see Notes 11 and 20)	–	2,318,800,856
Additions to service concession assets pertaining to the transfer from deferred project cost (see Note 11)	–	132,205,353

37. Standards Issued but Not Yet Effective

Pronouncements issued but not yet effective are listed below. Unless otherwise indicated, the Company does not expect that the future adoption of the said pronouncements to have a significant impact on its consolidated financial statements. The Company intends to adopt the following pronouncements when they become effective.

Effective beginning on or after January 1, 2018

- Amendments to PFRS 2, *Share-based Payment - Classification and Measurement of Share-based Payment Transactions*

  The amendments to PFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

  On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and if other criteria are met. Early application of the amendments is permitted.

  The Company is assessing the potential effect of the amendments on its consolidated financial statements.

- PFRS 9, *Financial Instruments*

  PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. Retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

  Classification and measurement
  Debt securities currently held as available-for-sale (AFS) under PAS 39 are expected to be classified as at fair value through other comprehensive income (FVOCI) as these are held both to collect contractual cash flows and to sell. Trade and other receivables are held to collect contractual cash flows and thus qualify for amortized cost measurement. However, the Group is

still finalizing its assessment on whether the contractual cash flows of these debt financial assets are solely payments of principal and interest (SPPI) to be able to conclude that these instruments are eligible for amortized cost or FVOCI measurement.

Investments in unquoted equity shares currently carried at cost under PAS 39 are intended to be held for the foreseeable future. As such, the Company intends to apply the option to present fair value changes for these investments in OCI. The Company is in the process of determining how to measure the fair value of these unquoted investments.

Quoted equity shares and investments in UITF currently held as AFS are expected to be measured at fair value through profit or loss, which will increase volatility in profit or loss.

Impairment
The Company is currently assessing the impact of PFRS 9 on impairment.

Hedge accounting
The Company has no existing hedge relationships as at December 31, 2017.

- Amendments to PFRS 4, *Insurance Contracts - Applying PFRS 9, Financial Instruments, with PFRS 4*

  The amendments address concerns arising from implementing PFRS 9, the new financial instruments standard before implementing the new insurance contracts standard. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying PFRS 9 and an overlay approach. The temporary exemption is first applied for reporting periods beginning on or after January 1, 2018. An entity may elect the overlay approach when it first applies PFRS 9 and apply that approach retrospectively to financial assets designated on transition to PFRS 9. The entity restates comparative information reflecting the overlay approach if, and only if, the entity restates comparative information when applying PFRS 9.

  The amendments are not applicable to the Group since none of the entities within the Group have activities that are predominantly connected with insurance or issue insurance contracts.

- PFRS 15, *Revenue from Contracts with Customers*

  PFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under PFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in PFRS 15 provide a more structured approach to measuring and recognizing revenue.

  The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under PFRSs. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018.

  The Company is currently assessing the impact of the standard on its consolidated financial statements.

- Amendments to PAS 28, *Measuring an Associate or Joint Venture at Fair Value (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)*

  The amendments clarify that an entity that is a venture capital organization, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. They also clarify that if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognized; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent.

  The amendments should be applied retrospectively, with earlier application permitted. The amendments shall be applied retrospectively. The amendment is not applicable as the Company is not a venture capital organization or any of the qualifying entities that can elect to measure investments in associates and joint ventures at FVPL.

- Amendments to PAS 40, *Investment Property - Transfers of Investment Property*

  The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments should be applied prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. Retrospective application is only permitted if this is possible without the use of hindsight.

  Since the Companys's current practice is in line with the clarifications issued, the Company does not expect any effect on its consolidated financial statements upon adoption of these amendments.

- Philippine Interpretation IFRIC-22, *Foreign Currency Transactions and Advance Consideration*

  The interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the nonmonetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. Entities may apply the amendments on a fully retrospective basis. Alternatively, an entity may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognized on or after the beginning of the reporting period in which the entity first applies the interpretation or the beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

  Since the Company's current practice is in line with the clarifications issued, the Company does not expect any effect on its consolidated financial statements upon adoption of this interpretation.

Effective beginning on or after January 1, 2019

- Amendments to PFRS 9, *Prepayment Features with Negative Compensation*

  The amendments to PFRS 9 allow debt instruments with negative compensation prepayment features to be measured at amortized cost or fair value through other comprehensive income. An entity shall apply these amendments for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted.

- PFRS 16, *Leases*

  PFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under PAS 17, *Leases*. The standard includes two recognition exemptions for lessees - leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

  Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

  Lessor accounting under PFRS 16 is substantially unchanged from today's accounting under PAS 17. Lessors will continue to classify all leases using the same classification principle as in PAS 17 and distinguish between two types of leases: operating and finance leases.

  PFRS 16 also requires lessees and lessors to make more extensive disclosures than under PAS 17.

  Early application is permitted, but not before an entity applies PFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

  The Company is currently assessing the impact of adopting PFRS 16.

- Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*

  The amendments to PAS 28 clarify that entities should account for long-term interests in an associate or joint venture to which the equity method is not applied using PFRS 9. An entity shall apply these amendments for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted.

- Philippine Interpretation IFRIC-23, *Uncertainty over Income Tax Treatments*

  The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12 and does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

The interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed.

The Company is currently assessing the impact of adopting this interpretation.

Deferred effectivity

- Amendments to PFRS 10 and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

  The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

  On January 13, 2016, the Financial Reporting Standards Council deferred the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board (IASB) completes its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.