Manila North Tollways Corporation

(A Subsidiary of Metro Pacific Tollways Development Corporation, formerly First Philippine Infrastructure Development Corporation)

Financial Statements
December 31, 2009 and 2008

and

Independent Auditors' Report

SyCip Gorres Velayo & Co.

SGV & Co
Ernst & Young

SGV & Co
Ernst & Young

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Phone: (632) 891 0307
Fax: (632) 819 0872
www.sgv.com.ph

BOA/PRC Reg. No. 0001
SEC Accreditation No. 0012-FR-2

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Manila North Tollways Corporation

We have audited the accompanying financial statements of Manila North Tollways Corporation (a subsidiary of Metro Pacific Tollways Development Corporation, formerly First Philippine Infrastructure Development Corporation), which comprise the balance sheets as at December 31, 2009 and 2008, and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Philippine Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Manila North Tollways Corporation as of December 31, 2009 and 2008, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

Marydith C. Miguel
Partner
CPA Certificate No. 65556
SEC Accreditation No. 0087-AR-1
Tax Identification No. 102-092-270
PTR No. 2087551, January 4, 2010, Makati City

February 17, 2010

MANILA NORTH TOLLWAYS CORPORATION

(A Subsidiary of Metro Pacific Tollways Development Corporation, formerly First Philippine Infrastructure Development Corporation)

BALANCE SHEETS

	December 31	
	2009	2008
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 6, 13 and 22)	**₱875,794,119**	₱669,670,727
Receivables - net (Notes 7 and 22)	**27,764,868**	13,365,075
Inventories - at cost (Note 12)	**36,747,518**	50,636,392
Advances to contractors and consultants (Notes 12 and 20)	**255,544,962**	10,121,604
Due from related parties (Notes 12 and 22)	**431,657**	–
Other current assets (Notes 13 and 22)	**67,963,802**	51,972,905
Total Current Assets	**1,264,246,926**	795,766,703
Noncurrent Assets		
Due from related parties (Notes 12 and 22)	**–**	258,675,652
Property and equipment - net (Notes 8 and 13)	**107,019,858**	107,319,549
Service concession assets - net (Notes 9 and 13)	**15,128,635,451**	14,706,698,338
Derivative assets (Note 22)	**39,211,764**	53,042,069
Investment in bonds (Notes 13 and 22)	**400,600,000**	100,600,000
Input value added tax - net (Notes 5 and 24)	**–**	1,497,264,540
Other noncurrent assets (Note 22)	**5,016,570**	1,781,629
Total Noncurrent Assets	**15,680,483,643**	16,725,381,777
	₱16,944,730,569	₱17,521,148,480
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and other current liabilities (Notes 10 and 22)	**₱261,363,460**	₱216,588,768
Due to related parties (Notes 12 and 22)	**387,867,895**	308,546,374
Unearned toll revenue	**21,134,973**	19,344,464
Dividends payable (Notes 14 and 22)	**143,589,600**	–
Provisions (Note 11)	**118,484,926**	45,123,206
Income tax payable (Note 19)	**3,423,156**	825,544
Current portion of long-term debt (Notes 8, 9, 13 and 22)	**579,529,269**	576,130,454
Total Current Liabilities	**1,515,393,279**	1,166,558,810
Noncurrent Liabilities		
Long-term debt - net of current portion (Notes 8, 9, 13 and 22)	**7,787,885,837**	7,813,693,901
Derivative liabilities (Note 22)	**44,467,365**	29,861,112
Accrued retirement costs (Note 17)	**9,612,991**	14,481,842
Provisions (Note 11)	**415,827,304**	170,274,906
Deferred tax liabilities - net (Note 19)	**285,080,565**	282,859,424
Total Noncurrent Liabilities	**8,542,874,062**	8,311,171,185
Equity (Note 14)		
Capital stock	**1,776,000,000**	1,776,000,000
Additional paid-in capital	**3,749,711,168**	3,749,711,168
Retained earnings	**1,371,080,256**	2,553,308,890
Other comprehensive income (Note 22)	**(10,328,196)**	(35,601,573)
Total Equity	**6,886,463,228**	8,043,418,485
	₱16,944,730,569	₱17,521,148,480

See accompanying Notes to Financial Statements.

MANILA NORTH TOLLWAYS CORPORATION
(A Subsidiary of Metro Pacific Tollways Development Corporation, formerly First Philippine Infrastructure Development Corporation)

STATEMENTS OF INCOME

	Years Ended December 31	
	2009	2008
OPERATING REVENUES		
Toll fees	**₱5,487,387,690**	₱5,194,698,771
Sales of transponders and magnetic cards	**1,802,698**	3,165,900
	5,489,190,388	5,197,864,671
COST OF SERVICES (Notes 9, 11, 12 and 15)	**(2,622,865,636)**	(2,718,740,353)
GROSS PROFIT	**2,866,324,752**	2,479,124,318
GENERAL AND ADMINISTRATIVE EXPENSES (Notes 5, 8, 11, 12, 16 and 17)	**(1,723,265,529)**	(479,558,209)
INTEREST EXPENSE AND OTHER FINANCE COSTS (Notes 11, 13 and 18)	**(947,452,609)**	(893,217,348)
CONSTRUCTION REVENUE (Note 5)	**319,819,424**	56,043,292
CONSTRUCTION COSTS (Note 5)	**(319,819,424)**	(56,043,292)
INTEREST INCOME (Notes 12 and 18)	**70,653,011**	83,428,901
FOREIGN EXCHANGE GAIN (LOSS) - Net	**11,183,634**	(398,787,952)
OTHER EXPENSE (Notes 13 and 22)	**(29,115,085)**	–
OTHER INCOME (Note 22)	**16,054,191**	72,258,560
INCOME BEFORE INCOME TAX	**264,382,365**	863,248,270
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 19)		
Current	**16,661,305**	14,686,400
Deferred	**(8,610,306)**	(85,421,536)
	8,050,999	(70,735,136)
NET INCOME	**₱256,331,366**	₱933,983,406

See accompanying Notes to Financial Statements.

MANILA NORTH TOLLWAYS CORPORATION
(A Subsidiary of Metro Pacific Tollways Development Corporation, formerly First Philippine Infrastructure Development Corporation)

STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2009	2008
NET INCOME	**₱256,331,366**	₱933,983,406
OTHER COMPREHENSIVE INCOME (LOSS)		
Net gain (loss) on cash flow hedges (Note 22)	**36,104,824**	(50,859,390)
Income tax effect	**(10,831,447)**	15,257,817
	25,273,377	(35,601,573)
TOTAL COMPREHENSIVE INCOME	**₱281,604,743**	₱898,381,833

See accompanying Notes to Financial Statements.

MANILA NORTH TOLLWAYS CORPORATION
(A Subsidiary of Metro Pacific Tollways Development Corporation, formerly First Philippine Infrastructure Development Corporation)

STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

	Capital Stock - ₱100 Par Value	Additional Paid-in Capital	Retained Earnings	Other Comprehensive Income	Total Equity
At January 1, 2009	**₱1,776,000,000**	**₱3,749,711,168**	**₱2,553,308,890**	**(₱35,601,573)**	**₱8,043,418,485**
Cash dividends (Note 14)	**–**	**–**	**(1,438,560,000)**	**–**	**(1,438,560,000)**
Other comprehensive income -					
Net gain on cash flow hedges, net of tax (Note 22)	**–**	**–**	**–**	**25,273,377**	**25,273,377**
Net income	**–**	**–**	**256,331,366**	**–**	**256,331,366**
Total comprehensive income for the year	**–**	**–**	**256,331,366**	**25,273,377**	**281,604,743**
At December 31, 2009	**₱1,776,000,000**	**₱3,749,711,168**	**₱1,371,080,256**	**(₱10,328,196)**	**₱6,886,463,228**
At January 1, 2008	₱1,776,000,000	₱3,749,711,168	₱3,271,005,484	₱–	₱8,796,716,652
Cash dividends (Note 14)	–	–	(1,651,680,000)	–	(1,651,680,000)
Other comprehensive income (loss) -					
Net loss on cash flow hedges, net of tax (Note 22)	–	–	–	(35,601,573)	(35,601,573)
Net income	–	–	933,983,406	–	933,983,406
Total comprehensive income (loss) for the year	–	–	933,983,406	(35,601,573)	898,381,833
At December 31, 2008	₱1,776,000,000	₱3,749,711,168	₱2,553,308,890	(₱35,601,573)	₱8,043,418,485

See accompanying Notes to Financial Statements.

MANILA NORTH TOLLWAYS CORPORATION
(A Subsidiary of Metro Pacific Tollways Development Corporation, formerly First Philippine Infrastructure Development Corporation)

STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱264,382,365**	₱863,248,270
Adjustments to reconcile income before tax to net cash flows:		
Provision for potential losses on input value added tax (Note 16)	**1,104,632,613**	–
Interest expense and other finance costs (Note 18)	**947,452,609**	893,217,348
Amortization of service concession assets (Notes 9 and 15)	**505,052,189**	630,275,701
Movements in:		
Provisions	**302,444,635**	182,162,105
Accrued retirement costs	**(4,868,851)**	(9,203,135)
Write-off of input value added tax (Note 16)	**94,271,475**	–
Interest income (Note 18)	**(70,653,011)**	(83,428,901)
Depreciation (Notes 8 and 16)	**32,816,535**	26,515,953
Deferred toll revenue realized	**(19,344,464)**	(26,910,167)
Mark-to-market loss (gain) on derivative assets (Note 22)	**19,219,364**	(46,924,849)
Unrealized foreign exchange loss (gain) - net	**(10,755,679)**	335,119,442
Loss on extinguishment of debt (Note 13)	**9,895,721**	–
Gain on disposals of property and equipment	**(289,782)**	(101,217)
Working capital changes:		
Decrease (increase) in:		
Receivables	**(10,234,961)**	(4,772,964)
Inventories	**13,888,874**	(14,881,582)
Advances to contractors and consultants	**(245,423,358)**	4,614,606
Input value added tax (Note 9)	**(308,809,426)**	(274,448,428)
Other current assets	**(15,990,897)**	(4,552,751)
Increase (decrease) in:		
Accounts payable and other current liabilities	**47,414,442**	(14,011,284)
Due to related parties	**79,321,521**	20,643,281
Unearned toll revenue	**21,134,973**	19,344,464
Income tax paid	**(14,063,693)**	(13,860,856)
Net cash flows provided by operating activities	**2,741,493,194**	2,482,045,036
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of investment in bonds (Note 22)	**(300,000,000)**	(100,600,000)
Decrease (increase) in:		
Due from related parties (Note 12)	**258,243,995**	32,703,888
Other noncurrent assets	**(3,234,941)**	925,569
Interest received	**66,488,179**	72,377,055
Additions to:		
Property and equipment (Note 8)	**(33,800,541)**	(24,530,685)
Service concession assets (Note 9)	**(319,819,424)**	(56,043,292)
Proceeds from sale of property and equipment	**1,573,479**	1,175,279
Net cash flows used in investing activities	**(330,549,253)**	(73,992,186)

	Years Ended December 31	
	2009	2008
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments of:		
Dividends (Note 14)	**(₱1,294,970,400)**	(₱1,651,680,000)
Interest	**(840,201,179)**	(817,790,532)
Loans	**(639,200,046)**	(558,197,614)
Debt issue costs	**(6,472,318)**	–
Proceeds from loans (Note 13)	**577,000,000**	–
Net cash flows used in financing activities	**(2,203,843,943)**	(3,027,668,146)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**(976,606)**	20,605,826
NET DECREASE IN CASH AND CASH EQUIVALENTS	**206,123,392**	(599,009,470)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR (Note 6)	**669,670,727**	1,268,680,197
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 6)	**₱875,794,119**	₱669,670,727

See accompanying Notes to Financial Statements.

MANILA NORTH TOLLWAYS CORPORATION
(A Subsidiary of Metro Pacific Tollways Development Corporation,
formerly First Philippine Infrastructure Development Corporation)

NOTES TO FINANCIAL STATEMENTS

1. Corporate Information

Manila North Tollways Corporation ("MNTC" or the "Company") was incorporated in the Philippines on February 4, 1997 for the sole purpose of implementing the provisions of the Joint Venture Agreement (JVA) between Metro Pacific Tollways Development Corporation (MPTDC), then First Philippine Infrastructure Development Corporation (FPIDC), and the Philippine National Construction Corporation (PNCC) for the rehabilitation of the North Luzon Expressway (NLE) and the installation of the appropriate collection system therein referred to as the "North Luzon Tollway Project" or the "Project."

The Project consists of three phases as follows:

Phase I	Rehabilitation and expansion of approximately 84 kilometers (km) of the existing NLE and an 8.8-km stretch of a Greenfield expressway
Phase II	Construction of the northern parts of the 17-km circumferential road C-5 which connects the current C-5 expressway to the NLE and the 5.85-km road from McArthur to Letre
Phase III	Construction of the 57-km Subic arm of the NLE to Subic Bay Metropolitan Authority (SBMA)

MPTDC, the Parent Company, was established by Benpres Holdings Corporation (BHC) and First Philippine Holdings Corporation (FPHC) to contract with the public sector. In May 2007, FPHC and BHC assigned all their shares in MPTDC to Metro Pacific Tollways Corporation (MPTC), then First Philippine Infrastructure, Inc., in exchange for the shares of MPTC. Prior to the assignment of shares, MPTDC is 51% owned by FPHC. MPTDC and MPTC are Philippine corporations.

MPTDC is the assignee of BHC and FPHC of all their rights, interests and privileges, in relation to the construction, operation and maintenance of the Manila-Subic Expressways under a Memorandum of Understanding (MOU) signed on February 8, 1994 by BHC and FPHC with PNCC, SBMA, Bases Conversion and Development Authority (BCDA), and several other governmental and non-governmental entities. The Manila-Subic Expressways shall connect the Subic and Clark Special Economic Zones to Metro Manila.

In accordance with the Memorandum of Agreement (MOA) dated March 6, 1995 among MPTDC, SBMA and BCDA, MPTDC undertook the immediate construction of the SBMA - Tipo Road (Segment 7) that connects Tipo in Hermosa, Bataan to Subic. Under the MOA, SBMA authorized MPTDC to charge and collect a certain amount of entry fees from the motoring public for the use of Segment 7. On April 5, 1997, a Provisional Operating and Maintenance Agreement was signed to initiate the collection process of Segment 7 under the terms and conditions of the Supplemental Toll Operation Agreement (STOA) as discussed in Note 2.

Also pursuant to the MOA, Segment 7 was integrated to and formed part of the JVA executed by PNCC and MPTDC. Accordingly, MPTDC executed a Deed of Assignment and Conveyance on July 6, 2001 whereby MPTDC assigned, conveyed and transferred in favor of the Company all its rights, interests and privileges over Segment 7. On the same date, the Company and MPTDC entered into an Operation and Maintenance Agreement (S7 O&M) whereby the Company appointed MPTDC as the Operator of the Segment 7 toll road. On February 10, 2005, pursuant to the Operation and Maintenance Agreement (O&M) between the Company and Tollways Management Corporation (TMC), a 46% owned associate of MPTDC, TMC took over the operation and maintenance of Segment 7 from MPTDC (see Note 12).

The construction of Phase I was substantially completed in January 2005. On January 27, 2005, the Toll Regulatory Board (TRB) issued the Toll Operation Permit (TOP) for the operation and maintenance of Phase I consisting of Segments 1, 2, 3 and including Segment 7 in favor of MNTC. Thereafter, MNTC took over the NLE from PNCC and commenced its tollway operations on February 10, 2005.

In April 2009, Segment 8.1, a portion of Phase II, which is a 2.7 km-road designed to link Mindanao Avenue to the NLE, had officially commenced construction which is expected to be completed by June 2010. The estimated cost of construction of Segment 8.1 is ₱2.1 billion. The remaining portion of Phase II and Phase III of the Project have not yet been started.

In November 2008, FPHC and BHC sold, assigned and transferred all their respective rights, title and interest in and to the issued and outstanding capital stock of MPTC to Metro Pacific Investments Corporation (MPIC) resulting to MPIC having 99.84% equity ownership in MPTC.

MPIC is a publicly listed Philippine corporation and is 55.6% owned by Metro Pacific Holdings, Inc. (MPHI). MPHI is a Philippine corporation whose stockholders are Enterprise Investment Holdings, Inc. (EIH) (60.0%), Intalink B.V. (26.7%) and First Pacific International Limited (13.3%). First Pacific Company Limited (FPC), a company incorporated in Bermuda and listed in Hong Kong, through its subsidiaries, hold a direct 40% equity interest in EIH and investment financing, which under Hong Kong Generally Accepted Accounting Principles require FPC to account for the results and assets and liabilities of EIH and its subsidiaries as FPC group companies in Hong Kong. On such basis, FPC is referred as the ultimate parent company of EIH, MPHI, MPIC and the Company.

The registered office address of the Company is NLEX Compound, Balintawak, Caloocan City.

The financial statements as of and for the years ended December 31, 2009 and 2008 were authorized for issuance by the Company's Board of Directors (BOD) on February 17, 2010, as reviewed and recommended for approval by the Audit Committee.

2. The Supplemental Toll Operation Agreement (STOA)

PNCC is the franchise holder for the construction, operation and maintenance of toll facilities in the North and South Luzon Tollways and the Metro Manila Expressway by virtue of Presidential Decree (PD) No. 1113 issued on March 31, 1977, as amended by PD No. 1894 issued on December 22, 1983. PNCC has an existing Toll Operation Agreement (TOA) with the Government of the Republic of the Philippines (ROP), by and through the TRB.

Pursuant to the JVA entered into by PNCC and MPTDC on August 29, 1995, PNCC assigned its rights, interests and privileges under its franchise to construct, operate and maintain toll facilities in the NLE in favor of MNTC, including the design, funding and rehabilitation of the NLE, and installation of the appropriate collection system therein. MPTDC in turn assigned all its rights, interests and privileges to the Binictican-Bo. Tipo road project, as defined in the MOU dated March 6, 1995, to MNTC, which assumed all the rights and obligations as a necessary and integral part of the NLE project. The assignment of PNCC's usufructuary rights, interests and privileges under its franchise, to the extent of the portion pertaining to the NLE, was approved by the then President of the ROP. On October 10, 1995, the Department of Justice issued Opinion No. 102, Series of 1995, affirming the authority of the TRB to grant authority to operate a toll facility and to issue the necessary Toll Operation Certificate (TOC) in favor of PNCC and its joint venture partner, as reiterated and affirmed by the Secretary of Justice in his letter to the Secretary of Public Works and Highways dated November 24, 1995, for the proper and orderly construction, operation and maintenance of the NLE as a toll road during the service concession period.

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

The PNCC franchise expired on May 1, 2007. Pursuant to the STOA, the ROP issued the necessary TOC for the NLE in order to allow the continuation of the Concession. As further discussed in Note 12, the Company pays a certain amount to PNCC.

Also, under the STOA, MNTC shall pay for the Grantor's project overhead expenses based on certain percentages of total construction costs or of periodic maintenance works on the project roads. Fees billed by TRB amounted to ₱6.0 million and ₱11.7 million in 2009 and 2008, respectively.

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

As further discussed in Note 5, in October 2008, TRB approved the Company's proposal to extend the service concession term for Phase I and Segment 8.1 of the Project until December 31, 2037, subject to certain conditions.

3. Basis of Preparation and Summary of Significant Accounting Policies

Basis of Preparation

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

Statement of Compliance
The financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

Changes in Accounting Policies
The accounting policies adopted are consistent with those of the previous financial year except for the adoption of the following new and amended PFRS and Philippine Interpretations of the International Financial Reporting Interpretations Committee (IFRIC) which became effective on January 1 and June 30, 2009.

- Philippine Accounting Standard (PAS) 1, “Presentation of Financial Statements (Revised)” — The revision introduces new disclosures to aggregate information in the financial statements on the basis of shared characteristics. It requires the following presentations: (a) all changes in equity arising from transactions with owners are to be presented separately from non-owner changes in equity, (b) income and expenses are to be presented in one statement (a statement of comprehensive income) or in two statements (a separate statement of income and a statement of comprehensive income), separately from owner changes in equity, (c) components of other comprehensive income to be displayed in the statement of comprehensive income and (d) total comprehensive income to be presented in the financial statements. The Company has elected to present two linked statements.

- PAS 23, “Borrowing Costs” (Revised) — The standard has been revised to require capitalization of borrowing costs on qualifying asset. An entity is, therefore, required to capitalize borrowing costs as part of the cost of such assets. The Company pursuant to its existing policy, capitalizes borrowing costs incurred during construction, thus, this amendment has no impact on the financial statements.

- Amendments to PAS 32, “Financial Instruments: Presentation” and PAS 1, “Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation” — The standards have been amended to allow a limited scope exception for puttable financial instruments to be classified as equity if they fulfill a number of specified criteria. The adoption of these amendments did not have any impact on the financial position or performance of the Company.

- Amendments to PFRS 1, “First-time Adoption of Philippine Financial Reporting Standards,” and PAS 27, “Consolidated and Separate Financial Statements - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate” — The amendments to PFRS 1 allowed an entity to determine the ‘cost’ of investments in subsidiaries, jointly controlled entities or associates in its opening PFRS financial statements in accordance with PAS 27, or using a deemed cost method. The amendment to PAS 27 required all dividends from a subsidiary, jointly controlled entity or associate to be recognized in the statement of income in the separate financial statement. The revision to PAS 27 was applied prospectively. The adoption of these amendments did not have any impact on the financial position or performance of the Company.

- Amendments to PFRS 2, “Share-based Payment - Vesting Conditions and Cancellations” — The standard has been amended to clarify the definition of a vesting condition and to prescribe the accounting treatment for an award that is effectively cancelled because a non-vesting condition is not satisfied. The adoption of this amendment did not have any impact on the financial position or performance of the Company.

- Amendments to PFRS 7, "Financial Instruments: Disclosures - Improving Disclosures about Financial Instruments" — The amendments to PFRS 7 require additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by source of inputs using a three level fair value hierarchy, by class, for all financial instruments recognized at fair value. In addition, a reconciliation between the beginning and ending balance for level three fair value measurements is now required, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and financial assets used for liquidity management. The fair value measurement disclosures are presented in Note 22. The liquidity risk disclosures are not significantly impacted by the amendments and are presented in Note 21.

- PFRS 8, "Operating Segments" — This standard requires disclosure of information about the Company's operating segments and replaces the requirement to determine primary (business) and secondary (geographical) reporting segments of the Company. Adoption of this standard did not have any effect on the financial position or performance of the Company.

- Philippine Interpretation IFRIC 9, "Reassessment of Embedded Derivatives" and PAS 39, "Financial Instruments: Recognition and Measurement - Embedded Derivatives" — These amendments require an entity to assess whether an embedded derivative must be separated from a host contract when the entity reclassifies a hybrid financial asset out of the fair value through profit or loss (FVPL) category. This assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. PAS 39 now states that if an embedded derivative cannot be reliably measured, the entire hybrid instrument must remain classified as FVPL. The adoption of this interpretation did not have any impact on the financial position or performance of the Company.

- Philippine Interpretation IFRIC 13, "Customer Loyalty Programmes" — This interpretation addresses accounting by entities that grant loyalty award credits (such as "points" or travel miles) to customers who buy goods or services. The adoption of the interpretation did not have significant impact on the financial position or performance of the Company.

- Philippine Interpretation IFRIC 16, "Hedges of a Net Investment in a Foreign Operation" — This interpretation provides guidance on the accounting for a hedge of a net investment. The Company does not have an investment in a foreign operation. As such, adoption of this interpretation did not have any impact on the financial position or performance of the Company.

- Philippine Interpretation IFRIC 18, "Transfers of Assets from Customers" — The interpretation provides guidance on how to account for items of property, plant and equipment received from customers or cash that is received and used to acquire or construct assets that are used to connect the customer to a network or to provide ongoing access to a supply of goods or services or both. When the transferred item meets the definition of an asset, the asset is measured at fair value on initial recognition as part of an exchange transaction. The service(s) delivered are identified and the consideration received (the fair value of the asset) allocated to each identifiable service. Revenue is recognized as each service is delivered by the entity. The adoption of the interpretation did not have any impact on the financial position or performance of the Company.

Improvements to PFRS
The omnibus amendments to PFRS in 2008 and 2009 were issued primarily with a view of removing inconsistencies and clarifying wordings. There are separate transitional provisions for each standard. These amendments were effective beginning January 1, 2009. The adoption of the following amendments resulted in changes to accounting policies but did not have any impact on the financial position or performance of the Company.

- PAS 18, "Revenue" — The amendment adds guidance (which accompanies the standard) to determine whether an entity is acting as a principal or as an agent. The features to consider are whether the entity:

  a. Has primary responsibility for providing the goods or service
  b. Has inventory risk
  c. Has discretion in establishing prices
  d. Bears the credit risk

  The Company has assessed its revenue arrangements against these criteria and has concluded that it is acting as principal in all arrangements. The revenue recognition policy has been updated accordingly.

- PAS 23 — This improvement revises the definition of borrowing costs to consolidate the types of items that are considered components of borrowing costs into one - the interest expense calculated using effective interest rate method and interest expense calculated in accordance with PAS 39. The Company has amended its accounting policy accordingly which did not result in any change in its financial position.

- PAS 38, "Intangible Assets" — Expenditure on advertising and promotional activities is recognized as expense when the entity either has the right to access the goods or has received the services. This amendment has no impact on the Company because it does not enter into such promotional activities.

  The reference to there being rarely, if ever, persuasive evidence to support an amortization method of intangible assets other than a straight-line method has been removed. The Company reassessed the useful lives of its intangible assets and concluded that the straight-line method is still appropriate.

The improvements to the following standards did not have any impact on the accounting policies, financial position or performance of the Company:

- PFRS 7, "Financial Instruments: Disclosures"
- PAS 1, "Presentation of Financial Statements"
- PAS 8, "Accounting Policies, Changes in Accounting Estimates and Errors"
- PAS 10, "Events after the Reporting Period"
- PAS 16, "Property, Plant and Equipment"
- PAS 18, "Revenue"
- PAS 19, "Employee Benefits"
- PAS 20, "Accounting for Government Grants and Disclosure of Government Assistance"
- PAS 27, "Consolidated and Separate Financial Statements"
- PAS 28, "Investments in Associates"
- PAS 29, "Financial Reporting in Hyperinflationary Economies"
- PAS 31, "Interests in Joint Ventures"
- PAS 34, "Interim Financial Reporting"

- PAS 36, “Impairment of Assets”
- PAS 39, “Financial Instruments: Recognition and Measurement”
- PAS 40, “Investment Property”
- PAS 41, “Agriculture”

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 date of acquisition and are subject to an insignificant risk of changes in value.

Financial Assets and Liabilities
The Company recognizes a financial asset or a financial liability when it becomes a party to the contractual provisions of the contract. Financial assets are classified as financial assets at FVPL, loans and receivables, held-to-maturity (HTM) investments, available-for-sale (AFS) financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. When financial assets are recognized initially, they are measured at fair value plus, in the case of investments not at FVPL, directly attributable transaction costs. The Company determines the classification of its financial assets at initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year end.

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

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

a. Financial Assets and Liabilities at FVPL

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

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

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

   - The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognizing gains or losses on them on a different basis;

- The assets or liabilities are part of financial assets or financial liabilities, or both financial assets and liabilities, which are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or

- The financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

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

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

As of December 31, 2009 and 2008, the Company has outstanding cross currency and interest rate swaps classified as financial assets at FVPL (see Note 22).

b. Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, loans and receivables are subsequently carried at amortized cost using the effective interest method less any allowance on impairment. Amortized cost is calculated taking into account any discount or premium on acquisition and includes fees that are integral part of the effective interest rate and transaction costs. Gains and losses are recognized in the statement of income when the loans and receivables are derecognized or impaired, as well as through the amortization process. Loans and receivables are included in current assets if maturity is within 12 months from the balance sheet date. Otherwise, these are classified as noncurrent assets.

Loans and receivables include cash and cash equivalents, receivables, due from related parties, and refundable deposits included in "Other noncurrent assets" account in the balance sheet.

c. HTM Investments

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

HTM investments consist of the Company's investment in fixed rate retail treasury bonds of the ROP and investment in treasury bills included in "Other current assets" account in the balance sheet.

d. AFS Financial Assets

AFS investments are non-derivative financial assets that are designated as AFS or are not classified in any of the three preceding categories. After initial recognition, AFS financial assets are measured at fair value with unrealized gains or losses being recognized directly in equity under "Other comprehensive income" account 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 statement of income. Interest earned or paid on the investments is reported as interest income or expense using the effective interest rate. Dividends earned on investments are recognized in the statement of income as "Dividends income" when the right of payment has been established. These financial assets are classified as noncurrent assets unless the intention is to dispose such assets within 12 months from the balance sheet date.

The Company has no AFS financial asset.

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

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method.

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

This category includes accounts payable and other current liabilities, due to related parties, dividends payable and long-term debt.

Offsetting Financial Instruments

Financial assets and liabilities are offset and the net amount is reported in the balance sheet, if and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented at gross amounts in the balance sheet.

Fair Value of Financial Instruments
The fair value of investments that are actively traded in organized financial market is determined by reference to quoted market bid prices at the close of business on the balance sheet date. When current bid prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction.

For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include comparison to similar investments for which market observable prices exist and discounted cash flow analysis or other valuation models.

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

a. Assets carried at amortized cost

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

   If there is objective evidence that an impairment loss on loans and receivables and HTM investments carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the statement of income. The assets together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Company. If a write-off is later recovered, any amount formerly charged is credited to the 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 statement of income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

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. Where there is evidence of impairment, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in the statement of income) is removed from other comprehensive income and recognized in the statement of income. Impairment losses on equity investments are not reversed through the statement of income; increases in their fair value after impairment are recognized directly in other comprehensive income.

In the case of debt instruments classified as AFS financial assets, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued based on the rate of interest used to discount future cash flows for the purpose of measuring impairment loss. Such accrual is recorded as part of "Interest income" in the 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 statement of income, the impairment loss is reversed through the statement of income.

Derecognition of Financial Assets and Liabilities

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

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

Where the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Company's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of 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 or cancelled or has expired.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the statement of income.

Derivatives and Hedge Accounting

Freestanding Derivatives. For the purpose of hedge accounting, hedges are classified primarily either as (a) a hedge of the fair value of an asset, liability or a firm commitment (fair value hedge); or (b) a hedge of the exposure to variability in cash flows attributable to an asset or liability or a forecasted transaction (cash flow hedge); or (c) hedge of a net investment in a foreign operation. The Company designated and accounted for certain derivatives under cash flow hedges. The Company did not designate any of its derivatives as fair value hedges or hedges of a net investment in a foreign operation.

At the inception of a hedge relationship, the Company formally designates and documents the hedge relationship to which the Company wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

In cash flow hedges, changes in the fair value of a hedging instrument that qualifies as highly effective cash flow hedge are included in equity under "Other comprehensive income" account, net of related deferred tax. The ineffective portion is immediately recognized in the statement of income.

If the hedged cash flow results in the recognition of an asset or a liability, gains and losses initially recognized in equity are transferred from equity to statement of income in the same period or periods during which the hedged forecasted transaction or recognized asset or liability affect the statement of income.

When the hedge ceases to be highly effective, hedge accounting is discontinued prospectively. In this case, the cumulative gain or loss on the hedging instrument that has been reported directly in equity is retained in equity until the forecasted transaction occurs. When the forecasted transaction is no longer expected to occur, any net cumulative gain or loss previously reported in equity is charged against the statement of income.

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

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

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

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

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

- Where the Company will hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the balance sheet date, the derivative is classified as noncurrent (or separated into current and noncurrent portions) consistent with the classification of the underlying item.

- Embedded derivatives that are not closely related to the host contract are classified consistent with the cash flows of the host contract.

- Derivative instruments that are designated as, and are effective hedging instruments, are classified consistent with the classification of the underlying hedged item. The derivative instrument is separated into a current portion and noncurrent portion only if a reliable allocation can be made.

Inventories
Inventories, which consist of transponders, magnetic cards, and spare parts, are valued at the lower of cost and net realizable value (NRV). Cost includes purchase cost and import duties and is determined primarily on a first-in, first-out method. For transponders and magnetic cards, NRV is the estimated selling price in the ordinary course of business, less estimated costs necessary to make the sale. NRV for spare parts is the 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. These are derecognized when the right to receive the services is discharged or has expired. Any gain or loss arising on derecognition is included in the statement of income in the year the advances are derecognized.

Property and Equipment
Property and equipment is stated at cost less accumulated depreciation and any impairment in value.

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

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

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

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset.

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

Service Concession Arrangements
The Company accounts for its concession arrangements under the intangible asset model as it receives the right (license) to charge users of public service.

In addition, the Company recognizes and measures construction revenue in accordance with PAS 11, "Construction Contracts" and PAS 18 for the services it performs.

When the Company provides construction or upgrade services, the consideration received or receivable by the Company is recognized at its fair value.

The Company also recognizes its contractual obligations to restore the toll roads to a specified level of serviceability in accordance with PAS 37, "Provisions, Contingent Liabilities and Contingent Assets," as the obligations arises which is as a consequence of the use of the toll roads and therefore it is proportional to the number of vehicles using the toll roads and increasing in measurable annual increments.

Service Concession Assets. The service concession assets are recognized initially at the fair value of the construction services. Following initial recognition, the service concession assets are carried at cost less accumulated amortization and any impairment losses.

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

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

Impairment of Non-financial Assets
The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognized in the statement of income in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation or amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of income. After such a reversal, the depreciation and amortization 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.

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

Equity
Capital stock is measured at par value for all shares issued. Incremental costs incurred directly attributable to the issuance of new shares are shown in equity as deduction from proceeds, net of tax. Proceeds and/or fair value of considerations received in excess of par value, if any, are recognized as additional paid-in capital.

Retained earnings represent the accumulated earnings net of dividends declared.

Other comprehensive income comprise items of income and expense, including reclassification adjustments, that are not recognized in the statement of income as required or permitted by other PFRS.

Revenue

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the amount of the revenue can be measured reliably. Revenue is measured at fair value of the consideration received, excluding discounts and rebates. The Company assesses its revenue against specific criteria in order to determine if it is acting as principal or agent. The Company has concluded that it is acting as principal in all of its revenue arrangements. The following specific criteria must also be met before revenue is recognized:

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

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

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

Cost and Expenses

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 and interest expense and other finance costs are recognized in the statement of income in the period these are incurred.

Operating Lease

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

a. There is a change in contractual terms, other than a renewal or extension of the arrangement;

b. A renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;

c. There is a change in the determination of whether fulfillment is dependent on a specified asset; or

d. There is a substantial change to the asset.

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

Company as Lessee. Operating lease payments are recognized as an expense in the statement of income on a straight-line basis over the term of the lease.

Foreign Currency-Denominated Transactions and Translations
The Company determines its own functional currency and items included in the financial statements are measured using that functional currency. The Company has determined its functional currency to be the Philippine peso. Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency closing exchange rate at balance sheet date. All differences are taken to the statement of income with the exception of differences on foreign currency borrowings that are regarded as adjustments to interest cost, and are capitalized as part of the cost of the service concession assets during the construction period.

Borrowing Costs
Borrowing costs are capitalized as part of service concession assets if they are directly attributable to the acquisition and construction of the Project. Capitalization of borrowing costs commences when the activities to prepare for the construction of the Project are in progress and expenditures and borrowing costs are being incurred, until the assets are ready for their intended use. If the 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 Project, to the extent that they are regarded as adjustments to interest cost.

Retirement Costs
The Company has a defined benefit retirement plan. The cost of providing benefits under the defined benefit plan is determined using the projected unit credit actuarial valuation method. Retirement cost includes current service cost, interest cost, expected return on plan assets, amortization of unrecognized past service costs, recognition of actuarial gains or losses and effect of any curtailments or settlements. Actuarial gains and losses are recognized as income or expense when the net cumulative unrecognized actuarial gains and losses for the plan at the end of the previous reporting year exceeded 10% of the higher of the defined benefit obligation and the fair value of plan assets at that date. These gains or losses are recognized over the expected average remaining working lives of the employees participating in the plan.

The past service cost is recognized as an expense on a straight-line basis over the average period until the benefits become vested. If the benefits are already vested immediately following the introduction of, or changes to, a retirement plan, past service cost is recognized immediately.

The accrued retirement cost is the aggregate of the present value of the retirement obligation and actuarial gains and losses not recognized reduced by past service cost not yet recognized and the fair value of plan assets out of which the obligations are to be settled directly. If such aggregate is negative, the asset is measured at the lower of such aggregate or the aggregate of cumulative unrecognized net actuarial losses and past service cost and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

If the asset is measured at the aggregate of cumulative unrecognized net actuarial losses and past service cost and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan, net actuarial losses of the current period and past service cost of the current period are recognized immediately to the extent that they exceed any reduction in the present value of those economic benefits. If there is no change or an increase in the present value of the economic benefits, the entire net actuarial losses of the current period and past service cost of the current period are recognized immediately. Similarly, net actuarial gains of the current period after the deduction of past service cost of the current period exceeding any increase in the present value of the economic benefits stated above are recognized immediately if the asset is measured at the aggregate of cumulative unrecognized net actuarial losses and past service cost and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan. If there is no change or decrease in the present value of the economic benefits, the entire net actuarial gains of the current period after the deduction of past service cost of the current period are recognized immediately.

Income Taxes

Current Tax. Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation 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.

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

Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences. Deferred tax, however, is not recognized when it arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable income or loss.

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

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

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

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

Contingencies

Contingent liabilities are not recognized in the 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 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 financial statements. Post year-end events that are not adjusting events are disclosed in the notes to financial statements when material.

4. Future Changes in Accounting Policies

The Company has not applied the following PFRS, Philippine Interpretations and amendments to existing standards which are not yet effective as of December 31, 2009:

- PFRS 3, "Business Combinations (Revised)" and PAS 27, "Consolidated and Separate Financial Statements (Amended)" (effective for annual periods beginning on or after July 1, 2009) — PFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring after this date. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs and future reported results. Amended PAS 27 requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes by Revised PFRS 3 and Amended PAS 27 will affect future acquisitions or loss of control of subsidiaries and transactions with non-controlling interests. Revised PFRS 3 will be applied prospectively while Amended PAS 27 will be applied retrospectively with a few exceptions. The Company does not expect this revision to have an impact on the financial statements.

- Amendment to PAS 39 - Eligible Hedged Items (effective for annual periods beginning on or after July 1, 2009) — This amendment addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as hedged item. The Company does not expect this amendment to have a significant impact on the financial statements.

- Amendments to PFRS 2 - Group Cash-settled Share-based Payment Transactions (effective for annual periods beginning on or after January 1, 2010) — The amendments to PFRS 2 clarify the scope and the accounting for group cash-settled share-based payment transactions. The Company has concluded that the amendment will have no impact on the financial position or performance of the Company, as the Company has not entered into any such share-based payment transactions.

- Philippine Interpretation IFRIC 15, “Agreements for the Construction of Real Estate” (effective for annual periods beginning on or after January 1, 2012) — This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. This interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11 or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis, will also be accounted for based on stage of completion. The Company does not conduct such activity and, therefore, does not expect this interpretation to have an impact on the financial statements.

- Philippine Interpretation IFRIC 17, “Distributions of Non-Cash Assets to Owners” (effective for annual periods beginning on or after July 1, 2009) — This interpretation provides guidance on how to account for non-cash distributions to owners. The interpretation clarifies when to recognize a liability, how to measure it and the associated assets, and when to derecognize the asset and liability. The Company does not expect the interpretation to have an impact on the financial statements as the Company has not made non-cash distributions to shareholders in the past.

Improvements to PFRS
The omnibus amendments to PFRS issued in 2009 were issued primarily with a view to removing inconsistencies and clarifying wording. The amendments are effective for annual periods beginning January 1, 2010 except for the amendment to PFRS 2, which will be effective for annual periods on or after July 1, 2009. The Company has not yet adopted the following amendments and anticipates that these changes will have no material effect on the financial statements.

- PFRS 2 — clarifies that the contribution of a business on formation of a joint venture and combinations under common control are not within the scope of PFRS 2 even though they are out of scope of PFRS 3 (Revised).

- PFRS 5, “Noncurrent Assets Held for Sale and Discontinued Operations” — clarifies that the disclosures required in respect of noncurrent assets and disposal groups classified as held for sale or discontinued operations are only those set out in PFRS 5. The disclosure requirements of other PFRSs only apply if specifically required for such noncurrent assets or discontinued operations.

- PFRS 8 — clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker.

- PAS 1 — clarifies that the terms of a liability that could result, at anytime, in its settlement by the issuance of equity instruments at the option of the counterparty do not affect its classification.

- PAS 7,” Statement of Cash Flows” — explicitly states that only expenditure that results in a recognized asset can be classified as a cash flow from investing activities.

- PAS 17, "Leases" — removes the specific guidance on classifying land as a lease. Prior to the amendment, leases of land were classified as operating leases. The amendment now requires that leases of land are classified as either 'finance' or 'operating' in accordance with the general principles of PAS 17. The amendments will be applied retrospectively.

- PAS 36 — clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in PFRS 8 before aggregation for reporting purposes.

- PAS 38 — clarifies that if an intangible asset acquired in a business combination is identifiable only with another intangible asset, the acquirer may recognize the group of intangible assets as a single asset provided the individual assets have similar useful lives. Also clarifies that the valuation techniques presented for determining the fair value of intangible assets acquired in a business combination that are not traded in active markets are only examples and are not restrictive on the methods that can be used.

- PAS 39 — clarifies the following:

  a. that a prepayment option is considered closely related to the host contract when the exercise price of a prepayment option reimburses the lender up to the approximate present value of lost interest for the remaining term of the host contract.

  b. that the scope exemption for contracts between an acquirer and a vendor in a business combination to buy or sell an acquiree at a future date applies only to binding forward contracts, and not derivative contracts where further actions by either party are still to be taken.

  c. that gains or losses on cash flow hedges of a forecast transaction that subsequently results in the recognition of a financial instrument or on cash flow hedges of recognized financial instruments should be reclassified in the period that the hedged forecast cash flows affect profit or loss.

- Philippine Interpretation IFRIC 9 — clarifies that it does not apply to possible reassessment at the date of acquisition, to embedded derivatives in contracts acquired in a business combination between entities or businesses under common control or the formation of joint venture.

- Philippine Interpretation IFRIC 16 — states that, in a hedge of a net investment in a foreign operation, qualifying hedging instruments may be held by any entity or entities within the group, including the foreign operation itself, as long as the designation, documentation and effectiveness requirements of PAS 39 that relate to a net investment hedge are satisfied.

5. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the financial statements in compliance with PFRS requires management to make judgments and estimates that affect certain reported amounts and disclosures. In preparing the financial statements, management has made its best judgment and estimates of certain amounts, giving due consideration to materiality. The judgments and estimates used in the financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the 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 financial statements.

Judgments

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

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

Service Concession Arrangements. Philippine Interpretation IFRIC 12, "Service Concession Arrangements", outlines an approach to account for contractual arrangements arising from entities providing public services. It provides that the operator should not account for the infrastructure as property, plant and equipment, but recognize a financial asset and/or an intangible asset.

As discussed in Note 2, the ROP (Grantor), acting by and through the TRB, PNCC (Franchisee) and MNTC (Concessionaire) executed the STOA for the Manila-North Expressway, whereby the ROP granted MNTC the rights, obligations and privileges including the authority to finance, design, construct, operate and maintain the project roads as toll roads (Concession Assets). Upon expiry of the service concession period, MNTC shall hand-over the project roads to the Grantor without cost, free from any and all liens and encumbrances and fully operational and in good working condition, including any and all existing land required, works, toll road facilities and equipment found therein directly related to and in connection with the operation of the toll road facilities.

The Company has made a judgment that the STOA qualifies under the intangible asset model, wherein the service concession assets are recognized as an intangible asset in accordance with PAS 38, "Intangibles." This intangible asset is amortized using the straight-line method over the life of the concession agreement. The carrying value of service concession assets amounted to ₱15,128.6 million and ₱14,706.7 million as of December 31, 2009 and 2008, respectively (see Note 9).

The Company also recognizes construction revenues and costs in accordance with PAS 11, "Construction Contracts." It measures contract revenue at the fair value of the consideration received or receivable. Given that MNTC has subcontracted the construction to outside contractors, the construction revenue recognized is equal to the construction costs. Construction revenue and costs recognized in statement of income amounted to ₱319.8 million and ₱56.0 million for the years ended December 31, 2009 and 2008, respectively.

The Company also recognizes its contractual obligations to restore the toll roads to a specified level of serviceability starting January 1, 2008 following the final turnover of the Phase I of the Project from the contractor in October 2007. The Company recognizes a provision following PAS 37 as the obligation arises which is a consequence of the use of the roads and therefore it is proportional to the number of vehicles using the toll roads and increasing in measurable annual increments. Provision for heavy maintenance amounted to ₱415.8 million and ₱170.3 million as of December 31, 2009 and 2008, respectively (see Note 11).

Operating Lease Commitments - Company as Lessee. In 2009 and 2008, the Company entered into a lease agreement covering a storage room. The Company has determined that the significant risks and rewards are retained by the lessor and so accounts for the lease as operating lease.

Rental expense amounted to ₱0.1 million and ₱0.3 million in 2009 and 2008, respectively (see Note 16).

Classifying HTM Investments. The classification to HTM investments requires significant judgment. In making this judgment, the Company evaluates its intention and ability to hold such investments to maturity. If the Company fails to keep these investments to maturity, it will be required to reclassify the entire portfolio as part of AFS financial assets. The investments would therefore be measured at fair value and not at amortized cost.

The Company classified its investments in bonds and treasury bills as HTM investments. The total carrying value of the HTM investments amounted to ₱404.6 million and ₱100.6 million as of December 31, 2009 and 2008, respectively (see Note 22).

Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

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

Fair values of financial assets and liabilities are presented in Note 22.

Allowance for Doubtful Accounts. Allowance for doubtful accounts is maintained at a level considered adequate to provide for potentially uncollectible receivables. The level of allowance is based on past collection experience and other factors that may affect collectibility. An evaluation of the receivables using specific method, 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 2009 and 2008.

Receivables (net of allowance for doubtful accounts of ₱5.3 million as of December 31, 2009 and 2008) amounted to ₱27.8 million and ₱13.4 million as of December 31, 2009 and 2008, respectively (see Note 7).

Input/Output Value Added Tax (VAT). As also discussed in Note 24, upon the effectivity of Republic Act No. 9337 (RA 9337), the Bureau of Internal Revenue (BIR) issued Revenue Regulation No. 16-2005 on September 1, 2005, which, for the first time, expressly referred to toll road operations as being subject to VAT. This notwithstanding VAT Ruling 078-99 issued on August 9, 1999 where BIR categorically ruled that MNTC, as assignee of the PNCC franchise, is entitled to the tax exemption privileges of PNCC and is exempt from VAT on its gross receipts from the operation of the NLE.

However, the TRB, in its letter dated October 28, 2005, directed the Company (and all Philippine toll expressway companies) to defer the imposition of VAT on toll fees.

On December 21, 2009, BIR issued Revenue Memorandum Circular (RMC) No. 72-2009 as a reiteration of RMC No. 52-2005 imposing VAT on the tollway operators. However, on January 21, 2010, the Tollways Association of the Philippines (TAP) issued a letter to tollway operators referring to a letter issued by TRB to TAP dated December 29, 2009 reiterating TRB's previous instruction to all toll operators to defer the imposition of VAT on toll fees until further orders from their office. The TRB directive resulted from the Cabinet meeting held last December 29, 2009 at Baguio City where the deferment of the implementation of RMC No. 72-2009 was discussed.

Thus the Company has deferred, and continues to defer, the imposition of VAT from motorists. Accordingly, the Company, with VAT being a passed on tax, did not recognize any VAT liability.

In the meantime, the Company, together with other toll road operators, is currently discussing the issue of VAT with the concerned government agencies. Notwithstanding the foregoing, management believes, in consultation with its legal counsel, that in any event, the STOA amongst the Company, ROP, acting by and through the TRB, and PNCC, provides the Company with legal recourse in order to protect its lawful interests in case there is a change in existing laws which makes the performance by the Company of its obligations materially more expensive.

Due to the effectivity of RA 9337 and the possibility that the Company may eventually be subjected to VAT, the Company in 2005, carved out the input tax on its purchases of goods and services in 2004 that were previously recorded as part of the service concession assets and recorded such input tax, together with the input tax from 2005 purchases and onwards, as a separate "Input value added tax" account and accordingly reflected the input tax in the VAT returns.

In September 2005, the Company requested for confirmation from the BIR that the Company can claim input VAT for the passed-on VAT on its purchases of goods and services for 2003 and prior years. The request for confirmation is still pending as of February 17, 2010. Thus, the Company continues to account for input tax from 2003 and prior years' purchases as part of service concession assets, subject to amortization.

In view of RMC No. 72-2009 which reaffirmed that toll operators are subject to 12% VAT, the latest directive from TRB for the continued deferment of the imposition of VAT and the Company's filing of amnesty for VAT for the years 2005 and prior years, management deemed it more prudent to implement the following with respect to the input VAT as it appears that the tollway operators will be subject to 12% VAT on a prospective basis:

a. Certain input VAT from 2005 and prior years that relates to the construction of the toll road should form part of the service concession assets and should be amortized over the remaining service concession term (for financial accounting purposes only). This is on the basis of management's view that prior to the effectivity of RA 9337, the Company is exempt from VAT. Thus, input VAT amounting to ₱607.2 million as of December 31, 2009, that were previously part of the account “Input VAT”, were reclassified to the service concession assets to be amortized over the remaining service concession term (see Note 9). Annual amortization expense is expected to increase by ₱21.7 million starting in year 2010 as a result of the reclassification.

b. Certain input VAT from 2005 and prior years that relates to operating expenses were written off as an expense in 2009 and this amounted to ₱94.3 million (see Note 16).

c. Input VAT from 2006 and onwards were provided with allowance for potential losses which amounted to ₱1,104.6 million in 2009 (see Note 16).

Thus, input VAT amounted to nil as of December 31, 2009, after the provision for potential losses on input VAT amounting to ₱1,104.6 million (see Note 16). Input VAT amounted to ₱1,497.3 million as of December 31, 2008.

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

Inventories amounted to ₱36.7 million and ₱50.6 million as of December 31, 2009 and 2008, respectively.

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

In October 2008, TRB approved the extension of the service concession for Phase I and Segment 8.1 of the Project from the original term ending 2030 to December 2037, subject to the following conditions: (a) the immediate submission of an updated implementation schedule, including preparatory activities and studies for Phase II and III of the Project; and (b) TRB to conduct an audit in the determination of applicable toll rates. The first condition is a basic component of any project development while the fulfillment of the second condition depends on the initiative of TRB given that the Company’s books are always available for TRB’s audit. On the basis of the foregoing, management believes that the conditions will be easily complied with no additional cost, thus, as allowed under PAS 38, starting October 2008, the revised life was used by the Company for purposes of computing amortization. The change in estimated useful life resulted to a reduction in amortization expense for the year 2008 by ₱33.0 million.

The carrying value of property and equipment amounted to ₱107.0 million and ₱107.3 million as of December 31, 2009 and 2008, respectively (see Note 8). The carrying value of service concession assets amounted to ₱15,128.6 million and ₱14,706.7 million as of December 31, 2009 and 2008, respectively (see Note 9).

Impairment of Non-financial Assets. Impairment review of property and equipment and service concession assets is performed when certain impairment indicators are present. Determining the fair value of assets requires the estimation of cash flows, expected to be generated from the continued and ultimate disposition of such assets.

There was no impairment loss recognized in the financial statements as of December 31, 2009 and 2008 as there are no indicators of impairment.

The carrying value of property and equipment amounted to ₱107.0 million and ₱107.3 million as of December 31, 2009 and 2008, respectively (see Note 8). The carrying value of service concession assets amounted to ₱15,128.6 million and ₱14,706.7 million as of December 31, 2009 and 2008, respectively (see Note 9).

Deferred Tax Assets and Liabilities. Deferred tax assets and liabilities are recognized on deductible and taxable temporary differences that are expected to reverse after the income tax holiday (ITH) period. The Company's assessment on the recognition of deferred tax assets on deductible temporary differences is based on the expected future results of operations.

The net deferred tax liabilities amounted ₱285.1 million and ₱282.9 million as of December 31, 2009 and 2008, respectively (see Note 19).

Retirement Costs. The cost of defined benefit retirement plan is determined based on actuarial valuations. The actuarial valuations involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates, and future pension increases. Due to the long-term nature of the plan, such estimates are subject to significant uncertainty.

Accrued retirement costs amounted to ₱9.6 million and ₱14.5 million as of December 31, 2009 and 2008, respectively (see Note 17).

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 provisions for the heavy maintenance requires an estimation of the periodic cost, generally estimated to be every five to seven years or the expected heavy maintenance dates, to restore the assets to a level of serviceability during the service concession term and in good condition before the 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 ₱534.3 million and ₱215.4 million as of December 31, 2009 and 2008, respectively (see Note 11).

Contingencies. The Company is a party to certain lawsuits or claims arising from the ordinary course of business. However, the Company's management and legal counsel believe that the eventual liabilities under these lawsuits or claims, if any, will not have a material effect on the Company's financial statements. Accordingly, no provision for probable losses arising from legal contingencies was recognized in the Company's financial statements as of December 31, 2009 and 2008 (see Note 24).

6. Cash and Cash Equivalents

This account consists of:

	2009	2008
Cash on hand and in banks (see Note 13)	**₱252,437,463**	₱486,782,856
Short-term deposits	**623,356,656**	182,887,871
	₱875,794,119	₱669,670,727

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

7. Receivables

This account consists of:

	2009	2008
Trade receivables	**₱16,601,005**	₱12,639,123
Advances to officers and employees	**5,267,843**	3,314,830
Interest and other receivables	**11,155,520**	2,670,622
	33,024,368	18,624,575
Less allowance for doubtful accounts	**5,259,500**	5,259,500
	₱27,764,868	₱13,365,075

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

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

Interest and other receivables are collectible within 3 months.

There were no movements in the allowance for individually assessed impaired trade receivables as of December 31, 2009 and 2008.

8. Property and Equipment

The movements in this account follow:

	Building and Leasehold Improvements	Transportation Equipment	Office Equipment and Others	Total
Cost:				
At January 1, 2008	₱62,051,146	₱45,506,204	₱91,450,566	₱199,007,916
Additions	9,341,726	6,087,500	9,101,459	24,530,685
Disposals	–	(6,845,672)	(2,008,231)	(8,853,903)
At December 31, 2008	71,392,872	44,748,032	98,543,794	214,684,698
Additions	111,722	13,316,738	20,372,081	33,800,541
Disposals	(253,000)	(5,803,762)	(1,088,596)	(7,145,358)
At December 31, 2009	**₱71,251,594**	**₱52,261,008**	**₱117,827,279**	**₱241,339,881**
Accumulated depreciation:				
At January 1, 2008	₱6,570,085	₱25,112,871	₱56,946,081	₱88,629,037
Depreciation (see Note 16)	3,484,065	7,242,454	15,789,434	26,515,953
Disposals	–	(5,655,066)	(2,124,775)	(7,779,841)
At December 31, 2008	10,054,150	26,700,259	70,610,740	107,365,149
Depreciation (see Note 16)	4,121,453	7,254,787	21,440,295	32,816,535
Disposals	(96,983)	(4,676,100)	(1,088,578)	(5,861,661)
At December 31, 2009	**₱14,078,620**	**₱29,278,946**	**₱90,962,457**	**₱134,320,023**
Net book value:				
At December 31, 2009	**₱57,172,974**	**₱22,982,062**	**₱26,864,822**	**₱107,019,858**
At December 31, 2008	61,338,722	18,047,773	27,933,054	107,319,549
At January 1, 2008	55,481,061	20,393,333	34,504,485	110,378,879

The estimated useful lives of property and equipment are as follows:

Building	37 years
Leasehold improvements	5 years
Transportation equipment	5 years
Office equipment and others	3–5 years

9. Service Concession Assets

The movements in this account follow:

	2009	2008
Cost:		
Balance at beginning of the year	**₱17,306,569,266**	₱17,250,525,974
Additions	**319,819,424**	56,043,292
Reclassification (see Note 5)	**607,169,878**	–
Balance at end of the year	**₱18,233,558,568**	₱17,306,569,266
Accumulated amortization:		
Balance at beginning of the year	**₱2,599,870,928**	₱1,969,595,227
Amortization (see Note 15)	**505,052,189**	630,275,701
Balance at end of the year	**₱3,104,923,117**	₱2,599,870,928

	2009	2008
Carrying value:		
At December 31, 2009	**₱15,128,635,451**	
At December 31, 2008		₱14,706,698,338
At January 1, 2008		15,280,930,747

Additions during 2009 pertain mainly to the construction of Segment 8.1, a portion of Phase II of the Project. Borrowing costs capitalized during the year ended December 31, 2009 amounted to ₱31.7 million. There were no borrowing costs capitalized in 2008 as the actual construction of Segment 8.1 has just started in April 2009. The interest rate used to determine the amount of borrowing costs eligible for capitalization was 9.6% in 2009.

As discussed in Note 5, certain input VAT from 2005 and prior years that relates to the construction of the toll road should form part of the service concession asset and should be amortized over the remaining service concession term (for financial accounting purposes only). This is on the basis of management's view that prior to the effectivity of RA 9337, the Company is exempt from VAT. Thus, input VAT amounting to ₱607.2 million as of December 31, 2009 that were previously part of the "Input value added tax" account, were reclassified to the service concession assets to be amortized over the remaining service concession term.

As also discussed in Note 5, in October 2008, TRB approved the Company's proposal to extend the service concession term for Phase I and Segment 8.1 of the Project until December 31, 2037. As of December 31, 2009, the remaining service concession term is 28 years.

10. Accounts Payable and Other Current Liabilities

This account consists of:

	2009	2008
Trade payables	**₱84,544,095**	₱26,974,556
Accrued expenses	**86,994,206**	72,686,605
Interest payable	**36,162,474**	35,624,346
Withholding taxes payable	**32,623,858**	62,498,995
Retention payable	**16,388,306**	10,892,280
Others	**4,650,521**	7,911,986
	₱261,363,460	₱216,588,768

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

Accrued expenses mostly pertain to accrued repairs and maintenance, professional fees and employee benefits.

Interest payable is settled semi-annually.

11. **Provisions**

The movements in this account follow:

	Heavy Maintenance	Others	Total
At January 1, 2008	₱–	₱33,236,007	₱33,236,007
Additions	281,869,447	34,160,790	316,030,237
Payments	(111,594,541)	(22,273,591)	(133,868,132)
At December 31, 2008	170,274,906	45,123,206	215,398,112
Additions	229,082,915	116,634,025	345,716,940
Accretion of interest (see Note 18)	16,469,483	–	16,469,483
Payments	–	(43,272,305)	(43,272,305)
At December 31, 2009	**₱415,827,304**	**₱118,484,926**	**₱534,312,230**
At December 31, 2009:			
Current	**₱–**	**₱118,484,926**	**₱118,484,926**
Noncurrent	**415,827,304**	**–**	**415,827,304**
	₱415,827,304	**₱118,484,926**	**₱534,312,230**
At December 31, 2008:			
Current	₱–	₱45,123,206	₱45,123,206
Noncurrent	170,274,906	–	170,274,906
	₱170,274,906	₱45,123,206	₱215,398,112

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

Other provisions consist of estimated liabilities for (a) certain fees under the STOA and O&M entered into by the Company and (b) for certain reimbursements of corporate expenses being claimed against the Company by a related party (see Notes 2 and 12).

12. **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 entities 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 entities.

The following table provides the total amount of transactions for the relevant year:

Related Party		Management Fees (see Note 16)	Operator's Fee (see Note 15)	Interest Income (see Note 18)	PNCC Fee (see Note 15)	Service Fee*	Repairs and Maintenance (see Note 15)
MPTC	**2009**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**
	2008	4,381,729	–	–	–	–	–
PNCC	**2009**	**–**	**–**	**–**	**291,871,747**	**–**	**–**
	2008	–	–	–	276,432,182	–	–
TMC	**2009**	**–**	**1,338,521,926**	**4,101,846**	**–**	**–**	**–**
	2008	–	1,376,004,457	11,051,846	–	–	–
Egis Projects Philippines, Inc. (EPPI)	**2009**	**–**	**–**	**–**	**–**	**–**	**27,785,428**
	2008	–	–	–	–	–	28,733,544
Easytrip Services Corporation (ESC)	**2009**	**–**	**–**	**–**	**–**	**19,152,000**	**–**
	2008	–	–	–	–	11,400,000	–
Total	**2009**	**₱–**	**₱1,338,521,926**	**₱4,101,846**	**₱291,871,747**	**₱19,152,000**	**₱27,785,428**
	2008	4,381,729	1,376,004,457	11,051,846	276,432,182	11,400,000	28,733,544

** Included in "Outside services" account under "General and administrative expenses" (see Note 16).*

Transactions with MPTC

- In 2008, the Company was billed by MPTC for ₱4.4 million for managerial advisory services. In 2009, MPTC is claiming reimbursements from the Company for certain corporate expenses. Pending negotiation, the Company has made a provision of ₱74.3 million for these claims as discussed in Note 11.

Transactions with Stockholder

- 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 revenue from the NLE and Segment 7, respectively. Any unpaid balance carried forward will accrue interest at the rate of the latest Philippine 91-day Treasury bill rate plus 1% per annum. This entitlement, as affirmed in the Shareholders' Agreement (SA), shall be subordinated to operating expenses and the requirements of the financing agreements and shall be paid out subject to availability of funds. In December 2006, the Company 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 SA, PNCC remains entitled to receive the same.

Transactions with Affiliates

- TMC, an associate of MPTDC, provides services to the Company as operator to the NLE and Segment 7 under the O&M. The O&M contains the terms and conditions for the operation and maintenance by TMC of Phase I of the NLE and subsequently, of Segment 7, and sets forth the scope of its services. TMC is assisted by Egis Road Operation Philippines as service provider in accordance with the Technical Assistance Agreement. Under the O&M, the Company pays TMC a minimum fixed annual amount of ₱637.1 million for the NLE and ₱40.6 million for Segment 7, to be escalated on a quarterly basis plus a variable component, which will take effect upon start of commercial operations. The O&M, which also provides for certain bonuses and penalties as described in the O&M, shall be effective for the entire concession period.

On April 15, 2003, the Company has agreed to make available to TMC a financing facility under the Operator Equipment Loan Agreement (OELA) with an aggregate principal amount not exceeding US$5.0 million for the acquisition of the equipment together with minor items of equipment or plant as may be reasonably required for the performance of the contracted services and for payment of deposits required for utilities. TMC has availed of the entire US$5.0 million from the facility. Interest is at London Inter-Bank Offered Rate (LIBOR) plus 1% per annum.

On June 17, 2004, the OELA was superseded whereby TMC agreed and undertook to repay, in a one lump-sum payment, the loan less the book value of any Operator's Equipment returned to MNTC on the last day of the term of the O&M, which is at the end of the concession period. In 2009, TMC made full payment of the operator equipment loan.

- On March 27, 2009, the Company has entered into an agreement with EPPI, a wholly owned subsidiary of Egis Projects, SA (Egis), a stockholder of the Company, for the Fixed Operating Equipment (FOE) Design, Supply and Installation for Segment 8.1 project. The agreement provides for the terms and conditions for the delivery, installation and tests on completion of the FOE of Segment 8.1 project. The contract price amounted to ₱148.4 million, a fixed lump sum price and valid for four hundred twenty-five (425) days from the Base Date.

  The Construction Notice to Proceed was issued by the Company to EPPI on March 30, 2009 and the front end design works commenced on April 6, 2009.

  Unapplied mobilization advances to EPPI, included as part of "Advances to contractors and consultants" account in the balance sheet amounted to ₱18.8 million as of December 31, 2009.

- In September 2007, the Company entered into a contract with EPPI for FOE second line maintenance services. This contract pertains to services beyond the primary maintenance obligations of TMC under the O&M. The contract amount up to September 2010 is €1.2 million. Total services paid amounted to €0.4 million (₱26.8 million) in 2009 and €0.3 million (₱21.1 million) in 2008 (see Note 15).

- In May 2009, the Company entered into a Systems Upgrade contract with EPPI for modification and upgrade of computer systems and an account management system in respect of the toll control system of the NLE. The contract amount is €0.2 million (₱12.5 million). The expected completion date of the systems upgrade is April 2010.

- The Company purchased transponders and spare parts inventories from EPPI. Total purchases amounted to ₱15.0 million in 2009 and ₱29.1 million in 2008. Purchases from EPPI are made at normal market prices.

- On December 5, 2007, the Company engaged the services of ESC, a wholly owned subsidiary of Egis, to assist the Company in increasing the usage of the electronic toll collection (ETC) facility along the NLE. Total service fee up to June 2010 will amount to ₱42.6 million subject to achievement of set milestones in terms of ETC penetration rate.

Transactions with Other Related Parties

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

	2009	2008
Short-term employee benefits	**₱92,160,308**	₱102,557,924
Retirement costs	**3,285,893**	9,797,887
	₱95,446,201	₱112,355,811

- The Company also 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 credit limits ranging from ₱0.1 million to ₱0.3 million.

- The Company paid directors fees amounting to ₱0.7 million and ₱7.3 million in 2009 and 2008, respectively.

The following table summarizes the outstanding balances as of December 31:

		Receivables	Payables
MPTC	**2009**	**₱–**	**₱61,671,067**
	2008	–	4,907,536
MPTDC	**2009**	**–**	**42,500**
	2008	–	–
PNCC	**2009**	**–**	**29,667,682**
	2008	–	27,861,884
TMC	**2009**	**359,200**	**281,734,401**
	2008	258,446,433	264,070,460
ESC	**2009**	**72,457**	**13,425,500**
	2008	279,219	8,703,900
EPPI	**2009**	**27,070,929**	**1,326,745**
	2008	–	2,762,769
Others	2008	–	239,825
	2009	**₱27,502,586**	**₱387,867,895**
	2008	258,725,652	308,546,374

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

	2009	2008
Advances to contractors and consultants	**₱27,070,929**	₱50,000
Due from related parties:		
Current	**431,657**	–
Noncurrent	–	258,675,652
	₱27,502,586	₱258,725,652
Due to related parties	**₱387,867,895**	₱308,546,374

Other than the operator equipment loan, all amounts due to and from related parties are non-interest bearing. The operator equipment loan was fully paid by TMC in 2009.

Outstanding balances at year-end are unsecured and settlement occurs in cash for the outstanding due from/to related parties, while application against services to be rendered for the advances to contractors and consultants. As of December 31, 2009 and 2008, the Company has not made any provision for doubtful accounts relating to amounts owed by related parties nor has the Company issued any guarantee to any related party.

13. **Long-term Debt**

This account consists of:

	2009	2008
Fixed Rate Corporate Notes (FXCN)	**₱5,390,000,000**	₱5,445,000,000
Asian Development Bank Loan (ADB)	**1,010,745,000**	1,240,545,625
USD Bank Facility (USD)	**835,711,762**	1,046,302,296
Philippine National Bank Loan (PNB)	**577,000,000**	–
Export Finance and Insurance Corporation (EFIC)	**391,128,750**	489,689,062
Calyon S.A. Corporate and Investment Bank (COFACE)	**389,824,988**	488,056,766
	8,594,410,500	8,709,593,749
Less unamortized debt issue costs	**226,995,394**	319,769,394
	8,367,415,106	8,389,824,355
Less current portion of long-term debt - net of unamortized debt issue costs of ₱59,339,731 in 2009 and ₱72,432,045 in 2008	**579,529,269**	576,130,454
	₱7,787,885,837	₱7,813,693,901

As of December 31, 2009 and 2008, the unamortized debt issue costs incurred in connection with the availment of long-term debt amounting to ₱227.0 million and ₱319.8 million, respectively, were deducted against the long-term debt. The movements in debt issue costs are as follows:

	2009	2008
Balance at beginning of year	**₱319,769,394**	₱371,970,882
Amortization during the year* (see Note 18)	**(90,736,022)**	(72,578,692)
Debt issue costs incurred	**6,472,318**	–
Foreign exchange adjustments	**(8,510,296)**	20,377,204
Balance at end of year	**₱226,995,394**	₱319,769,394

* *Includes amortization of debt issue costs capitalized to service concession assets amounting to ₱492,203 in 2009.*

In 2001, the Company entered into a Common Terms Agreement (CTA) with the then lenders, the security trustee, the co-security trustee and inter-creditor agent. The CTA specifies the mechanics on the funding under the term facilities, payment and prepayments, as well as the conditions precedent to drawdown set forth by the secured lenders. The CTA also contains covenants concerning restrictions with respect to, among others, waiver, modification, amendment or assignment of the key project agreements, hedge agreements, restricted payments, and the maximum debt-to-base equity ratio and the level of the debt-service-coverage ratio. Total financing facility availed by the Company under the original CTA amounted to US$252.2 million.

The loans were granted under a limited-recourse project finance structure. Substantially all existing and future assets of the Company are mortgaged in favor of the lenders in line with the requirements of the Mortgage, Assignment and Pledge Agreement, known as the Master Security Agreement (MSA). In addition, MPTDC (then FPIDC) and Egis provided completion support as agreed under the Sponsor Support Agreement (SSA).

On November 8, 2006, the Company refinanced its outstanding loans through partial prepayment and restructuring of the Company's U.S. dollar-denominated long-term debt using the proceeds of a ₱5.5 billion FXCN issue. The refinanced debt package consisted of a total of US$100.0 million in U.S. dollar term loan facilities participated in by majority of the original project lenders and a ₱5.5 billion FXCN issue participated in by sixteen (16) qualified local institutional investors (Issuer).

The aggregate U.S. dollar term loan facilities consist of direct loan facilities from multi-lateral and bi-lateral institutions like ADB and EFIC and syndicated facilities, including a covered loan from COFACE, the French export credit agency, participated in by a mix of four (4) foreign commercial banks. The loans are payable in 16 equal semi-annual installments starting December 15, 2006 up to June 15, 2014 which is the original maturity date.

The FXCNs are payable within seven years from issue date under a bullet-like structure, i.e., 94% of the principal is payable on maturity date (November 17, 2013) while the balance of 6% is payable over the term of the notes in minimal annual installments. The simultaneous prepayment and drawdown on refinancing date (November 17, 2006) was facilitated through a US$96 million Conversion Bridge Facility (Bridge Loan) provided by Mizuho Corporate Bank, Ltd. (Singapore). This was a cash-secured temporary dollar facility backed by the FXCN proceeds that allowed the Company to obtain the necessary dollars for the lump sum prepayment on refinancing date. The Bridge Loan was fully paid on December 5, 2006. Under the Notes Purchase Agreement covering the FXCN, the Issuer may at its option redeem the notes prior to the maturity date in whole but not in part subject to the terms and conditions of the agreement.

In connection with the refinancing, the CTA, MSA and other loan agreements were amended to reflect the revised covenants and security package covering all of the Company's debt on a parri-passu basis. The major amendments are: (a) the removal of pledge of shares and other forms of sponsor support in the security package; (b) the release of trapped cash in the form of maintenance reserves, the principal portion of the debt reserve, and undrawn base equity contributions; (c) the reduction of assigned contracts; (d) the removal of assignment of operator assets and contracts as well as PNCC rights under certain contracts; and (e) the relaxation of the loan covenants. Certain agreements like the SSA were terminated and the sponsor guarantees along with other elements of the original security package were released effective November 17, 2006.

On November 13, 2008, the Company entered into an amendment agreement to the CTA to reflect the replacement of FPHC by MPIC as project sponsor. On January 19, 2009, the CTA was further amended mainly to incorporate the option to convert the ADB Direct Loan from U.S. Dollar to Philippine peso which took effect on March 11, 2009. As a result of the conversion, the Company recognized a loss on extinguishment of debt amounting to ₱9.9 million and is included in the "Other expense" account in the statement of income.

On March 16, 2009, the Company also entered into a seven-year term loan agreement for a facility amount of ₱2.1 billion with PNB to finance the project cost of Segment 8.1. The PNB Loan qualified as senior debt which entitles the lender to share in the same security package as Phase I lenders. As of December 31, 2009, loan drawdowns on the facility amounted to ₱577.0 million.

On April 27, 2009, the Company entered into a credit agreement with Security Bank for a standby letter of credit facility of up to ₱100.0 million for a period of 24 months to secure the Company's Segment 8.1 construction obligation in favor of the TRB. The letter of credit for an amount of ₱80.3 million was issued effective April 27, 2009. There were no availments on the letter of credit as of December 31, 2009.

Interest rates on direct facilities, consisting of fixed rates, range from 8.03% to 8.24% in 2009 and 8.03% to 8.25% in 2008. Interest rates on syndicated facilities, consisting of fixed and floating rates, range from 4.0% to 9.75% in 2009 and 5.94% to 9.75% in 2008.

The security for the outstanding loans is embodied in the following agreements:

a. Trust and Retention Agreement (TRA) with the secured lenders' designated trustees and the inter-creditor agent. The TRA provides for the establishment and regulation of the security accounts and the security account collateral where the inflows and outflows of project revenues may be monitored. The security accounts form part of "Cash and cash equivalents" account in the balance sheets.

b. The MSA which grants to the trustees, on behalf of the secured lenders, the security interest in the Company's various assets. The agreement provides for the establishment of real estate mortgage and chattel mortgage as well as the assignment of key project agreements, insurances, and bank accounts and investments in favor of the co-security trustee for the benefit of the secured lenders.

As of December 31, 2009 and 2008, the Company is in compliance with the required financial ratios and other loan covenants.

14. **Equity**

Details of capital stock are as follows:

	Number of Shares	
	2009	2008
Authorized - ₱100 par value	**40,000,000**	40,000,000
Issued	**17,760,000**	17,760,000

<u>Shareholders' Agreement</u>
On December 16, 1999, MPTDC (then FPIDC), PNCC and Egis (collectively referred to as the "Principal Shareholders") executed a SA to govern their rights and duties as shareholders of the Company as well as the management, financing, and operations of the Company. The SA was amended on December 13, 2001 extending the term of the original shareholders' agreement.

On September 30, 2004, the Principal Shareholders of the Company and Leighton International Limited (LIL, formerly Leighton Asia Limited), amended and restated the SA dated December 13, 2001. The important provisions of the Amended and Restated Shareholders' Agreement (ARSA) are as follows:

a. MPTDC and LIL acknowledged that the 10% shares of LIL were transferred by MPTDC to LIL in consideration of: (i) LIL's agreement to, prior to the crossover date (date which the equity funding is equivalent to US$125.5 million), make the MPTDC/LIL Proxy Shareholder Contribution in behalf of MPTDC under the Shareholder Contribution Agreement amounting to US$ equivalent of ₱353.4 million or approximately US$7 million; and (ii) LIL's agreement to pay MPTDC under Section 8.04.02 of the Amended and Restated SA should LIL decide to sell at least 10% of the Company's total issued capital stock.

b. The final equity participation described in the amended SA dated December 31, 2001 was revised as follows: MPTDC - 67.1%; LIL - 16.5%; Egis - 13.9%; and PNCC - 2.5% which agreed with the Shareholder Loan Agreement (SLA) entered on January 14, 2003.

c. The guarantee fee, calculated at 2.5% per annum and being billed by MPTDC and Egis, shall be payable within 60 days from receipt of invoice. Given that the advances covered by the SLA have been fully paid in December 2006, guarantee fees were no longer recognized starting 2007.

On November 12, 2009, LIL and Global Fund Holdings, Inc. executed a Share Purchase Agreement whereby Global Fund Holdings, Inc. purchased from LIL 2,930,400 common shares of the Company or 16.5% of the Company's outstanding capital stock for and in consideration of US$40.0 million.

Likewise, an Accession to Shareholders Agreement was executed between Global Fund Holdings, Inc., MPTDC, PNCC, Egis, LIL and MNTC, whereby Global Fund Holdings, Inc. agrees to accede to the ARSA and assume all the obligation of LIL as a shareholder under the ARSA.

Cash Dividends

The Company's BOD declared the following cash dividends in 2009 and 2008:

Declaration Date	Record Date	Payment Date	Cash Dividend per Share	Total
June 5, 2009	June 5, 2009	June 30, 2009	₱32	₱568,320,000
December 17, 2009	December 17, 2009	December 23, 2009	49	870,240,000
June 25, 2008	June 25, 2008	June 30, 2008	62	1,101,120,000
December 17, 2008	December 17, 2008	December 23, 2008	31	550,560,000

As of December 31, 2009, unpaid dividends amounted to ₱143.6 million. All dividends declared in 2008 were paid on same year.

15. **Cost of Services**

This account consists of:

	2009	2008
Toll operation and maintenance costs	**₱2,116,737,193**	₱2,084,514,248
Amortization of service concession assets (see Note 9)	**505,052,189**	630,275,701
Cost of inventories	**1,076,254**	3,950,404
	₱2,622,865,636	₱2,718,740,353

Toll operation and maintenance costs consist of:

	2009	2008
Operator's fee (see Note 12)	**₱1,338,521,926**	₱1,376,004,457
PNCC fee (see Note 12)	**291,871,747**	276,432,182
Repairs and maintenance (see Note 12)	**218,726,899**	115,242,564
Provision for heavy maintenance (see Note 11)	**204,538,073**	251,669,149
Insurance	**42,172,410**	41,374,275
Toll collection and medical services	**20,906,138**	21,935,165
TRB supervision fees	**–**	1,856,456
	₱2,116,737,193	₱2,084,514,248

16. **General and Administrative Expenses**

This account consists of:

	2009	2008
Provision for potential losses on input VAT (see Note 5)	**₱1,104,632,613**	₱–
Salaries and employee benefits (see Notes 12 and 17)	**177,318,450**	205,650,155
Write-off of input VAT (see Note 5)	**94,271,475**	–
Provisions (see Note 11)	**84,650,815**	–
Taxes and licenses	**55,520,527**	26,485,488
Advertising and marketing expenses	**43,634,901**	38,084,669
Outside services (see Note 12)	**41,705,886**	33,721,244
Depreciation (see Note 8)	**32,816,535**	26,515,953
Professional fees	**31,724,971**	74,611,358
Representation and travel	**24,508,659**	26,880,639
Communication, light and water	**6,893,700**	7,651,608
Collection charges	**6,583,365**	6,701,713
Office supplies	**5,800,473**	6,079,108
Training and development costs	**1,443,511**	9,634,873
Rentals	**65,977**	339,129
Management fees (see Note 12)	**–**	4,381,729
Donations and contributions	**–**	3,288,000
Miscellaneous	**11,693,671**	9,532,543
	₱1,723,265,529	₱479,558,209

17. Retirement Costs

The Company has a funded noncontributory defined benefit retirement plan covering all of its regular and full time employees. The plan provides for a lump sum benefit payment upon retirement. Contributions and costs are determined in accordance with the actuarial study made for the plan which is normally obtained every two years.

The following tables summarize the components of provision for retirement benefits included in salaries and employees benefits under "General and administrative expenses" account in the statement of income and "Accrued retirement costs" account in the balance sheet, which are based on the latest actuarial valuation.

	2009	2008
Components of provision for retirement benefits:		
Current service cost	**₱1,003,805**	₱6,258,295
Interest cost	**5,567,280**	3,227,238
Expected return on plan assets	**(962,743)**	(276,770)
Net actuarial gain recognized for the year	**(1,066,060)**	–
	₱4,542,282	₱9,208,763

	2009	2008
Accrued retirement costs:		
Balance at beginning of year	**₱14,481,842**	₱23,684,977
Contribution during the year	**(9,411,133)**	(18,411,898)
Provision for retirement benefits for the year	**4,542,282**	9,208,763
	₱9,612,991	₱14,481,842

Movements in the present value of retirement obligation (PVRO) are as follows:

	2009	2008
Balance at beginning of year	**₱14,822,369**	₱30,912,241
Current service cost	**1,003,805**	6,258,295
Interest cost	**5,567,280**	3,227,238
Benefits paid	**(4,450,710)**	–
Actuarial loss (gain)	**18,512,985**	(25,575,405)
Balance at end of year	**₱35,455,729**	₱14,822,369

Changes in fair value of plan assets (FVPA) are as follows:

	2009	2008
Balance at beginning of year	**₱24,068,574**	₱4,258,003
Expected return on plan assets	**962,743**	276,770
Contribution during the year	**9,411,133**	18,411,898
Benefits paid	**(4,450,710)**	–
Actuarial gain	**5,584,086**	1,121,903
Balance at end of year	**₱35,575,826**	₱24,068,574

The actual return on plan assets amounted to ₱6.5 million in 2009 and ₱1.4 million in 2008.

The Company expects to contribute ₱14.8 million to its defined benefit retirement plan in 2010. The major categories of plan assets as a percentage of the fair value of total plan assets follow:

	2009	2008
Investments in:		
Government securities	**39.78%**	45.25%
Perpetual preferred shares	**16.85%**	24.86%
Loans/notes receivable	**22.36%**	–
Cash in banks	**20.10%**	28.51%
Receivables and others	**0.91%**	1.38%
	100.00%	100.00%

The plan assets are maintained in a trust account with a local bank that was set up by the Company in November 2006.

The reconciliation of the PVRO to the accrued retirement costs recognized in the balance sheet is as follows:

	2009	2008
PVRO	**₱35,455,729**	₱14,822,369
FVPA	**(35,575,826)**	(24,068,574)
Overfunded PVRO	**(120,097)**	(9,246,205)
Cumulative unrecognized actuarial gain at end of year	**9,733,088**	23,728,047
Accrued retirement costs	**₱9,612,991**	₱14,481,842

Actuarial gain (loss) in excess of corridor is amortized over the average expected working lives of its eligible employees as follows:

	2009	2008
Cumulative unrecognized actuarial gain (loss) at beginning of year	**₱23,728,047**	(₱2,969,261)
Actuarial gain (loss) for the year due to PVRO	**(18,512,985)**	25,575,405
Actuarial gain for the year due to FVPA	**5,584,086**	1,121,903
	10,799,148	23,728,047
Less actuarial gain recognized for the year	**1,066,060**	–
Cumulative unrecognized actuarial gain at end of year	**₱9,733,088**	₱23,728,047
Cumulative unrecognized actuarial gain (loss) at beginning of year	**₱23,728,047**	(₱2,969,261)
Limit of corridor	**(2,406,857)**	(3,091,224)
Actuarial gain outside corridor to be amortized	**21,321,190**	–
Divided by expected average remaining service years of eligible employees	**20**	21
Amortization of actuarial gain to be recognized for the year	**₱1,066,060**	₱–

The principal assumptions used to determine pension benefit obligations are as follows:

	2009	2008
Discount rate	**10.69%**	37.56%
Rate of increase in compensation	**10.00%**	10.00%
Expected rate of return	**5.00%**	4.00%

The overall expected rate of return on plan assets is determined based on the market prices prevailing on that date, applicable to the period over which the obligation is to be settled.

Amounts for the current and previous four years are as follows:

	2009	2008	2007	2006	2005
PVRO	**₱35,455,729**	₱14,822,369	₱30,912,241	₱20,848,842	₱16,527,864
FVPA	**(35,575,826)**	(24,068,574)	(4,258,003)	(4,000,000)	–
Unfunded/(Overfunded) PVRO	**(120,097)**	(9,246,205)	26,654,238	16,848,842	16,527,864
Experience adjustments on retirement obligation - (gain)/loss	**700,476**	(470,161)	247,229	–	4,242,973
Experience adjustments on plan assets - (gain)/loss	**5,584,086**	(1,121,903)	1,997	–	–

18. Interest Income and Interest Expense and Other Finance Costs

Sources of interest income and interest expense and other finance costs follow:

Interest Income

	2009	2008
Cash and cash equivalents	**₱51,506,314**	₱68,404,826
Investment in bonds	**13,004,000**	3,668,333
Loans to affiliates (see Note 12)	**4,101,846**	11,051,846
Investment in treasury bills	**1,961,429**	–
Others	**79,422**	303,896
	₱70,653,011	₱83,428,901

Interest Expense and Other Finance Costs

	2009	2008
Interest expense on:		
Bank loans (see Note 13)	**₱826,413,272**	₱806,909,811
Provision for heavy maintenance (see Note 11)	**16,469,483**	–
Finance costs:		
Amortization of debt issue costs (see Note 13)	**90,243,819**	72,578,692
Lenders' fees	**13,585,347**	12,847,050
Bank charges	**740,688**	881,795
	₱947,452,609	₱893,217,348

19. **Income Taxes**

The provision for current income tax for the years ended December 31, 2009 and 2008 is as follows:

	2009	2008
Regular corporate income tax (RCIT)	**₱3,481,755**	₱825,544
Final tax on interest income from banks	**13,179,550**	13,860,856
	₱16,661,305	₱14,686,400

RCIT is imposed on those taxable income not covered by the Company's ITH (see Note 23).

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

	2009	2008
Deferred tax assets:		
Provision for heavy maintenance	**₱111,911,691**	₱49,758,350
Unamortized preoperating expenses	**13,769,057**	20,653,586
Fair value changes on derivatives deferred in equity	**4,426,370**	15,257,817
Unamortized past service cost	**2,810,537**	3,226,801
Accrued retirement costs	**2,883,898**	4,344,552
	135,801,553	93,241,106
Deferred tax liabilities:		
Difference in amortization method of service concession assets	**(318,308,780)**	(249,766,931)
Unrealized foreign exchange gains - net	**(68,954,362)**	(101,842,679)
Unamortized realized foreign exchange losses capitalized	**(24,045,831)**	(24,490,920)
Fair value changes on derivatives charged to statement of income	**(9,573,145)**	–
	(420,882,118)	(376,100,530)
Deferred tax liabilities - net	**(₱285,080,565)**	(₱282,859,424)

Net deferred tax assets and liabilities on certain temporary differences amounting to ₱66.5 million and ₱40.9 million as of December 31, 2009 and 2008, respectively, have not been recognized because these are expected to reverse during the ITH period.

For tax purposes, the Company used the units of production method of depreciation for roads and tollways as approved by the BIR.

The reconciliation of provision for (benefit from) income tax computed at the statutory income tax rate to provision for income tax as shown in the statements of income is summarized as follows:

	2009	2008
Income before income tax	**₱264,382,365**	₱863,248,270
Income tax computed at statutory tax rate of 30% in 2009 and 35% in 2008	**79,314,710**	302,136,895
Add (deduct) the tax effects of:		
Net income under ITH (see Note 23)	**(461,326,568)**	(405,027,435)
Provision for potential losses on input VAT	**331,389,784**	–
Write-off of input VAT	**28,281,442**	–
Interest income already subjected to final tax	**(19,941,523)**	(22,984,605)
Nondeductible expenses and others	**39,265,154**	9,653,534
Change in unrecognized deferred tax	**(2,111,550)**	30,156,844
Final tax on interest income	**13,179,550**	13,860,856
Effect of future change in tax rate on recognized net deferred tax liabilities	–	1,468,775
Provision for (benefit from) income tax	**₱8,050,999**	(₱70,735,136)

On May 24, 2005, the Congress of the Philippines issued RA 9337 effective November 1, 2005. Pursuant to RA 9337, RCIT rate for domestic corporations and resident and non-resident foreign corporations was increased to 35% (from 32%) beginning November 1, 2005 and was reduced to 30% beginning January 1, 2009.

20. Significant Contracts and Commitments

a. On April 14, 2009, the Company, under a competitive bidding, has awarded the Civil Works contract to Leighton Contractors (Asia) Limited (LCAL), a construction unit of LIL. The Civil Works Construction Agreement was executed by the Company and LCAL in relation to the construction of the 2.7 km. Segment 8.1 stretching from Mindanao Avenue to NLE. Total civil works construction contract was set at ₱1,458.8 million, as may be adjusted from time to time pursuant to the terms of the agreement.

   The Construction Notice to Proceed was issued by the Company to LCAL on April 14, 2009, and mobilization works commenced on April 22, 2009.

   Unapplied mobilization advances to LCAL, included as part of "Advances to contractors and consultants" in the balance sheet, amounted to ₱219.8 million as of December 31, 2009.

b. The Company, under competitive bidding, has awarded a Construction Contract for Phase I of the Project to LCAL. The Construction Contract, executed on March 2, 2001 by and between the Company and LCAL in relation to the construction of Segments 1, 2 and 3 of Phase I of the Project, is a firm fixed price contract and is not subject to indexation or exchange rate fluctuations except where expressly stated in the contract or otherwise agreed with LCAL.

   On January 25, 2008, the Company issued a Performance Certificate to LCAL, being the date upon which the pavement defects and outstanding works were completed.

21. **Financial Risk Management Objectives and Policies**

The Company's principal financial instruments comprise long-term loans, proceeds of which were used to finance the construction of the Project on a limited recourse basis. The Company has various other financial instruments such as cash and cash equivalents, investment in bonds, receivables from trade debtors and payables to trade creditors, which arise directly from its operations.

The Company also enters into derivative transactions, principally interest rate swaps and cross currency swaps. The purpose of which is to manage the interest rate and foreign currency risks arising from the Company's sources of finances.

The main risks arising from the Company's financial instruments are interest rate risk and foreign currency risk which were both mitigated when the Company entered into cross currency swap and interest rate swap transactions between July 1, 2008 and April 1, 2009 (see Note 22). As a result, the Company locked in the amount of its debt service obligations until maturity date.

Interest Rate Risk
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 60% of outstanding loans into fixed-rate debt, effectively locking in the interest rate on majority of its loan obligations and reducing exposure to interest rate fluctuations. This was done through the exercise of embedded fixed-rate funding options under some of the loan facilities, namely: EFIC, ADB Direct and COFACE in 2005. With the refinancing in 2006, the percentage of fixed-rate debt has increased to 76% since the FXCN, which carry a fixed interest rate of 9.75% per annum, account for more than half of the outstanding debt.

To further reduce its interest rate risk exposure, the Company entered into a series of derivative transactions, in particular, cross currency interest rate swaps, during 2008 and 2009 (see Note 22). Under these transactions, the counterparty shall pay semi-annual interest in U.S. dollar at floating and fixed rates equivalent to those of the long-term debt obligations every six months. In exchange, the Company shall pay its counterparty semi-annual interest in Philippine peso at an agreed-upon fixed rate every six months. These swaps are designated as cash flow hedges of the underlying debt obligations.

The following table summarizes the changes in interest rates after taking into account the result of the swap transactions:

	Notional Amount			
Loan Facility	**December 31, 2009**	December 31, 2008	Floating and Fixed Interest Rate	Fixed Interest Rate
ADB-CFS A	**$9,562,500**	$11,687,500	LIBOR + 2.75% Margin	8.30%
ADB-CFS B	**1,687,500**	2,062,500	LIBOR + 2.75% Margin	8.88%
USD Bank Facility	**18,028,125**	22,034,375	LIBOR + 3.00% Margin	9.10%
COFACE	**8,409,375**	–	6.13%	7.60%
EFIC	**8,437,500**	–	8.03%	11.50%
	$46,125,000	$35,784,375		
ADB Direct	**₱489,240,000**	₱–	PHIREF + 4.66% Margin	9.40%

As more of the floating-rate loans were paid on scheduled repayment dates and the derivative transactions effectively converted the floating rates to fixed rates for two loan facilities in 2008 and another two loan facilities in 2009, the percentage of floating-rate debt has declined to 0.0% and 6.0% of total outstanding debt, as of December 31, 2009 and 2008, respectively.

The cross currency swap on the COFACE Covered Loan features a shift from a fixed interest rate to floating interest rate (see Note 22). In February 2009, the Company entered into another interest rate swap transaction to fix the interest rate on the loan facility.

The following table sets out the principal amount, by maturity, of the Company's long-term debt:

U.S. dollar-denominated Loans

		December 31, 2009				
	Interest Rate	**Within the Year ('000)**	**2–3 Years ('000)**	**4–5 Years ('000)**	**More than 5 Years ('000)**	**Total ('000)**
Fixed-rate loans:						
EFIC	8.03%	**$1,875**	**$3,750**	**$2,813**	**$–**	**$8,438**
COFACE	6.13%	**1,869**	**3,738**	**2,803**	**–**	**8,410**
		3,744	**7,488**	**5,616**	**–**	**16,848**
Floating-rate loans:						
ADB-CFS	LIBOR + 2.75% Margin	**2,500**	**5,000**	**3,750**	**–**	**11,250**
USD Bank	LIBOR + 3.00% Margin	**4,006**	**8,012**	**6,009**	**–**	**18,027**
		6,506	**13,012**	**9,759**	**–**	**29,277**
		$10,250	**$20,500**	**$15,375**	**$–**	**$46,125**

		December 31, 2008				
	Interest Rate	Within the Year ('000)	2–3 Years ('000)	4–5 Years ('000)	More than 5 Years ('000)	Total ('000)
Fixed-rate loans:						
ADB-Direct	8.25%	$2,250	$4,500	$4,500	$1,125	$12,375
EFIC	8.03%	1,875	3,750	3,750	938	10,313
COFACE	6.13%	1,869	3,738	3,738	934	10,279
		5,994	11,988	11,988	2,997	32,967
Floating-rate loans:						
ADB-CFS	LIBOR + 2.75% Margin	2,500	5,000	5,000	1,250	13,750
USD Bank	LIBOR + 3.00% Margin	4,006	8,012	8,012	2,003	22,033
		6,506	13,012	13,012	3,253	35,783
		$12,500	$25,000	$25,000	$6,250	$68,750

Peso-Denominated Notes and Loans

		December 31, 2009				
	Interest Rate	**Within the Year ('000)**	**2–3 Years ('000)**	**4–5 Years ('000)**	**More than 5 Years ('000)**	**Total ('000)**
Fixed-rate loans:						
FXCN Noteholders	9.75%	**₱55,000**	**₱110,000**	**₱5,225,000**	**₱–**	**₱5,390,000**
PNB Loan	9.61%	**–**	**57,700**	**274,075**	**245,225**	**577,000**
		55,000	**167,700**	**5,499,075**	**245,225**	**5,967,000**
Floating-rate loan - ADB-Direct	PHIREF + 4.66% Margin	**108,720**	**217,440**	**163,080**	**–**	**489,240**
		₱163,720	**₱385,140**	**₱5,662,155**	**₱245,225**	**₱6,456,240**

		December 31, 2008				
	Interest Rate	Within the Year ('000)	2–3 Years ('000)	4–5 Years ('000)	More than 5 Years ('000)	Total ('000)
Fixed-rate loan - FXCN Noteholders	9.75%	₱55,000	₱110,000	₱5,280,000	₱–	₱5,445,000

Interest on financial instruments classified as floating rate is repriced semi-annually on each interest payment date. Interest on financial instruments classified as fixed rate is fixed until the maturity of the instrument. The other financial instruments of the Company that are not included in the above table are non interest-bearing and are therefore not subject to 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 effect on equity other than those affecting the statement of income:

	Increase/Decrease in Basis Points	Effect on Income Before Income Tax
2009	**+50**	**₱–**
	-50	**–**
2008	+50	(2,440,284)
	-50	2,440,284

With regard to the Company's derivatives transactions, the following table demonstrates the sensitivity of fair value changes due to movements in interest rates with all other variables held constant. The management expects that interest rates will move by ±50 basis points within the next reporting period. The sensitivity to the statement of income pertains to derivatives at FVPL whereas the sensitivity to equity pertains to those derivatives accounted for as cash flow hedges:

	Increase/Decrease in Basis Points	Effect on Income Before Income Tax	Effect on Equity
2009	**+50**	**(₱598,355)**	**₱20,838,807**
	-50	**611,763**	**(21,188,994)**
2008	+50	(6,179,035)	19,110,209
	-50	6,328,205	(19,565,207)

Foreign Currency Risk

The Company's foreign currency risk arises mainly from its exposure to U.S. dollar-denominated long-term loans which constitute 25% and 38% of its outstanding loans as of December 31, 2009 and 2008, respectively. These long-term loans were translated using US$1 = ₱46.36 and US$1 = ₱47.49 as of December 31, 2009 and 2008, respectively. Exposure to foreign currency risk was significantly reduced when the Company undertook a major risk management initiative in 2006 by refinancing around 50% of its outstanding U.S. dollar loans with peso loans. The exposure was further reduced when the Company entered into derivative transactions in 2008 and 2009, and subsequently converted the ADB Direct loan from U.S. dollar to Peso in March 2009, which allowed the Company to fully hedge its exposure on variability in cash flows due to foreign currency exchange fluctuations through cross currency interest rate swaps. The following table summarizes the features of these hedging transactions:

Loan Facility	Effective Date	Principal Amount Hedged	Swap Rate	Notional Amount
ADB-CFS A	September 23, 2008	$12,750,000	₱46.33	₱590,707,500
ADB-CFS B	October 3, 2008	2,250,000	47.05	105,862,500
COFACE	July 2, 2008	11,212,500	45.00	504,562,500
USD Bank Facility	October 3, 2008	24,037,500	47.05	1,130,964,375
EFIC	January 5, 2009	10,312,500	47.42	489,018,750
		$60,562,500		₱2,821,115,625

In connection with the Company's objective of reducing the exposure to foreign currency risk to zero, since revenues are 100% Peso-denominated, the authorized toll rate (ATR) adjustment formula was revised starting on the next periodic toll rate adjustment on January 1, 2011. The revised formula removes the foreign exchange component factor, which passes on 50% of the foreign currency exposure on bi-annual adjustments following the initial toll rate adjustment.

The foreign currency denominated balances as of December 31, 2009 and 2008 are as follows:

	2009			2008	
	U.S. Dollar	**Euro**	**SGD**	U.S. Dollar	Euro
Assets:					
Cash and cash equivalents	**$105,950**	**€–**	**SGD–**	$2,772,386	€–
Due from related parties	**–**	**–**	**–**	5,000,000	–
Derivative assets	**688,379**	**–**	**–**	1,117,028	–
	794,329	**–**	**–**	8,889,414	–
Liabilities:					
Accounts payable and other current liabilities	**(116,568)**	**(18,906)**	**(48,516)**	(427,430)	(43,791)
Derivative liabilities	**(959,258)**	**–**	**–**	(628,854)	–
Long-term debt	**(46,125,000)**	**–**	**–**	(68,750,000)	–
	(47,200,826)	**(18,906)**	**(48,516)**	(69,806,284)	(43,791)
Net foreign currency-denominated liabilities	**($46,406,497)**	**(€18,906)**	**(SGD48,516)**	($60,916,870)	(€43,791)

The following table demonstrates sensitivity of income to changes in foreign exchange rates with all variables held constant. Management estimates that U.S. dollar, Euro and Singapore dollar exchange rates will change by ±5% within the next reporting period. Changes in income before income tax pertain to those financial obligations which are unhedged.

	Increase/Decrease in Peso to U.S. Dollar, Euro and Singapore Dollar Exchange Rates	Effect on Income Before Income Tax
2009		
U.S. dollar	**+5%**	**(₱19,515,860)**
Euro	**+5%**	**(63,018)**
Singapore dollar	**+5%**	**(80,473)**
U.S. dollar	**–5%**	**19,515,860**
Euro	**–5%**	**63,018**
Singapore dollar	**–5%**	**80,473**

	Increase/Decrease in Peso to U.S. Dollar, Euro and Singapore Dollar Exchange Rates	Effect on Income Before Income Tax
2008		
U.S. dollar	+5%	(₱36,427,035)
Euro	+5%	(145,050)
U.S. dollar	–5%	36,427,035
Euro	–5%	145,050

With regard to the Company's derivative activities, the following table demonstrates the sensitivity of fair value changes due to movements in foreign exchange rates with all variables held constant. Management estimates that U.S. dollar exchange rates will change by ±5% within the next reporting period. The sensitivity to the statement of income pertains to derivatives at FVPL whereas the sensitivity to equity pertains to those derivatives accounted for as cash flow hedges.

	Increase/Decrease in Peso:U.S. Dollar Exchange Rate	Effect on Income Before Income Tax	Effect on Equity
2009	**+5%**	**₱21,372,355**	**₱94,061,195**
	-5%	**(21,372,355)**	**(94,061,195)**
2008	+5%	20,876,185	77,824,623
	-5%	(21,490,636)	(78,519,280)

Credit Risk

The Company's exposure to credit risk on trade receivables is indirect since the responsibility for account management and collection is part of the subscription account management function of its operator, TMC. The Company, through TMC, offers a credit card payment option called automatic debit via credit card (Credit Card ADA) which, to a certain extent, operates like a post-payment account that can have some collection backlog if not managed properly. The Company's policy is to provide TMC a 30-day window within which to collect declined Credit Card ADA transactions for the annual period. Any uncollected Credit Card ADA top-ups after the 30-day grace period will be considered as part of the toll collection variance of TMC (ADA variance). In 2009 and 2008, the cut-off date for the determination of the ADA variance is on January 30, 2010 and 2009, respectively, following the 30-day policy. As of January 30, 2010 and 2009, the declined ADA reload transactions in 2009 and 2008 amounted to ₱0.1 million only.

There is also a credit risk on receivables from the Company's hedging counterparty, Mizuho Corporate Bank (Mizuho). Under the hedge agreement, Mizuho shall pay the Company, in U.S. dollars and at specified dates, amounts equal to the semi-annual principal and interest payments for the Company's U.S. dollar-denominated loans, namely ADB-CFS, USD Bank, EFIC and COFACE. In exchange, the Company pays Mizuho equivalent amounts in Philippine peso at agreed-upon swap rates and fixed interest rates. The Company manages its counterparty risk by transacting with counterparties of good financial condition and credit rating. Although limiting aggregate exposure on all outstanding derivatives to any individual counterparty would effectively manage settlement risk on derivatives, the CTA stipulated that hedge counterparties would not have voting rights and may not declare an event of default which other counterparties find difficult to accept. To mitigate this exposure, the Company monitors and assesses on a regular basis the counterparty's credit rating in Moody's, Standard and Poor's (S&P) and Fitch to obtain reasonable assurance that the counterparty would be able to fulfill its financial obligations under the hedge agreements.

With respect to credit risk arising from other financial assets, which comprise cash and cash equivalents, due from related parties and investments in bonds and treasury bills, 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's credit risk is concentrated on investment in ROP treasury bonds and bills covering at least 85% of the Company's financial assets, except cash and cash equivalents, as of December 31, 2009 and due from TMC, an affiliate, covering at least 61% as of December 31, 2008. The table below shows the maximum exposure to credit risk for the Company's financial assets, without taking account of any collateral and other credit enhancements:

	December 31, 2009	December 31, 2008
Cash and cash equivalents	**₱875,794,119**	₱669,670,727
Receivables	**27,764,868**	13,365,075
Due from related parties	**431,657**	258,675,652
Investment in treasury bills*	**4,000,000**	–
Derivative assets	**39,211,764**	53,042,069
Investment in bonds	**400,600,000**	100,600,000
Other noncurrent financial assets	**1,829,343**	1,781,629
Total credit risk exposure	**₱1,349,631,751**	₱1,097,135,152

** Included in "Other current assets" account in the balance sheet.*

Cash and cash equivalents are placed with reputable local and international banks which meet the credit rating criteria set under the loan agreements. Qualified banks in the Philippines are those with a bank deposit rating of at least equal to the sovereign rating, or if there is no bank deposit rating, bank financial strength rating of at least 'D' by Moody's, or whose credit rating given by Moody's, S&P, or Fitch is equal to the Philippine government, or whose issuer or issue credit rating by Philratings is at least 'Aa.' Qualified banks outside the Philippines are those whose senior unsecured obligations are rated at least 'BBB' by S&P.

Receivables are the trade receivables related to Credit Card ADA transactions as described above and due from related parties refers to the loan provided to the operator as agreed under the O&M. These are mainly from TMC which is considered as a low-risk counterparty since the Company has payment obligations to TMC which far exceed the aggregate amount of receivables and dues from TMC. In addition, TMC's performance under the O&M is guaranteed by its parent companies, MPTDC and Egis Road Operation. Moreover, the loan was fully paid by TMC in 2009. Some ADA receivables amounting to ₱5.3 million that were incurred during the start-up period from February 10, 2005 to August 31, 2005 were carved out from TMC's responsibility and are currently considered as direct receivables of the Company. While the Company is considering legal action against a certain bus company that is responsible for majority of the unpaid ADA transactions in 2005, it has already booked a provision for doubtful accounts corresponding to such amount.

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

	December 31, 2009		
	Neither Past Due nor Impaired - High-grade	**Impaired**	**Total**
Cash and cash equivalents	**₱875,794,119**	**₱–**	**₱875,794,119**
Receivables:			
Trade receivables	**11,341,505**	**5,259,500**	**16,601,005**
Advances to officers and employees	**5,267,843**	**–**	**5,267,843**
Interest and other receivables	**11,155,520**	**–**	**11,155,520**
Due from related parties	**431,657**	**–**	**431,657**
Investment in treasury bills*	**4,000,000**	**–**	**4,000,000**
Derivative assets	**39,211,764**	**–**	**39,211,764**
Investment in bonds	**400,600,000**	**–**	**400,600,000**
Other noncurrent financial assets	**1,829,343**	**–**	**1,829,343**
	₱1,349,631,751	**₱5,259,500**	**₱1,354,891,251**

** Included in "Other current assets" account in the balance sheet.*

	December 31, 2008		
	Neither Past Due nor Impaired - High-grade	Impaired	Total
Cash and cash equivalents	₱669,670,727	₱–	₱669,670,727
Receivables:			
Trade receivables	7,379,623	5,259,500	12,639,123
Advances to officers and employees and others	5,985,452	–	5,985,452
Derivative assets	53,042,069	–	53,042,069
Due from related parties	258,675,652	–	258,675,652
Investment in bonds	100,600,000	–	100,600,000
Other noncurrent financial assets	1,781,629	–	1,781,629
	₱1,097,135,152	₱5,259,500	₱1,102,394,652

With the exception of the impaired portion, 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

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. As required under the loan agreements, the Company also maintains an interest reserve account that can cover interest payable on its long-term debt for one interest period. The Company has short-term credit lines amounting to ₱900.0 million and ₱200.0 million as of December 31, 2009 and 2008, respectively, and cash and cash equivalents amounting to ₱875.8 million and

₱669.7 million as of December 31, 2009 and 2008, 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 liabilities as of December 31, 2009 and 2008 based on undiscounted payments:

	December 31, 2009				
	Within the Year	**2–3 Years**	**4–5 Years**	**More than 5 Years**	**Total**
Accounts payable and other current liabilities*	**₱223,911,836**	**₱–**	**₱–**	**₱–**	**₱223,911,836**
Due to related parties	**387,867,895**	**–**	**–**	**–**	**387,867,895**
Dividends payable	**143,589,600**	**–**	**–**	**–**	**143,589,600**
Long-term debt**	**1,274,926,142**	**2,526,454,137**	**7,164,152,637**	**257,170,223**	**11,222,703,139**
	2,030,295,473	**2,526,454,137**	**7,164,152,637**	**257,170,223**	**11,978,072,470**
Derivative liabilities:					
Derivative contracts - receipts	**(460,420,537)**	**(894,997,073)**	**(622,302,923)**	**–**	**(1,977,720,533)**
Derivative contracts - payments	**553,410,162**	**994,595,623**	**646,545,120**	**–**	**2,194,550,905**
	92,989,625	**99,598,550**	**24,242,197**	**–**	**216,830,372**
	₱2,123,285,098	**₱2,626,052,687**	**₱7,188,394,834**	**₱257,170,223**	**₱12,194,902,842**

	December 31, 2008				
	Within the Year	2–3 Years	4–5 Years	More than 5 Years	Total
Accounts payable and other current liabilities*	₱147,764,931	₱–	₱–	₱–	₱147,764,931
Due to related parties	308,546,374	–	–	–	308,546,374
Long-term debt**	1,388,556,047	2,645,510,339	7,858,766,844	306,362,496	12,199,195,726
	1,844,867,352	2,645,510,339	7,858,766,844	306,362,496	12,655,507,031
Derivative liabilities:					
Derivative contracts - receipts	(507,212,924)	(943,969,275)	(875,456,584)	(202,864,729)	(2,529,503,512)
Derivative contracts - payments	566,455,447	1,026,410,536	896,008,928	204,932,253	2,693,807,164
	59,242,523	82,441,261	20,552,344	2,067,524	164,303,652
	₱1,904,109,875	₱2,727,951,600	₱7,879,319,188	₱308,430,020	₱12,819,810,683

* *Excluding statutory liabilities.*
** *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. Under the loan agreement, there is a limit to the amount of additional senior debt that the Company can incur, US$50.0 million (or its Peso equivalent, as escalated) for Phase II expansion and US$10.0 million (or its Peso equivalent, as escalated) for general corporate purposes within three years after November 8, 2006. After this three-year period, incurrence of additional senior debt is governed by certain cash flow tests such as forward debt-service coverage ratios (minimum of 1.3x) and Debt to Earnings before interest, taxes and depreciation and amortization (EBITDA) ratio (maximum of 3:1).

The Company also ensures that its debt to equity ratio is in line with the requirements of the Bangko Sentral ng Pilipinas (BSP) and the Board of Investments (BOI). BSP requires the Company to maintain a long-term debt to equity ratio of at most 75:25 during the term of the foreign loans while BOI requires the Company to comply with a 75:25 debt to equity ratio as proof of capital build-up. The Company's long-term debt to equity ratio stood only at 55:45 and 51:49 as of December 31, 2009 and 2008, respectively, indicating that the Company has the capacity to incur additional long-term debt to build up its capital.

	2009	2008
Long-term debt	**₱8,367,415,106**	₱8,389,824,355
Total equity	**6,886,463,228**	8,043,418,485
Total capital	**₱15,253,878,334**	₱16,433,242,840
Debt to equity ratio	**55:45**	51:49

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

22. Financial Assets and Liabilities

Fair values

A comparison of carrying and fair values of all of the Company's financial instruments by category as of December 31, 2009 and 2008 are as follows:

	2009		2008	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Financial assets:				
FVPL -				
Derivative assets	**₱31,910,484**	**₱31,910,484**	₱50,059,145	₱50,059,145
Designated as accounting hedges -				
Derivative assets	**7,301,280**	**7,301,280**	2,982,924	2,982,924
	39,211,764	**39,211,764**	53,042,069	53,042,069
Loans and receivables:				
Cash and cash equivalents	**875,794,119**	**875,794,119**	669,670,727	669,670,727
Receivables:				
Trade	**11,341,505**	**11,341,505**	7,379,623	7,379,623
Advances to officers and employees	**5,267,843**	**5,267,843**	3,314,830	3,314,830
Interest and other receivables	**11,155,520**	**11,155,520**	2,670,622	2,670,622
Due from related parties	**431,657**	**431,657**	258,675,652	258,675,652
Other noncurrent financial assets	**1,829,343**	**1,755,243**	1,781,629	1,590,434
	905,819,987	**905,745,887**	943,493,083	943,301,888
HTM investments:				
Investment in bonds	**400,600,000**	**405,947,568**	100,600,000	107,262,190
Investment in treasury bills*	**4,000,000**	**3,929,192**	–	–
	404,600,000	**409,876,760**	100,600,000	107,262,190
	₱1,349,631,751	**₱1,354,834,411**	₱1,097,135,152	₱1,103,606,147

	2009		2008	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Financial liabilities:				
Designated as accounting hedges -				
Derivative liabilities	**₱44,467,365**	**₱44,467,365**	₱29,861,112	₱29,861,112
Other financial liabilities:				
Accounts payable and other				
current liabilities**	**223,911,836**	**223,911,836**	147,764,931	147,764,931
Due to related parties	**387,867,895**	**387,867,895**	308,546,374	308,546,374
Dividends payable	**143,589,600**	**143,589,600**	–	–
Long-term debt	**8,367,415,106**	**9,011,571,304**	8,389,824,355	8,938,683,969
	9,122,784,437	**9,766,940,635**	8,846,135,660	9,394,995,274
	₱9,167,251,802	**₱9,811,408,000**	₱8,875,996,772	₱9,424,856,386

** Included in "Other current assets" account in the balance sheet.*
*** Excluding statutory liabilities.*

Fair Value Hierarchy
The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

As at December 31, 2009, the Company held the following financial instruments measured at fair value:

	December 31, 2009	Level 1	Level 2	Level 3
Financial Assets				
Financial Assets at FVPL:				
Derivative assets at FVPL	**₱31,910,484**	₱–	₱31,910,484	₱–
Derivative assets accounted				
as accounting hedges	**7,301,280**	–	7,301,280	–
	39,211,764	–	39,211,764	–
Financial Liabilities				
Financial liabilities of FVPL -				
Derivative liabilities accounted				
as accounting hedges	**₱44,467,365**	₱–	₱44,467,365	₱–

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value:

Derivative Assets and Liabilities
The fair value of cross currency swap transactions is the net present value of estimated future cash flows using U.S. and Philippine risk free rates ranging from 0.2% to 4.0% and 4.1% to 12.4%, respectively, in 2009 and 1.7% to 2.2% and 4.3% to 5.1%, respectively, in 2008.

Cash and Cash Equivalents, Receivables, Due from Related Parties (Current), Accounts Payable and Other Current Liabilities and Due to Related Parties
Carrying value approximates the fair value at balance sheet date due to the short-term nature of the transactions.

Due from Related Parties (Noncurrent)
Estimated fair value approximates the carrying value of the instrument due to the quarterly repricing of interest based on 90-day LIBOR.

Investment in Bonds and Treasury Bills
Investment in bonds pertain to quoted ROP treasury bonds which bear fixed interest rates ranging from 5.3% to 9.0%, payable quarterly, and with the following maturities:

Maturity Date	**2009**	2008
July 31, 2011	**₱50,000,000**	₱50,000,000
September 24, 2012	**300,000,000**	–
July 31, 2013	**50,600,000**	50,600,000
	₱400,600,000	₱100,600,000

Investment in treasury bills amounting to ₱4.0 million, included under "Other current assets" account in the balance sheet, pertain to quoted zero-coupon ROP short-term securities with a yield to maturity of 4.1% per annum maturing on June 2, 2010.

The fair value is based on the quoted market price of the financial instruments as of December 31, 2009 and 2008.

Other Noncurrent Financial Assets
Estimated fair value is based on the discounted value of future cash flows using the prevailing peso interest rates that are specific to the tenor of the instruments' cash flows ranging from 4.4% to 4.8% in 2009 and 5.6% to 6.4% in 2008.

Long-term Debt
For both fixed rate and floating rate (repriceable every six months) U.S. dollar-denominated debts and peso-denominated notes and loans, estimated fair value is based on the discounted value of future cash flows using the prevailing credit adjusted U.S. risk-free rates and prevailing peso interest rates ranging from 0.6% to 6.1% and 1.5% to 8.8% in 2009 and 2008, respectively.

Derivative Instruments
In 2009 and 2008, the Company entered into cross currency swap and interest rate swap transactions to hedge its foreign exchange and interest rate exposure on the following loans:

		Outstanding Balance as of	
Loan Facility	Interest Rate	**December 31, 2009**	December 31, 2008
ADB-CFS A	LIBOR + 2.75% Margin	**$9,562,500**	$11,687,500
ADB-CFS B	LIBOR + 2.75% Margin	**1,687,500**	2,062,500
USD Bank Facility	LIBOR + 3.00% Margin	**18,028,125**	22,034,375
COFACE	6.13%	**8,409,375**	10,278,125
EFIC	8.03%	**8,437,500**	–
		$46,125,000	$46,062,500
ADB Direct	PHIREF + 4.66% Margin	**₱489,240,000**	₱–

The following table provides the related fair values of the Company's derivative financial instruments outstanding as of December 31, 2009 and 2008:

	December 31, 2009		December 31, 2008	
	Asset	**Liability**	Asset	Liability
Cross currency swaps to hedge:				
ADB-CFS A	**₱–**	**(₱3,493,233)**	₱2,982,924	₱–
ADB-CFS B	**–**	**(2,968,377)**	–	(2,671,115)
COFACE	**27,223,321**	**–**	50,059,145	–
EFIC	**–**	**(7,109,228)**	–	–
USD Bank Facility	**–**	**(30,896,527)**	–	(27,189,997)
	27,223,321	**(44,467,365)**	53,042,069	(29,861,112)
Interest rate swaps to hedge:				
ADB Direct	**7,301,280**	**–**	–	–
COFACE	**4,687,163**	**–**	–	–
	11,988,443	**–**	–	–
	₱39,211,764	**(₱44,467,365)**	₱53,042,069	(₱29,861,112)

Derivatives Accounted for as Non-hedge Transactions. On July 1, 2008, MNTC entered into a cross currency swap to hedge its fair value exposure on the COFACE covered loan due to movements in foreign exchange and interest rates. Under the cross currency swap, MNTC will receive US$11.2 million in installments of US$0.9 million every six months starting December 15, 2008 until June 16, 2014 plus semi-annual interest at a fixed rate of 6.13% per annum on the outstanding U.S. dollar balance, and pay ₱504.6 million, payable in equal semi-annual installments of ₱42.0 million every six months starting December 15, 2008 until June 16, 2014, and semi-annual interest at six-months Philippine Reference Rates (PHIREF) plus 2.75% per annum on the outstanding peso balance. As of December 31, 2009 and 2008, the outstanding notional amount of the swap amounted to US$8.4 million and US$10.3 million, respectively.

On February 26, 2009, MNTC entered into an interest rate swap where MNTC receives semi-annual interest based on six-months PHIREF plus 2.75% per annum spread and pays semi-annual fixed interest at 7.6% per annum, calculated based on an amortizing peso notional amount, starting June 15, 2009 until June 16, 2014. The outstanding notional amount of the swap as of December 31, 2009 amounted to ₱378.4 million.

The interest rate swap, together with the existing cross currency swap entered in 2008 for the COFACE loan, effectively transformed the dollar denominated floating rate loan into a fixed rate peso loan.

For the years ended December 31, 2009 and 2008, the fair value changes of the interest rate swap and cross currency swap (both hedging the COFACE loan) amounted to ₱19.2 million loss and ₱46.9 million gain, respectively. The loss and gain amounts were recognized as part of "Other expense" account and "Other income" account, respectively, in the statement of income.

Derivatives Accounted for Under Cash Flow Hedge Accounting. On September 23 and October 3, 2008, MNTC entered into cross currency swap transactions with Mizuho to hedge the cash flow variability on the ADB loans and USD Bank facility due to movements in foreign exchange and interest rates. In 2009, additional derivative transactions were entered to hedge the cash flow variability on the EFIC loan due to movements in foreign exchange rates and ADB Direct loan due to movement in interest rates.

ADB-CFS A
Under the cross currency swap, MNTC will receive US$12.8 million in installments of US$1.1 million every six months starting December 15, 2008 until June 16, 2014 plus semi-annual interest at a rate of six-months LIBOR plus 2.75% per annum spread on the outstanding U.S. dollar balance, and pay ₱590.7 million, payable in equal semi-annual installments of ₱49.2 million every six months starting December 15, 2008 until June 16, 2014, and semi-annual interest at fixed rate of 8.3% per annum on the outstanding peso balance. As of December 31, 2009 and 2008, the outstanding notional amount of the swap amounted to US$9.6 million and US$11.7 million, respectively.

ADB-CFS B
Under the cross currency swap, MNTC will receive US$2.2 million in installments of US$0.2 million every six months starting December 15, 2008 until June 16, 2014 plus semi-annual interest at a rate of six-months LIBOR plus 2.75% per annum spread on the outstanding U.S. dollar balance, and pay ₱105.9 million, payable in equal semi-annual installments of ₱8.8 million every six months starting December 15, 2008 until June 16, 2014, and semi-annual interest at fixed rate of 8.9% per annum on the outstanding peso balance. As of December 31, 2009 and 2008, the outstanding notional amount of the swap amounted to US$1.7 million and US$2.1 million, respectively.

USD Bank Facility
Under the cross currency swap, MNTC will receive US$24.0 million in installments of US$2.0 million every six months starting December 15, 2008 until June 16, 2014 plus semi-annual interest at a rate of six-months LIBOR plus 3.0% per annum spread on the outstanding U.S. dollar balance, and pay ₱1,131.0 million, payable in equal semi-annual installments of ₱94.2 million every six months starting December 15, 2008 until June 16, 2014, and semi-annual interest at fixed rate of 9.1% per annum on the outstanding peso balance. As of December 31, 2009 and 2008, the outstanding notional amount of the swap amounted to US$18.0 million and US$22.0 million, respectively.

EFIC
MNTC entered into a cross currency swap to hedge its cash flow variability on the EFIC loan due to movements in foreign exchange rates effective January 5, 2009. Under the cross currency swap, MNTC will receive U.S.$10.3 million in installments of US$0.9 million every six months starting June 15, 2009 until June 16, 2014, plus semi-annual fixed interest of 8.03% per annum based on the amortizing US dollar notional amount, and pay ₱498.0 million, payable in equal semi-annual installments of ₱44.5 million every six months starting June 15, 2009 until June 16, 2014, plus semi-annual fixed interest at 11.5% per annum on the amortizing peso notional amount. The cross currency swap effectively transformed the fixed rate U.S. dollar loan into a fixed rate peso denominated loan. As of December 31, 2009, the outstanding notional amount of the swap amounted to US$8.4 million.

ADB Direct
On April 1, 2009, MNTC entered into a pay-fixed, receive-floating interest rate swap contract to hedge the variability of cash flows pertaining to the floating rate ADB Direct Loan. Under the swap, MNTC will receive semi-annual interest equal to six-months PHIREF plus 4.66% per annum spread and pay semi-annual fixed interest of 9.4% per annum, based on the amortizing principal balance of the ADB Direct Loan, starting from June 15, 2009 until June 16, 2014. The interest rate swap effectively fixed the floating rate of the said loan over the duration of the agreement at 9.4% per annum. The notional amount of the interest rate swap as of December 31, 2009 amounted to ₱489.2 million.

Under the cash flow hedge, the effective portion of the change in fair values of the designated hedges are recognized directly in equity and recycled in earnings in the same periods during which the hedged transaction affects earnings.

Hedge Effectiveness of Cash Flow Hedges. Movements of the Company's cumulative translation adjustments on cash flow hedges under "Other comprehensive income" account for the years ended December 31, 2009 and 2008 are as follows:

	2009	2008
Balance at beginning of year	**(₱50,859,390)**	₱–
Changes in fair value of cash flow hedges	**(92,696,079)**	(29,861,719)
Transferred to statement of income*	**128,800,903**	(20,997,671)
	(14,754,566)	(50,859,390)
Tax effects of items taken directly to equity	**4,426,370**	15,257,817
Balance at end of year	**(₱10,328,196)**	(₱35,601,573)

** ₱44,718,347 and ₱30,699,421 are included in "Foreign exchange gain (loss)" account and (₱84,082,556) and (₱9,701,750) are included in "Interest expense" account in 2009 and 2008, respectively.*

No ineffectiveness was recognized in the statement of income.

Fair Value Changes on Derivatives. The net changes in the fair values of all derivative instruments for the years ended December 31, 2009 and 2008 follow:

	2009	2008
Balance at beginning of year	**₱23,180,957**	₱–
Net changes in fair values of derivatives:		
Designated as accounting hedges	**(92,696,079)**	(29,861,719)
Not designated as accounting hedges	**(19,219,364)**	46,924,849
	(88,734,486)	17,063,130
Fair value of settled instruments	**83,478,885**	6,117,827
Balance at end of year	**(₱5,255,601)**	₱23,180,957

23. Registration with the Board of Investments (BOI)

MNTC is registered with the BOI as a preferred pioneer enterprise as a new operator of the NLE under the Omnibus Investment Code of 1987, otherwise known as Executive Order No. 226.

Under the terms of the registration, MNTC is subject to certain requirements, principally that of maintaining at least 60.0% Filipino ownership or voting equity. As a registered enterprise, the Company is entitled to certain tax and non-tax incentives, including ITH for six years from December 1999 or from actual start of commercial operations whichever comes first but not earlier than the date of registration subject to certain conditions.

On October 16, 2001, the BOI has granted the Company's request for an extension of the ITH reckoning date from December 1999 to first quarter of 2004. Thus, the Company's ITH will end at the end of the first quarter of 2010. ITH incentive amounted to ₱461.3 million and ₱405.0 million in 2009 and 2008, respectively.

On July 29, 2009, upon the request of the Company and after filing the necessary application, the BOI has granted an extension of the Company's ITH up to December 31, 2010 subject to the following conditions:

- At the time of the actual availment of the ITH incentive, the derived capital equipment to labor ratio shall not exceed US$10,000 to one worker; and

- The Company shall undertake Corporate Social Responsibility activities which shall be completed on the actual availment of the bonus year.

24. **Contingencies**

Value Added Tax

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

However, TRB, in its letter dated October 28, 2005, directed the Company (and all Philippine toll expressway companies) to defer the imposition of VAT on toll fees, thus the Company has deferred the imposition of VAT from motorists. Accordingly, the Company does not collect VAT and no VAT liability was recognized.

Due to the possibility that the Company may eventually be subjected to VAT, the Company, in 2005, carved out the input tax from its purchases of goods and services (includes input tax in relation to the Project construction cost) in 2004 which were previously recorded as part of service concession assets and recorded such input tax, together with the input tax on 2005 purchases and onwards, as a separate "Input value added tax" account and accordingly reflected the input tax in the VAT returns. In September 2005, the Company also requested for confirmation from the BIR that the Company can claim input VAT for the passed-on VAT on its purchases of goods and services for 2003 and prior years. The request for confirmation is still pending as of February 17, 2010.

On December 21, 2009, BIR issued RMC No. 72-2009 as a reiteration of RMC No. 52-2005 imposing VAT on the tollway operators. However, on January 21, 2010, TAP issued a letter to tollway operators referring to a letter issued by TRB to TAP dated December 29, 2009 reiterating TRB's previous instruction to all toll operators to defer the imposition of VAT on toll fees until further orders from their office. The TRB directive resulted from the Cabinet meeting held last December 29, 2009 at Baguio City where the deferment of the implementation of RMC No. 72-2009 was discussed.

In view of the foregoing and in the light of the quick response of the Cabinet and the TRB on the BIR RMC No. 72-2009, the Company continues to defer the imposition of VAT on toll fees from motorists and correspondingly, with VAT being a passed-on tax, the Company did not recognize any VAT liability.

The Company, together with other toll road operators, continues to discuss the issue of VAT with concerned government agencies.

At present, the BIR continuously upholds its position that the Company is indeed subject to VAT on toll revenues, stating that inasmuch as there is no concrete ruling yet on the exemption from VAT on toll fees, the Company's receipts from toll fees should be considered as subject to VAT. In relation thereto, the BIR has issued the following VAT assessments:

- The Company received a Formal Letter of Demand from the BIR on March 16, 2009 requesting the Company to pay deficiency VAT plus penalties amounting to ₱1,010.5 million for taxable year 2006.

- The Company received a Final Assessment Notice from the BIR dated November 15 2009, assessing the Company for deficiency VAT plus penalties amounting to ₱557.6 million for taxable year 2007.

- The Company received a Notice of Informal Assessment from the BIR dated October 5, 2009, assessing the Company for deficiency VAT plus penalties amounting to ₱470.9 million for taxable year 2008.

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

Local Business Tax and Real Property Tax
In 2009, the Company has received a Final Demand from the municipality of Guiguinto, Bulacan to pay the local business tax assessments for the years 2005 to 2007 amounting to ₱67.4 million, inclusive of surcharges and penalties. The Company, together, with its legal counsel protested claiming that its predecessor, PNCC has never been subjected to local business tax and as such the Company continued the customary practice of obtaining the business permits solely from the local government unit where its principal office is located. The case is still pending before the Regional Trial Court of Malolos, Bulacan.

On November 19, 2009, TRB informed the Company that TRB's BOD has approved the Company's request to intervene in the LBT case for the purposes of protecting the interests of the government and the motoring public, avoiding any disruption in the operation of the NLE as a limited access facility and resisting collateral attack in the validity of the STOA. TRB also advised the Company that on November 12, 2009, the Omnibus Motion (i) for Intervention and (ii) to admit attached Manifestation and Motion in Intervention was filed by the Office of the Solicitor General on behalf of TRB praying for the issuance of a Temporary Restraining Order and a Writ of Preliminary Injunction to enjoin the municipality from closing the Company's business particularly with respect to its operations of the Burol-Tabang and Burol-Sta.Rita toll exits and any facility that is indispensable in the operation of the tollway.

In 2008, the Company also received real property tax assessments covering the toll roads located in the Municipality of Guiguinto amounting to ₱2.9 million for the years 2005 to 2008. The Company appealed before the Local Board of Assessment Appeals (LBAA) of Bulacan and prayed for the cancellation of the assessment. The case is still pending before the LBAA of Bulacan.

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

Others
The Company is a co-respondent [together with TRB, PNCC, other tollways operators, TMC, MPTDC (then FPIDC) and BHC] in two Supreme Court cases, where, based on the following allegations, the petitioners' claims that the STOA is null and void:

- the negotiation and execution of the STOA failed to undergo public bidding in accordance with applicable laws and regulations of the Philippines;

- the STOA granted to MNTC a 30-year franchise for the construction, maintenance and operation of the NLE in violation of the Presidential Decrees under which the PNCC's franchise were granted and the Philippine Constitution; and

- the provisions of the STOA providing for the establishment and adjustment of toll rates violate the statutory requirement for the TRB to conduct public hearings on the level of authorized toll rates.

Management believes that the petitioners' claims are without merit and is vigorously contesting the case. As of February 17, 2010, the case is still pending.

The Company is also a party to other cases and claims arising from the ordinary course of business filed by third parties which are either pending decisions by the courts or are subject to settlement agreements. The outcome of these claims cannot be presently determined. In the opinion of management and the Company's legal counsel, the eventual liability from these lawsuits or claims, if any, will not have a material adverse effect on the Company's financial position and financial performance.