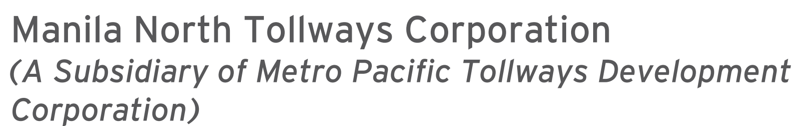


Manila North Tollways Corporation

(A Subsidiary of Metro Pacific Tollways Development Corporation)

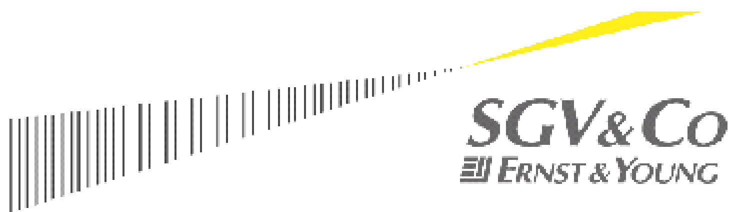
Financial Statements
December 31, 2010 and 2009

and

Independent Auditors' Report

SyCip Gorres Velayo & Co.

SGV & Co
Ernst & Young



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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

Report on the Financial Statements

We have audited the accompanying financial statements of Manila North Tollways Corporation (a subsidiary of Metro Pacific Tollways Development Corporation), which comprise the balance sheets as at December 31, 2010 and 2009, 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 information.

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, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

SGV & Co
ERNST & YOUNG

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, 2010 and 2009, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

Report on the Supplementary Information Required Under Revenue Regulations 15-2010

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information taxes, duties and license fees in Note 25 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. The information is also not required by Securities Regulation Code 68. Such information is the responsibility of management of Manila North Tollways Corporation. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Marydith C. Miguel
Partner
CPA Certificate No. 65556
SEC Accreditation No. 0087-AR-2
Tax Identification No. 102-092-270
BIR Accreditation No. 08-001998-55-2009,
June 1, 2009, Valid until May 31, 2012
PTR No. 2641544, January 3, 2011, Makati City

February 22, 2011

MANILA NORTH TOLLWAYS CORPORATION

(A Subsidiary of Metro Pacific Tollways Development Corporation)

BALANCE SHEETS

	December 31	
	2010	2009
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 6, 13 and 22)	**₱1,146,855,351**	₱875,794,119
Receivables - net (Notes 7 and 22)	**55,519,142**	27,764,868
Inventories - at cost (Note 12)	**37,890,029**	36,747,518
Advances to contractors and consultants (Notes 12 and 20)	**8,061,415**	255,544,962
Due from related parties (Notes 12 and 22)	**39,900,221**	431,657
Derivative assets (Note 22)	**2,901,514**	–
Available-for-sale financial assets (Notes 13 and 22)	**51,812,500**	–
Other current assets (Notes 13 and 22)	**42,252,750**	67,963,802
Total Current Assets	**1,385,192,922**	1,264,246,926
Noncurrent Assets		
Property and equipment - net (Notes 8 and 13)	**105,122,936**	107,019,858
Service concession assets - net (Notes 9 and 13)	**15,822,519,553**	15,128,635,451
Available-for-sale financial assets (Notes 13 and 22)	**372,280,500**	–
Investment in bonds (Notes 13 and 22)	**–**	400,600,000
Derivative assets (Note 22)	**–**	39,211,764
Input value-added tax - net (Notes 5 and 24)	**–**	–
Other noncurrent assets (Note 22)	**21,162,090**	5,016,570
Total Noncurrent Assets	**16,321,085,079**	15,680,483,643
	₱17,706,278,001	₱16,944,730,569
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and other current liabilities (Notes 10 and 22)	**₱254,205,243**	₱261,363,460
Due to related parties (Notes 12 and 22)	**331,292,039**	387,867,895
Unearned toll revenue	**30,985,896**	21,134,973
Dividends payable (Notes 14 and 22)	**181,684,800**	143,589,600
Provisions (Note 11)	**125,690,989**	118,484,926
Income tax payable	**18,054,662**	3,423,156
Current portion of long-term debt (Notes 8, 9, 13 and 22)	**2,176,378,648**	579,529,269
Derivative liabilities (Note 22)	**211,912,455**	–
Total Current Liabilities	**3,330,204,732**	1,515,393,279
Noncurrent Liabilities		
Long-term debt - net of current portion (Notes 8, 9, 13 and 22)	**7,177,953,827**	7,787,885,837
Accrued retirement costs (Note 17)	**873,614**	9,612,991
Provisions (Note 11)	**308,342,672**	415,827,304
Deferred tax liabilities - net (Note 19)	**322,154,388**	285,080,565
Derivative liabilities (Note 22)	**–**	44,467,365
Total Noncurrent Liabilities	**7,809,324,501**	8,542,874,062
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	**1,027,025,649**	1,371,080,256
Other comprehensive income reserve (Note 22)	**14,011,951**	(10,328,196)
Total Equity	**6,566,748,768**	6,886,463,228
	₱17,706,278,001	₱16,944,730,569

See accompanying Notes to Financial Statements.

MANILA NORTH TOLLWAYS CORPORATION
(A Subsidiary of Metro Pacific Tollways Development Corporation)

STATEMENTS OF INCOME

	Years Ended December 31	
	2010	2009
OPERATING REVENUES		
Toll fees	**₱5,857,950,486**	₱5,487,387,690
Sales of transponders and magnetic cards	**543,900**	1,802,698
	5,858,494,386	5,489,190,388
COST OF SERVICES (Notes 11, 12 and 15)	**(2,583,582,753)**	(2,622,865,636)
GROSS PROFIT	**3,274,911,633**	2,866,324,752
GENERAL AND ADMINISTRATIVE EXPENSES (Notes 11, 12 and 16)	**(863,540,664)**	(1,723,265,529)
CONSTRUCTION REVENUE (Notes 5 and 9)	**1,253,064,437**	319,819,424
CONSTRUCTION COSTS (Notes 5 and 9)	**(1,253,064,437)**	(319,819,424)
INTEREST EXPENSE AND OTHER FINANCE COSTS (Notes 11, 13 and 18)	**(1,099,753,873)**	(947,452,609)
FOREIGN EXCHANGE GAIN - Net	**111,975,917**	11,183,634
INTEREST INCOME (Notes 12 and 18)	**90,106,282**	70,653,011
OTHER EXPENSE (Notes 13, 18 and 22)	**(227,517,489)**	(29,115,085)
OTHER INCOME (Notes 12 and 18)	**91,842,510**	16,054,191
INCOME BEFORE INCOME TAX	**1,378,024,316**	264,382,365
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 19)		
Current	**43,756,592**	16,661,305
Deferred	**26,642,331**	(8,610,306)
	70,398,923	8,050,999
NET INCOME	**₱1,307,625,393**	₱256,331,366

See accompanying Notes to Financial Statements.

MANILA NORTH TOLLWAYS CORPORATION
(A Subsidiary of Metro Pacific Tollways Development Corporation)

STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2010	2009
NET INCOME	**₱1,307,625,393**	₱256,331,366
OTHER COMPREHENSIVE INCOME		
Net gain on cash flow hedges (Note 22)	**11,278,639**	36,104,824
Income tax effect	**(3,383,592)**	(10,831,447)
	7,895,047	25,273,377
Gain on available-for-sale financial assets (Note 22)	**23,493,000**	–
Income tax effect	**(7,047,900)**	–
	16,445,100	–
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**24,340,147**	25,273,377
TOTAL COMPREHENSIVE INCOME	**₱1,331,965,540**	₱281,604,743

See accompanying Notes to Financial Statements.

MANILA NORTH TOLLWAYS CORPORATION
(A Subsidiary of Metro Pacific Tollways Development Corporation)

STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	Capital Stock - ₱100 Par Value	Additional Paid-in Capital	Retained Earnings	Other Comprehensive Income Reserve	Total Equity
At January 1, 2010	**₱1,776,000,000**	**₱3,749,711,168**	**₱1,371,080,256**	**(₱10,328,196)**	**₱6,886,463,228**
Cash dividends (Note 14)	**–**	**–**	**(1,651,680,000)**	**–**	**(1,651,680,000)**
Net income	**–**	**–**	**1,307,625,393**	**–**	**1,307,625,393**
Other comprehensive income (Note 22)	**–**	**–**	**–**	**24,340,147**	**24,340,147**
Total comprehensive income for the year	**–**	**–**	**1,307,625,393**	**24,340,147**	**1,331,965,540**
At December 31, 2010	**₱1,776,000,000**	**₱3,749,711,168**	**₱1,027,025,649**	**₱14,011,951**	**₱6,566,748,768**
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)
Net income	–	–	256,331,366	–	256,331,366
Other comprehensive income (Note 22)	–	–	–	25,273,377	25,273,377
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

See accompanying Notes to Financial Statements.

MANILA NORTH TOLLWAYS CORPORATION

(A Subsidiary of Metro Pacific Tollways Development Corporation)

STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱1,378,024,316**	₱264,382,365
Adjustments to reconcile income before income tax to net cash flows:		
Interest expense and other finance costs (Note 18)	**1,099,753,873**	947,452,609
Amortization of service concession assets (Notes 9 and 15)	**559,180,335**	505,052,189
Provision for potential losses on input value-added tax (Note 16)	**334,069,949**	1,104,632,613
Mark-to-market loss on derivatives (Note 18)	**227,517,489**	19,219,364
Unrealized foreign exchange gain - net	**(105,280,640)**	(10,755,679)
Movements in:		
Provisions (Note 11)	**(100,278,569)**	302,444,635
Accrued retirement costs (Note 17)	**(8,739,377)**	(4,868,851)
Interest income (Note 18)	**(90,106,282)**	(70,653,011)
Depreciation (Notes 8 and 16)	**27,351,129**	32,816,535
Deferred toll revenue realized	**(21,134,973)**	(19,344,464)
Gain on disposals of property and equipment	**(1,817,591)**	(289,782)
Write-off of input value-added tax (Note 16)	**–**	94,271,475
Loss on extinguishment of debt (Note 13)	**–**	9,895,721
Working capital changes:		
Decrease (increase) in:		
Receivables	**(28,111,476)**	(10,234,961)
Inventories	**(1,142,511)**	13,888,874
Due from related parties	**(39,468,564)**	(431,657)
Advances to contractors and consultants	**247,483,547**	(245,423,358)
Input value-added tax (Note 9)	**(334,069,949)**	(308,809,426)
Other current assets	**7,954,538**	(15,990,897)
Increase (decrease) in:		
Accounts payable and other current liabilities	**5,128,249**	47,414,442
Due to related parties	**(56,575,856)**	79,321,521
Unearned toll revenue	**30,985,896**	21,134,973
Income tax paid	**(29,125,086)**	(14,063,693)
Net cash flows provided by operating activities	**3,101,598,447**	2,741,061,537
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of investment in bonds (Note 22)	**(300,000,000)**	(300,000,000)
Collections from a related party (Note 12)	**–**	258,675,652
Increase in other noncurrent assets	**(16,145,520)**	(3,234,941)
Interest received	**90,463,484**	66,488,179
Additions to:		
Property and equipment (Note 8)	**(28,677,154)**	(33,800,541)
Service concession assets (Note 9)	**(1,253,064,437)**	(319,819,424)
Proceeds from sale of:		
Investment in bonds	**300,000,000**	–
Property and equipment	**5,040,538**	1,573,479
Net cash flows used in investing activities	**(1,202,383,089)**	(330,117,596)

	Years Ended December 31	
	2010	2009
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments of:		
Dividends (Note 14)	**(₱1,613,584,800)**	(₱1,294,970,400)
Interest	**(906,467,892)**	(840,201,179)
Loans	**(630,365,169)**	(639,200,046)
Debt issue costs	**–**	(6,472,318)
Proceeds from loans (Note 13)	**1,523,000,000**	577,000,000
Net cash flows used in financing activities	**(1,627,417,861)**	(2,203,843,943)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**(736,265)**	(976,606)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**271,061,232**	206,123,392
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR (Note 6)	**875,794,119**	669,670,727
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 6)	**₱1,146,855,351**	₱875,794,119

See accompanying Notes to Financial Statements.

MANILA NORTH TOLLWAYS CORPORATION
(A Subsidiary of Metro Pacific Tollways 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. The Company's primary purpose is to engage in, and carry on, a construction and contracting business, involving tollways, its facilities, interchanges and related works, including the operation and maintenance thereof, or otherwise engage in any work upon roads, bridges, buildings, and structures of all kinds.

The Company was established 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 Expressway

MPTDC, then FPIDC, 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) 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, Subic Bay Metropolitan Authority (SBMA), Bases Conversion and Development Authority (BCDA), and several other governmental and non-governmental entities. The Manila-Subic Expressways shall connect the Subic and Clark Special Economic Zones to Metro Manila.

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 46.0% 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.

On June 5, 2010, Segment 8.1, a portion of Phase II, which is a 2.7 km-road designed to link Mindanao Avenue to the NLE, had officially commenced tollway operation. The remaining portion of Phase II is under pre-construction works while Phase III of the Project has 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 99.8% 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 40.0% equity interest in EIH and investment financing, which under Hong Kong Generally Accepted Accounting Principles require FPC to account for the results and assets and liabilities of EIH and its subsidiaries as FPC group companies in Hong Kong. On such basis, FPC is referred as the ultimate parent company of EIH 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, 2010 and 2009 were authorized for issuance by the Company's Board of Directors (BOD) on February 22, 2011, as reviewed and recommended for approval by the Audit Committee.

2. The Supplemental Toll Operation Agreement

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 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 (the "Concession") commencing upon the date the STOA comes into effect until December 31, 2030 or 30 years after the issuance of the TOP for the last completed phase, whichever is earlier, unless further extended pursuant to the STOA.

The PNCC franchise expired on May 1, 2007. Pursuant to the STOA, the TRB issued the necessary TOC for the 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 ₱8.2 million and ₱6.0 million in 2010 and 2009, 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.

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.

In 2010, the Company signed the Amended STOA for the NLE which includes the integration of Segment 10 into Phase II; amendment of adjustment formula for the Authorized Toll Rate by removing the foreign exchange factor; adoption of an integrated operations period for Phase 1 and Segment 8.1; extension of the Concession Period until December 31, 2037; modification of alignments of Phase II Segments 9 and 10; adoption of two open system tolling zones; and the extension of the effectivity of the toll rate formula.

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 and available-for-sale (AFS) financial assets 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 were effective beginning January 1, 2010.

- PFRS 2, "Share-based Payment" (Amendment) – Group Cash-settled Share-based Payment Transactions, effective for annual periods beginning on or after January 1, 2010

- PFRS 3 (Revised), "Business Combinations", effective for annual periods beginning on or after July 1, 2009

- Philippine Accounting Standard (PAS 27) (Amended), "Consolidated and Separate Financial Statements", effective for annual periods beginning on or after July 1, 2009

- PAS 39, "Financial Instruments: Recognition and Measurement" (Amendment) – Eligible Hedged Items, effective for annual periods beginning on or after July 1, 2009

- Philippine Interpretation IFRIC 17, "Distributions of Non-Cash Assets to Owners", effective for annual periods beginning on or after July 1, 2009

- 2009 Improvements to PFRSs, effective for annual periods beginning on or after July 1, 2009, except for the amendments to PFRS 5, "Non-current Assets Held for Sale and Discontinued Operations," PFRS 8, "Operating Segments," PAS 1, "Presentation of Financial Statements," PAS 7, "Statement of Cash Flows," PAS 17, "Leases," PAS 36 , "Impairment of Assets," and PAS 39, "Financial Instruments: Recognition and Measurement," which are effective for annual periods beginning on or after January 1, 2010.

The adoption of the standards or interpretations is described below:

- PFRS 2 — The amendment to PFRS 2 clarified the scope and the accounting for group cash-settled share-based payment transactions. The adoption of this amendment did not have any impact on the financial position or performance of the Company, as the Company has not entered into any such share-based payment transactions.

- PFRS 3 (Revised) and PAS 27 (Amended) — PFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring after becoming effective. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and accounts for business combinations achieved in stages. The change in accounting policy was applied prospectively and these changes will impact the amount of goodwill recognized and the reported results for business combinations occurring after January 1, 2010, in the period that an acquisition occurs and future reported results.

  PAS 27 (Amended) 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 amendments to PAS 27 were applied retrospectively subject to certain exceptions and had no impact on the financial position or performance of the Company.

- PAS 39 — The amendment 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. This also covers the designation of inflation as a hedged risk or portion in particular situations. The adoption of these amendments did not have any impact on the financial position or performance of the Company, as the Company has not entered into such hedges.

- Philippine Interpretation IFRIC 17 — This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. This interpretation did not have any impact on the financial position or the performance of the Company, as the Company has not made non-cash distributions to shareholders in the past.

Improvements to PFRSs. Improvements to PFRSs, an omnibus of amendments to standards, deal primarily with a view of removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. 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 7 — The amendment states that only expenditure that results in recognizing an asset can be classified as a cash flow from investing activities.

- 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.

Other amendments resulting from Improvements to PFRSs to the following standards and interpretations did not have any impact on the accounting policies, financial position or performance of the Company:

- PFRS 2, “Share-based Payment”
- PFRS 5, “Non-current Assets Held for Sale and Discontinued Operations”
- PFRS 8, “Operating Segments”
- PAS 1, “Presentation of Financial Statements”
- PAS 17, “Leases”
- PAS 36, “Impairment of Assets”
- PAS 38, “Intangible Assets”
- Philippine Interpretation IFRIC 9, “Reassessment of Embedded Derivatives”
- Philippine Interpretation IFRIC 16, “Hedges of a Net Investment in a Foreign Operation”

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 fair value through profit or loss (FVPL), loans and receivables, held-to-maturity (HTM) investments, 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 reserve” account.

As of December 31, 2010 and 2009, 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 by taking into account any discount or premium on acquisition and includes fees that are integral part of the effective interest rate and transaction costs. Gains and losses are recognized in the 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 financial assets. Other long-term investments that are intended to be HTM, such as bonds, are subsequently measured at amortized cost. This cost is computed as the amount initially recognized minus principal repayments, plus or minus the cumulative amortization, using the effective interest 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.

As of December 31, 2009, 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. In 2010, the Company sold a significant portion of its investments before maturity, thus, the Company reclassified the remaining and newly acquired investments as AFS financial assets.

d. AFS Financial Assets

AFS financial assets are non-derivative financial assets that are designated as AFS or are not classified in any of the three preceding categories.

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

After initial recognition, AFS financial assets are measured at fair value with unrealized gains or losses being recognized as other comprehensive income in "Other comprehensive income reserve" account, net of related deferred tax until the investment is derecognized or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the statement of income. Interest earned on the investments is reported as interest income using the effective interest method. These financial assets are classified as noncurrent assets unless the intention is to dispose such assets within 12 months from the balance sheet date.

As of December 31, 2010, the Company's AFS financial assets consist of investments in fixed rate retail treasury bonds of the ROP previously classified as HTM investments (see Note 22).

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 financial instruments 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 financial instruments 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 financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

a. Assets carried at amortized cost

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

   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 the received cash flows 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 reserve" 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 Noncurrent 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 current replacement cost.

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

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

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

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

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, "Revenue," for the services it performs.

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

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

Service Concession Assets. The service concession assets 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 amortized by then, will be handed over to the Grantor with no consideration.

Impairment of Nonfinancial 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. In determining fair

value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other available fair value indicators. Impairment losses 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 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 reserve comprise items of income and expense, including recycling to profit and loss, 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, regardless of when the payment is being made. Revenue is measured at fair value of the consideration received or receivable, taking into account contractually defined terms of payment, 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 and costs are recognized by reference to the stage of completion of the contract activity at the balance sheet date. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately.

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

Other income is recognized when there is an incidental economic benefit, other than the usual business operations, that will flow to the Company through an increase in asset or reduction in liability that can be measured reliably.

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 resulting carrying amount of the asset exceeds its recoverable amount, an impairment loss is recorded.

Borrowing costs include interest charges, amortization of debt issue costs and other costs incurred in connection with the borrowing of funds, including exchange differences arising from foreign currency borrowings used to finance the 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 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 authority. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the balance sheet date.

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

Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences. 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, 2010:

- PFRS 7, "Financial Instruments: Disclosures" (Amendments) – Disclosures – Transfers of Financial Assets (effective for annual periods beginning on or after July 1, 2011) — The amendments will allow users of financial statements to improve their understanding of transfer transactions of financial assets (for example, securitizations), including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period. The Company does not expect these amendments to have significant impact on its financial position or performance.

- PFRS 9, "Financial Instruments: Classification and Measurement" (effective for annual periods beginning on or after January 1, 2013) — PFRS 9, as issued in 2010, reflects the first phase of the work on the replacement of PAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in PAS 39. In subsequent phases, hedge accounting and derecognition will be addressed. The completion of this project is expected in the middle of 2011. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Company's financial assets. The Company will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

- PAS 12, "Income Taxes" (Amendment) – Deferred Tax: Recovery of Underlying Assets (effective for annual periods beginning on or after January 1, 2012) — The amendment provides a practical solution to the problem of assessing whether recovery of an asset will be through use or sale. It introduces a presumption that recovery of the carrying amount of an asset will, normally, be through sale. The Company does not expect this amendment to have significant impact on its financial position or performance.

- PAS 24 (Amended), "Related Party Disclosures" (effective for annual periods beginning on or after January 1, 2011) — This amendment clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government-related entities. The Company does not expect any impact on its financial position or performance.

- PAS 32, "Financial Instruments: Presentation" (Amendment) – Classification of Rights Issues (effective for annual periods beginning on or after February 1, 2010) — This amended the definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, or to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The Company expects that this interpretation will have no impact on the financial statements.

- Philippine Interpretation IFRIC 14 (Amendment), "Prepayments of a Minimum Funding Requirement" (effective for annual periods beginning on or after January 1, 2011) — The amendment provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset. The Company expects that this interpretation will have no impact on the financial statements.

- 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 19, "Extinguishing Financial Liabilities with Equity Instruments" (effective for annual periods beginning on or after July 1, 2010) — This interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognized in the statement of income. The Company expects that this interpretation will have no impact on its financial statements.

Improvements to PFRSs 2010. Improvements to PFRSs is an omnibus of amendments to PFRSs. The amendments have not been adopted as they become effective for annual periods on or after either July 1, 2010 or January 1, 2011.

- PFRS 3, "Business Combinations"
- PFRS 7, "Financial Instruments: Disclosures"
- PAS 1, "Presentation of Financial Statements"
- PAS 27, "Consolidated and Separate Financial Statements"
- Philippine Interpretation IFRIC 13, "Customer Loyalty Programmes"

The Company, however, expects no impact from the adoption of the amendments on its financial position or performance.

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 (the "Concession"). 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 for the Manila-North Expressway 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 as management believes that straight-line best reflect the pattern of consumption of the concession assets. The carrying value of service concession assets amounted to ₱15,822.5 million and ₱15,128.6 million as of December 31, 2010 and 2009, respectively (see Note 9).

The Company also recognizes construction revenues and costs in accordance with PAS 11. It measures contract revenue at the fair value of the consideration received or receivable. Given that MNTC 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 ₱1,253.1 million and ₱319.8 million for the years ended December 31, 2010 and 2009, 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 toll 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 ₱396.7 million and ₱415.8 million as of December 31, 2010 and 2009, respectively (see Note 11).

Operating Lease Commitments - Company as Lessee. In 2010 and 2009, the Company entered into lease agreements covering an office space and 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 ₱0.4 million in 2010 and ₱0.1 million 2009 (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.

In 2009, 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 as of December 31, 2009 (see Note 22). However, in 2010, the Company sold a significant portion of its investment in bonds before their maturity; thus, the Company reclassified the remaining and newly acquired investment in bonds as AFS financial assets and remeasured the investments to fair value (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 analysis and option pricing models), they are periodically reviewed by qualified personnel who are independent of the trading function. All models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practicable, models use only observable data as valuation inputs. However, other inputs such as credit risk (whether that of the Company or the counterparties), forward prices, volatilities and correlations, require management to develop estimates or make adjustments to observable data of comparable instruments. The amount of changes in fair values would differ if the Company uses different valuation assumptions or other acceptable methodologies. Any change in fair value of these financial instruments (including derivatives) would affect either the 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 2010 and 2009.

Receivables (net of allowance for doubtful accounts of ₱5.3 million as of December 31, 2010 and 2009) amounted to ₱55.5 million and ₱27.8 million as of December 31, 2010 and 2009, respectively (see Note 7).

Due from related parties amounted to ₱39.9 million and ₱0.4 million as of December 31, 2010 and 2009, respectively (see Note 12).

Impairment of AFS Financial Assets. The Company treats AFS financial assets as impaired where there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires judgment. The Company treats "significant" generally as 20% or more and "prolonged" as greater than twelve months for quoted equity securities.

The carrying value of AFS financial assets amounted to ₱424.1 million as of December 31, 2010 (see Note 22). No impairment loss was recognized in 2010 as there are no indicators of impairment.

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

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 22, 2011. Thus, the Company continues to account for input tax from 2003 and prior years' purchases as part of service concession assets, subject to amortization.

On December 21, 2009, the 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 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 2005 and prior years, management deemed it more prudent to implement the following in 2009 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 "Input value-added tax" account were reclassified to the service concession assets to be amortized over the remaining service concession term (see Note 9). Annual amortization expense is ₱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).

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

On May 21, 2010, the BIR issued a Notice of Informal Conference (Notice) assessing MNTC for deficiency VAT plus penalties amounting to ₱1.0 billion for taxable year 2009. Included also in the Notice is the increase of the deficiency VAT for taxable year 2008 from ₱470.9 million to ₱1,209.2 million (including penalties).

As further discussed in Note 24, to fully implement the imposition of the VAT on toll fees, the BIR issued RMC No. 63-2010 dated July 19, 2010.

Meanwhile, on August 4, 2010, the Company, in accordance with RMC No. 63-2010, applied for abatement of alleged VAT liabilities for taxable years 2006 and 2007. The BIR has yet to resolve the application for abatement of the Company.

On August 13, 2010, the Supreme Court (SC) issued a temporary restraining order (TRO) on the imposition of the 12% VAT on tollway operators. The TRO has not been lifted as of February 22, 2011.

In view of the foregoing, the Company has continued not to recognize any VAT liability while providing 100% allowance for the accumulated Input VAT.

Input VAT is nil as of December 31, 2010 and 2009, net of allowance for potential losses on input VAT amounting to ₱1,438.7 million and ₱1,104.6 million as of December 31, 2010 and 2009, respectively. Provision for potential losses on Input VAT amounted to ₱334.1 million in 2010 and ₱1,104.6 million in 2009 (see Note 16).

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.

There was no write-down of inventories recognized in the financial statements for the years ended December 31, 2010 and 2009.

Inventories amounted to ₱37.9 million and ₱36.7 million as of December 31, 2010 and 2009, 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.

There were no changes in the estimated useful lives of property and equipment and service concession assets in 2010 and 2009.

The carrying value of property and equipment amounted to ₱105.1 million and ₱107.0 million as of December 31, 2010 and 2009, respectively (see Note 8). The carrying value of service concession assets amounted to ₱15,822.5 million and ₱15,128.6 million as of December 31, 2010 and 2009, respectively (see Note 9).

Impairment of Nonfinancial 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 for the years ended December 31, 2010 and 2009 as there are no indicators of impairment.

The carrying value of property and equipment amounted to ₱105.1 million and ₱107.0 million as of December 31, 2010 and 2009, respectively (see Note 8). The carrying value of service concession assets amounted to ₱15,822.5 million and ₱15,128.6 million as of December 31, 2010 and 2009, 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 ₱322.2 million and ₱285.1 million as of December 31, 2010 and 2009, respectively (see Note 19).

Retirement Costs. The cost of defined benefit retirement plan and the present value of the defined benefit obligation are determined using actuarial valuations. The actuarial valuations involve making various assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, underlying assumptions and its long-term nature of the plan, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each balance sheet date. Further details about the assumptions used are given in Note 17.

Accrued retirement costs amounted to ₱0.9 million and ₱9.6 million as of December 31, 2010 and 2009, respectively. Cumulative unrecognized actuarial loss amounted to ₱20.0 million in 2010, while cumulative unrecognized actuarial gain amounted to ₱9.7 million in 2009 (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 ₱434.0 million and ₱534.3 million as of December 31, 2010 and 2009, 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, 2010 and 2009 (see Note 24).

6. Cash and Cash Equivalents

This account consists of:

	2010	2009
Cash on hand and in banks (see Note 13)	**₱290,552,581**	₱252,437,463
Short-term deposits	**856,302,770**	623,356,656
	₱1,146,855,351	₱875,794,119

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:

	2010	2009
Trade receivables	**₱30,588,804**	₱16,601,005
Advances to officers and employees	**5,104,112**	5,267,843
Interest and other receivables	**25,085,726**	11,155,520
	60,778,642	33,024,368
Less allowance for doubtful accounts	**5,259,500**	5,259,500
	₱55,519,142	₱27,764,868

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 three months. As of December 31, 2010, this includes a receivable from Philippine Long Distance Telephone Company (PLDT) amounting to ₱11.1 million (inclusive of VAT) in relation to the Fiber Cable Overlay Project along Segment 8.1 (see Note 12).

There were no movements in the allowance for individually assessed impaired trade receivables as of December 31, 2010 and 2009.

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, 2009	₱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
Additions	2,735,472	10,157,457	15,784,225	28,677,154
Disposals	(4,162,963)	(10,973,050)	(5,827,972)	(20,963,985)
At December 31, 2010	**₱69,824,103**	**₱51,445,415**	**₱127,783,532**	**₱249,053,050**

	Building and Leasehold Improvements	Transportation Equipment	Office Equipment and Others	Total
Accumulated depreciation:				
At January 1, 2009	₱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
Depreciation (see Note 16)	4,096,101	7,609,844	15,645,184	27,351,129
Disposals	(4,162,962)	(7,980,657)	(5,597,419)	(17,741,038)
At December 31, 2010	**₱14,011,759**	**₱28,908,133**	**₱101,010,222**	**₱143,930,114**
Net book value:				
At December 31, 2010	**₱55,812,344**	**₱22,537,282**	**₱26,773,310**	**₱105,122,936**
At December 31, 2009	57,172,974	22,982,062	26,864,822	107,019,858
At January 1, 2009	61,338,722	18,047,773	27,933,054	107,319,549

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

Building	23 years
Leasehold improvements	5 years
Transportation equipment	5 years
Office equipment and others	3–5 years

The gross carrying amount of fully depreciated property and equipment that are still in use amounted to ₱95.1 million and ₱64.3 million as of December 31, 2010 and 2009, respectively.

9. Service Concession Assets

The movements in this account follow:

	2010	2009
Cost:		
Balance at beginning of year	**₱18,233,558,568**	₱17,306,569,266
Additions	**1,253,064,437**	319,819,424
Reclassification (see Note 5)	–	607,169,878
Balance at end of year	**₱19,486,623,005**	₱18,233,558,568
Accumulated amortization:		
Balance at beginning of year	**₱3,104,923,117**	₱2,599,870,928
Amortization (see Note 15)	**559,180,335**	505,052,189
Balance at end of year	**₱3,664,103,452**	₱3,104,923,117
Carrying value:		
At December 31	**₱15,822,519,553**	₱15,128,635,451
At January 1		14,706,698,338

Additions during 2010 and 2009 pertain mainly to the construction of Segment 8.1 and pre-construction costs for Segments 9 and 10 of Phase II of the Project. Borrowing costs capitalized amounted to ₱35.2 million and ₱31.7 million for the years ended December 31, 2010 and 2009, respectively. The interest rate used to determine the amount of borrowing costs eligible for capitalization was 9.6% in 2010 and 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 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 "Input value-added tax" account, were reclassified to service concession assets to be amortized over the remaining service concession term. As of December 31, 2010 and 2009, the capitalized Input VAT amounted to ₱585.5 million (net of accumulated amortization of ₱21.7 million and ₱607.2 million, respectively). The amortization of the capitalized input VAT amounted to ₱21.7 million for the year ended December 31, 2010.

In October 2008, the 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, 2010, the remaining service concession term is 27 years.

10. Accounts Payable and Other Current Liabilities

This account consists of:

	2010	2009
Trade payables	**₱41,448,059**	₱84,544,095
Accrued expenses	**87,943,032**	86,994,206
Withholding taxes payable	**53,894,348**	32,623,858
Retention payable	**25,829,577**	16,388,306
Interest payable	**23,879,072**	36,162,474
Others	**21,211,155**	4,650,521
	₱254,205,243	₱261,363,460

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

Accrued expenses consist of:

	2010	2009
Salaries and employee benefits	**₱36,929,816**	₱45,110,298
Professional fees	**10,646,455**	7,219,443
Construction costs	**9,766,486**	10,574,249
Outside services	**7,750,310**	6,064,735
Advertising and marketing expenses	**5,685,396**	961,062
Repairs and maintenance	**5,026,011**	8,247,455
Toll collection and medical services	**1,810,828**	1,835,193
Communication, light and water	**780,902**	140,000
Others	**9,546,828**	6,841,771
	₱87,943,032	₱86,994,206

Interest payable is settled semi-annually.

11. **Provisions**

The movements in this account follow:

	Heavy Maintenance	Others	Total
At January 1, 2009	₱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
Additions	61,501,345	29,051,247	90,552,592
Payments	(80,636,409)	(110,194,752)	(190,831,161)
At December 31, 2010	**₱396,692,240**	**₱37,341,421**	**₱434,033,661**
At December 31, 2010:			
Current	**₱88,349,568**	**₱37,341,421**	**₱125,690,989**
Noncurrent	**308,342,672**	**–**	**308,342,672**
	₱396,692,240	**₱37,341,421**	**₱434,033,661**
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

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 paid 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 significant 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)	Outside Services (see Note 16)	Repairs and Maintenance (see Note 15)	Income from Utility Facilities (see Note 18)
MPTC	**2010**	**₱63,529,412**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**
	2009	–	–	–	–	–	–	–
PNCC	**2010**	**–**	**–**	**–**	**348,358,026**	**–**	**–**	**–**
	2009	–	–	–	291,871,747	–	–	–
TMC	**2010**	**–**	**1,339,566,588**	**–**	**–**	**–**	**–**	**–**
	2009	–	1,338,521,926	4,101,846	–	–	–	–
Egis Projects Philippines, Inc. (EPPI)	**2010**	**–**	**–**	**–**	**–**	**–**	**24,279,987**	**–**
	2009	–	–	–	–	–	27,785,428	–
Easytrip Services Corporation (ESC)	**2010**	**–**	**–**	**–**	**–**	**24,072,250**	**–**	**–**
	2009	–	–	–	–	19,152,000	–	–
PLDT	**2010**	**–**	**–**	**–**	**–**	**–**	**–**	**63,422,748**
	2009	–	–	–	–	–	–	–
Total	**2010**	**₱63,529,412**	**₱1,339,566,588**	**₱–**	**₱348,358,026**	**₱24,072,250**	**₱24,279,987**	**₱63,422,748**
	2009	–	1,338,521,926	4,101,846	291,871,747	19,152,000	27,785,428	–

Transactions with MPTC

- In 2009, MPTC claimed reimbursements from the Company for certain corporate expenses. Pending the negotiation, the Company has made a provision of ₱74.3 million for these claims in 2009 as discussed in Note 11. The Company paid these claims in 2010. In 2010, the Company was billed by MPTC for ₱71.2 million (inclusive of VAT) for managerial and financial advisory services. The Company and MPTC are in the process of formalizing the management agreement as of February 22, 2011.

Transactions with Stockholders

- 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 continues to receive payments.

  Prior to the letter of TRB, the Company has been remitting payments directly to PNCC on a semi-annual basis. On December 2, 2010, the Company received a letter from the TRB dated November 30, 2010, citing a decision of the SC dated October 19, 2010 directing MNTC to remit forthwith to the National Treasury, through TRB, all payments representing PNCC's percentage share of the toll revenues and dividends, if any, arising out of PNCC's participation in the NLE Project. In the said decision, the SC ruled, among others, that after the expiration of the franchise of PNCC, its share/participation in the JVAs and STOAs, inclusive of its percentage share in toll fees collected by joint venture companies currently operating the expressways, shall accrue to the Philippine Government.

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

On December 29, 2010, the Company through a letter sent by its legal counsel, informed PNCC and TRB of the consignation made to the RTC of Caloocan. Moreover, in a resolution dated January 18, 2011, the SC directed the Company to remit to the National Treasury PNCC's percentage share of toll revenues and dividends arising out of PNCC's participation in the NLE Project.

- The Company granted and availed noninterest-bearing advances to/from MPTDC in 2010 and 2009.

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 (TAA). 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 May 7, 2010, MNTC and TMC agreed to reduce, effective on February 11, 2010, the minimum fixed annual amount from ₱637.1 million to ₱605.4 million for the NLE and from ₱40.6 million to ₱38.8 million for the Segment 7 in view of the expiration of the TAA on February 10, 2010 and due to the reduction of six Point of Sales facilities being operated and maintained by TMC.

  Moreover, on May 27, 2010, pursuant to the O&M and the TRB's approval to integrate the operations period of Phase I and Segment 8.1, portion of Phase II of the Project, and to extend the concession term, MNTC and TMC agreed to extend the O&M to cover Segment 8.1 from June 1, 2010 until December 31, 2037. Consequently, MNTC agrees to pay TMC an annual base fee for the operations and maintenance of Segment 8.1 in the amount of ₱33.6 million effective in June 2010. The fee for Segment 8.1 is also subject to escalation on a quarterly basis plus a variable component.

- 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. The installation of the FOE has been substantially completed as of June 5, 2010. There were no unapplied mobilization advances as of December 31, 2010. Unapplied mobilization advances, included as part of "Advances to contractors and consultants" account as of December 31, 2009, amounted to ₱18.8 million.

- 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 (₱26.4 million) in 2010 and €0.4 million (₱26.8 million) in 2009.

  On December 3, 2010, the Company and EPPI entered into a Supplemental Agreement for NLE and Phase II Segment 8.1 FOE second line maintenance services to extend the term for another three years starting in September 2010. The contract amount up to September 2013 is €1.2 million.

- 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 (₱11.2 million). The installation and site acceptance test was completed in August 2010.

- The Company purchased spare parts inventories from EPPI. Total purchases amounted to ₱15.7 million in 2010 and ₱15.0 million in 2009.

- 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 which ended on April 30, 2010. On November 24, 2010, the Company and ESC signed the Supplemental Agreement to the Service Agreement extending the services of ESC for another eight years effective on May 1, 2010 with a five year extension. In accordance with the Supplemental Agreement, MNTC will pay ESC an annual fixed fee of ₱14.0 million for Class 1 vehicles and annual fixed fee of ₱5.0 million for Class 2 and 3 vehicles, which are to be maintained and escalated every year for labor index and consumer price index (CPI). MNTC shall also pay for variable fees of ₱0.75 and ₱2.5 per transaction for Class 1 vehicles depending on the number of transactions achieved during the year compared with prior year; and ₱3 and ₱4 per transactions for Class 2 and 3, respectively.

- On March 17, 2010, MNTC and PLDT entered into an agreement with respect to the commercial aspect of the Utility Facilities Contract for the Fiber Optic Overlay along Phase I of the NLE which is currently being negotiated between MNTC and PLDT. Pending the final contract, in March 2010, PLDT already paid ₱52.2 million for one-time exclusivity fee and one-time access fee and ₱1.3 million for annual fee for the year ended December 31, 2010.

  In December 2010, MNTC also billed PLDT ₱9.8 million for one-time access fee and one-time exclusivity fee and ₱0.1 million for the annual fee for the Fiber Optic Overlay along Phase II Segment 8.1 (see Note 7). Total income amounting to ₱63.4 million for the year ended December 31, 2010 is recorded under “Other income” account in the statement of income. There is no such transaction in 2009.

  As of February 22, 2011, MNTC and PLDT are in the process of finalizing the Utility Facilities Contract.

Transactions with Other Related Parties

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

	2010	2009
Short-term employee benefits	**₱75,078,737**	₱92,160,308
Retirement costs (see Note 16)	**6,237,236**	3,285,893
	₱81,315,973	₱95,446,201

- 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 ₱0.8 million and ₱0.7 million in 2010 and 2009, respectively, recorded under “General and administrative expenses” account in the statement of income.

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

		Advances to Contractors and Consultants	Due from Related Parties	Due to Related Parties
MPTC	**2010**	**₱–**	**₱–**	**₱9,942,347**
	2009	–	–	61,671,067
MPTDC	**2010**	**–**	**28,775,238**	**–**
	2009	–	–	42,500
PNCC	**2010**	**–**	**–**	**32,366,834**
	2009	–	–	29,667,682
TMC	**2010**	**–**	**1,534,021**	**257,198,618**
	2009	–	359,200	281,734,401
ESC	**2010**	**–**	**9,590,962**	**16,502,167**
	2009	–	72,457	13,425,500
EPPI	**2010**	**–**	**–**	**15,282,073**
	2009	27,070,929	–	1,326,745
	2010	**₱–**	**₱39,900,221**	**₱331,292,039**
	2009	₱27,070,929	431,657	387,867,895

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 advances to contractors and consultants will be applied to future services rendered. As of December 31, 2010 and 2009, 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:

	2010	2009
Peso-denominated Notes and Loans:		
Fixed Rate Corporate Notes (FXCN)	**₱5,335,000,000**	₱5,390,000,000
Philippine National Bank Loan (PNB)	**2,100,000,000**	577,000,000
Asian Development Bank (ADB) Direct Loan (ADB Direct)	**435,454,674**	489,240,000
	7,870,454,674	6,456,240,000
U.S. Dollar-denominated Loans:		
USD Bank Facility (USD)	**616,006,080**	835,711,762
ADB Complementary Finance Scheme (ADB-CFS)	**384,300,597**	521,505,000

(Forward)

	2010	2009
Credit Agricole Corporate and Investment Bank (formerly Calyon S.A. Corporate and Investment Bank) (COFACE)	**₱314,945,870**	₱389,824,988
Export Finance and Insurance Corporation (EFIC)	**308,096,178**	391,128,750
	1,623,348,725	2,138,170,500
	9,493,803,399	8,594,410,500
Less unamortized debt issue costs	**139,470,924**	226,995,394
	9,354,332,475	8,367,415,106
Less current portion of long-term debt - net of unamortized debt issue costs of ₱42,424,751 in 2010 and ₱59,339,731 in 2009	**2,176,378,648**	579,529,269
	₱7,177,953,827	₱7,787,885,837

As of December 31, 2010 and 2009, the unamortized debt issue costs incurred in connection with the availment of long-term debt amounting to ₱139.5 million and ₱227.0 million, respectively, were deducted against the long-term debt. The movements in debt issue costs are as follows:

	2010	2009
Balance at beginning of year	**₱226,995,394**	₱319,769,394
Amortization during the year* (see Note 18)	**(206,237,216)**	(90,736,022)
Debt issue costs incurred during the year	**122,343,370**	6,472,318
Foreign exchange adjustments	**(3,630,624)**	(8,510,296)
Balance at end of year	**₱139,470,924**	₱226,995,394

* *Includes amortization of debt issue costs capitalized to service concession assets amounting to ₱667,833 and ₱492,203 in 2010 and 2009, respectively.*

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 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 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. The interest rate is fixed at 9.75% per annum.

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 2009 statement of income (see Note 18).

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. On November 22, 2010, the interest rate of the PNB Loan was amended from fixed to floating rate based on a six-month Philippine Dealing System Treasury Fixing (PDSTF) plus a spread of 0.50%. As of December 31, 2010, loan drawdowns on the facility amounted to ₱2.1 billion and ₱577.0 million as of December 31, 2010 and 2009, respectively.

On April 27, 2009, the Company entered into a credit agreement with Security Bank for a standby letter of credit (SBLC) 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. The substantial completion of Segment 8.1 triggered the reduction of the face value of the SBLC to ₱3.8 million as of December 31, 2010. There were no availments on the letter of credit as of December 31, 2010 and 2009.

Interest rates on direct U.S. dollar loan facilities, consisting of fixed rates, range from 8.03% to 8.25% in 2010 and 2009. Interest rates on syndicated U.S. dollar loan facilities, consisting of fixed and floating rates, range from 3.39% to 6.13% in 2010 and 4.0% to 6.13% in 2009.

Interest rate on PNB Loan is fixed at 9.61% in 2009. This was converted to floating interest rate upon re-pricing on December 15, 2010. Interest rates range from 2.16% to 9.61% in 2010.

Interest rate on ADB Direct is floating based on Philippine Interbank Reference Rate (PHIREF) plus a margin of 4.66% in 2010 and 2009.

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.

On December 7, 2010, the Company issued an irrevocable prepayment notice indicating the Company's firm intention to prepay in full all outstanding amounts under the U.S. dollar loan facilities on January 14, 2011. The costs and fees incurred for the prepayment of the U.S. dollar loan facilities and ADB Direct amounting to ₱103.9 million was included as part of the amortized cost of the loans.

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

As of December 31, 2010 and 2009, the Company is in compliance with the required financial ratios and other loan covenants.

14. **Equity**

Details of capital stock of the Company as of December 31, 2010 and 2009 are as follows:

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

Shareholders' Agreement
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 ARSA 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 13, 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. (GFHI) executed a Share Purchase Agreement and a Deed of Absolute Sale whereby GFHI 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 on the same date, an Accession to Shareholders Agreement was executed between GFHI, MPTDC, PNCC, Egis, LIL and MNTC, whereby GFHI agrees to accede to the ARSA and assume all the obligation of LIL as a shareholder under the ARSA.

On October 4, 2010, GFHI and Banco De Oro Unibank, Inc. (BDO) executed a Share Purchase Agreement and a Deed of Absolute Sale, whereby BDO purchased from GFHI 2,197,800 common shares of the Company, equivalent to 12.4% of the Company's outstanding capital stock in consideration of ₱1,405.1 million.

Likewise on the same date, an Accession to Shareholders Agreement was executed among BDO, GFHI, MPTDC, PNCC, Egis, and MNTC, whereby BDO agrees to accede to the ARSA and assume all the obligation of GFHI as a shareholder under the ARSA. The share certificates have not yet been officially transferred to BDO pending the receipt of BIR's Tax Clearance Certificate which is a pre-requisite to the transfer of share certificates.

Cash Dividends
The Company's BOD declared the following cash dividends in 2010 and 2009:

Declaration Date	Record Date	Payment Date	Cash Dividend per Share	Total
July 2, 2010	July 2, 2010	July 15, 2010	₱31	₱550,560,000
December 17, 2010	December 17, 2010	December 29, 2010	62	1,101,120,000
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

Unpaid dividends amounted to ₱181.7 million and ₱143.6 million as of December 31, 2010 and 2009, respectively.

15. **Cost of Services**

This account consists of:

	2010	2009
Toll operation and maintenance costs	**₱2,023,834,358**	₱2,116,737,193
Amortization of service concession assets (see Note 9)	**559,180,335**	505,052,189
Cost of inventories	**568,060**	1,076,254
	₱2,583,582,753	₱2,622,865,636

Toll operation and maintenance costs consist of:

	2010	2009
Operator's fee (see Note 12)	**₱1,339,566,588**	₱1,338,521,926
PNCC fee (see Note 12)	**348,358,026**	291,871,747
Repairs and maintenance (see Note 12)	**202,939,397**	218,726,899
Provision for heavy maintenance (see Note 11)	**54,911,915**	204,538,073
Insurance	**43,511,555**	42,172,410
Toll collection and medical services	**21,331,200**	20,906,138
Others	**13,215,677**	–
	₱2,023,834,358	₱2,116,737,193

16. **General and Administrative Expenses**

This account consists of:

	2010	2009
Provision for potential losses on input VAT (see Note 5)	**₱334,069,949**	₱1,104,632,613
Salaries and employee benefits (see Notes 12 and 17)	**156,805,995**	176,637,850
Management fees (see Note 12)	**63,529,412**	–
Taxes and licenses	**62,980,927**	55,520,527

(Forward)

	2010	2009
Advertising and marketing expenses	**₱50,267,216**	₱43,634,901
Professional fees	**39,753,685**	31,724,971
Outside services (see Note 12)	**38,161,293**	41,705,886
Provisions (see Note 11)	**29,051,247**	84,650,815
Depreciation (see Note 8)	**27,351,129**	32,816,535
Representation and travel	**26,683,326**	24,508,659
Communication, light and water	**9,031,653**	6,893,700
Collection charges	**6,716,137**	6,583,365
Office supplies	**4,033,197**	5,800,473
Training and development costs	**2,296,450**	1,443,511
Directors' fees	**810,000**	680,600
Rentals	**376,339**	65,977
Write-off of input VAT (see Note 5)	**–**	94,271,475
Miscellaneous	**11,622,709**	11,693,671
	₱863,540,664	₱1,723,265,529

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.

	2010	2009
Components of provision for retirement benefits:		
Current service cost	**₱5,680,909**	₱1,003,805
Interest cost	**3,790,217**	5,567,280
Expected return on plan assets	**(1,778,791)**	(962,743)
Net actuarial gain recognized for the year	**(308,775)**	(1,066,060)
	₱7,383,560	₱4,542,282
Accrued retirement costs:		
Balance at beginning of year	**₱9,612,991**	₱14,481,842
Contribution during the year	**(16,122,937)**	(9,411,133)
Provision for retirement benefits for the year	**7,383,560**	4,542,282
	₱873,614	₱9,612,991

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

	2010	2009
Balance at beginning of year	**₱35,455,729**	₱14,822,369
Current service cost	**5,680,909**	1,003,805
Interest cost	**3,790,217**	5,567,280
Benefits paid	**(8,526,589)**	(4,450,710)
Actuarial loss	**31,681,869**	18,512,985
Balance at end of year	**₱68,082,135**	₱35,455,729

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

	2010	2009
Balance at beginning of year	**₱35,575,826**	₱24,068,574
Expected return on plan assets	**1,778,791**	962,743
Contribution during the year	**16,122,937**	9,411,133
Benefits paid	**(8,526,589)**	(4,450,710)
Actuarial gain	**2,302,692**	5,584,086
Balance at end of year	**₱47,253,657**	₱35,575,826

The actual return on plan assets amounted to ₱4.1 million in 2010 and ₱6.5 million in 2009.

The Company expects to contribute ₱26.2 million to its defined benefit retirement plan in 2011.

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

	2010	2009
Investments in:		
Government securities	**71.39%**	39.78%
Perpetual preferred shares	**13.26%**	16.85%
Loans/notes receivable	**7.84%**	22.36%
Cash in banks	**7.13%**	20.10%
Receivables and others	**0.38%**	0.91%
	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 sheets is as follows:

	2010	2009
PVRO	**₱68,082,135**	₱35,455,729
FVPA	**(47,253,657)**	(35,575,826)
Underfunded (Overfunded) PVRO	**20,828,478**	(120,097)
Cumulative unrecognized actuarial gain (loss) at end of year	**(19,954,864)**	9,733,088
Accrued retirement costs	**₱873,614**	₱9,612,991

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

	2010	2009
Cumulative unrecognized actuarial gain at beginning of year	**₱9,733,088**	₱23,728,047
Actuarial loss for the year due to PVRO	**(31,681,869)**	(18,512,985)
Actuarial gain for the year due to FVPA	**2,302,692**	5,584,086
	(19,646,089)	10,799,148
Less actuarial gain recognized for the year	**308,775**	1,066,060
Cumulative unrecognized actuarial gain (loss) at end of year	**(₱19,954,864)**	₱9,733,088

Cumulative unrecognized actuarial gain at beginning of year	**₱9,733,088**	₱23,728,047
Limit of corridor	**(3,557,583)**	(2,406,857)
Actuarial gain outside corridor to be amortized	**6,175,505**	21,321,190
Divided by expected average remaining service years of eligible employees	**20**	20
Amortization of actuarial gain to be recognized for the year	**₱308,775**	₱1,066,060

The principal assumptions used to determine accrued retirement costs are as follows:

	2010	2009
Discount rate	**8.10%**	10.69%
Rate of increase in compensation	**12.00%**	10.00%
Expected rate of return	**4.00%**	5.00%

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:

	2010	2009	2008	2007	2006
PVRO	**₱68,082,135**	₱35,455,729	₱14,822,369	₱30,912,241	₱20,848,842
FVPA	**(47,253,657)**	(35,575,826)	(24,068,574)	(4,258,003)	(4,000,000)
Underfunded (Overfunded) PVRO	**20,828,478**	(120,097)	(9,246,205)	26,654,238	16,848,842
Experience adjustments on retirement obligation - loss (gain)	**6,097,300**	700,476	(470,161)	247,229	–
Experience adjustments on plan assets - loss (gain)	**(2,302,692)**	(5,584,086)	(1,121,903)	1,997	–

18. Interest Income, Interest Expense and Other Finance Costs, Other Income and Other Expense

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

Interest Income

	2010	2009
Cash and cash equivalents	**₱63,108,977**	₱51,506,314
Investment in bonds	**15,290,641**	13,004,000
AFS financial assets	**9,625,315**	–
Investment in treasury bills	**799,731**	1,961,429
Loans to affiliates (see Note 12)	**–**	4,101,846
Others	**1,281,618**	79,422
	₱90,106,282	₱70,653,011

Interest Expense and Other Finance Costs

	2010	2009
Interest expense on:		
Bank loans (see Note 13)	**₱884,813,687**	₱826,413,272
Provision for heavy maintenance (see Note 11)	**–**	16,469,483
Finance costs:		
Amortization of debt issue costs (see Note 13)	**205,569,383**	90,243,819
Lenders' fees	**8,502,273**	13,585,347
Bank charges	**868,530**	740,688
	₱1,099,753,873	₱947,452,609

Other Income

	2010	2009
Income from utility facilities (see Note 12)	**₱63,747,748**	₱–
Income from toll service facilities	**23,839,704**	10,119,691
Others	**4,255,058**	5,934,500
	₱91,842,510	₱16,054,191

Other Expense

	2010	2009
Mark-to-market loss on derivatives (see Note 22)	**₱227,517,489**	₱19,219,364
Loss on extinguishment of debt (see Note 13)	**–**	9,895,721
	₱227,517,489	₱29,115,085

As a result of the notice of prepayment issued by MNTC in December 2010 to Mizuho, as hedging counterparty, indicating the Company's intent to cancel the cross currency and interest rate swap transactions on January 14, 2011, the Company discontinued applying hedge accounting as the hedge no longer meets prospective effectiveness. This resulted to recycling of cumulative mark-to-market loss on derivatives accumulated in equity to statement of income amounting to ₱158.3 million in 2010 (see Note 22).

19. Income Taxes

The provision for current income tax for the years ended December 31, 2010 and 2009 is as follows:

	2010	2009
Regular corporate income tax (RCIT)	**₱26,084,636**	₱3,481,755
Final tax on interest income from banks	**17,671,956**	13,179,550
	₱43,756,592	₱16,661,305

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:

	2010	2009
Deferred tax assets:		
Provision for heavy maintenance	**₱106,786,301**	₱111,911,691
Fair value changes on derivatives charged to statement of income	**61,660,504**	–
Movement in present value of loans	**31,153,367**	–
Unearned toll revenue	**9,295,769**	–
Unamortized past service cost	**2,810,537**	2,810,537
Allowance for doubtful accounts	**1,577,850**	–
Fair value changes on derivatives deferred in equity	**1,042,778**	4,426,370
Accrued retirement costs	**262,084**	2,883,898
Unamortized pre-operating expenses	**–**	13,769,057
	214,589,190	135,801,553
Deferred tax liabilities:		
Difference in amortization method of service concession assets	**(406,391,156)**	(318,308,780)
Unrealized foreign exchange gains - net	**(99,258,691)**	(68,954,362)
Unamortized realized foreign exchange losses capitalized	**(24,045,831)**	(24,045,831)
Fair value changes on AFS financial assets	**(7,047,900)**	–
Fair value changes on derivatives charged to statement of income	**–**	(9,573,145)
	(536,743,578)	(420,882,118)
Deferred tax liabilities - net	**(₱322,154,388)**	(₱285,080,565)

Net deferred tax assets and liabilities on certain temporary differences amounting to ₱66.5 million as of December 31, 2009 have not been recognized because these are expected to reverse during the ITH period. As discussed in Note 23, the Company's ITH expired on December 31, 2010.

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 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:

	2010	2009
Income before income tax	**₱1,378,024,316**	₱264,382,365
Income tax computed at statutory tax rate of 30%	**413,407,295**	79,314,710
Add (deduct) the tax effects of:		
Net income under ITH (see Note 23)	**(486,251,785)**	(461,326,568)
Provision for potential losses on input VAT	**100,220,985**	331,389,784
Nondeductible expenses and others	**35,857,351**	39,265,154
Interest income already subjected to final tax	**(26,647,399)**	(19,941,523)
Write-off of input VAT	**–**	28,281,442
Change in unrecognized deferred tax	**(4,133,929)**	(2,111,550)
Final tax on interest income	**17,671,956**	13,179,550
Amortization of capitalized input VAT	**6,505,392**	–
Write-off of deferred tax asset	**13,769,057**	–
Provision for income tax	**₱70,398,923**	₱8,050,999

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

	2010	2009
Balance at beginning of year	**(₱285,080,565)**	(₱282,859,424)
Benefit from (provision for) income tax during the year recognized in the statement of income	**(26,642,331)**	8,610,306
Income tax effect during the year recognized in the statement of comprehensive income	**(10,431,492)**	(10,831,447)
Balance at end of year	**(₱322,154,388)**	(₱285,080,565)

20. **Significant Contracts and Commitments**

Subic-Clark-Tarlac Expressway (SCTEx) Concession Agreement

In 2010, the Company participated in a public bidding conducted by the BCDA for the right to manage, operate and maintain the SCTEx on an "as is, where is" basis for a period until October 30, 2043. The Company's technical proposal met the requirements of BCDA but its financial proposal failed to meet the minimum financial requirements. However, the Company was given the opportunity to improve its financial proposal and, as a result, BCDA formally awarded the Company on June 9, 2010, the right to enter into a concession agreement with BCDA for the management, operation and maintenance of SCTEx. On November 8, 2010, the parties entered into a Concession Agreement under which BCDA granted the Company the usufructuary rights to and the right to manage, maintain and operate the 94-km SCTEx for a period of 25 years, extendable by another 8 years. In granting the concession, BCDA has also assigned to the Company its rights under the TOA it signed with the TRB including the right to collect toll fees.

The assignment is subject to certain conditions including, among others, the necessary Philippine Government approvals and the execution of a STOA.

In consideration of the assignment, MNTC will pay BCDA a semi-annual concession fee amounting to the peso equivalent of BCDA's yen-denominated debt service obligation to Japan International Cooperation Agency (JICA) for the period from effective date until year 2016. From 2017 to 2043, MNTC will pay, as concession fee, 20% of the gross revenues from the SCTEx.

In order to secure its obligation to pay concession fees to BCDA and perform committed maintenance, enhancement, and improvement works amounting to about ₱20.3 billion, as well as emergency works estimated at approximately ₱231.0 million, the Company has to issue a standby letter of credit (LC) effective for one year which shall be automatically renewed every year until the end of the concession. The LC amount shall be in the approximate amount of ₱1.3 billion per annum from 2011 to 2016.

As of February 22, 2011, the parties are still in the process of obtaining certain consents and formalizing the STOA and therefore the SCTEx had not been assigned and turned over to the Company.

Others

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. The construction of Segment 8.1 has already been substantially completed as of June 5, 2010.

Unapplied mobilization advances to LCAL, included as part of "Advances to contractors and consultants" account in the balance sheet, amounted to ₱219.8 million as of December 31, 2009. There were no unapplied mobilization advances as of December 31, 2010.

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, AFS financial assets, 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. In line with its capital restructuring program, the Company terminated all its swap transactions on January 14, 2011 simultaneous with the prepayment of the underlying loans.

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, 2010**	December 31, 2009	Floating and Fixed Interest Rate	Fixed Interest Rate
ADB-CFS A	**$7,437,500**	$9,562,500	LIBOR + 2.75% Margin	8.30%
ADB-CFS B	**1,312,500**	1,687,500	LIBOR + 2.75% Margin	8.88%
USD Bank Facility	**14,021,875**	18,028,125	LIBOR + 3.00% Margin	9.10%
COFACE	**6,540,625**	8,409,375	6.13%	7.60%
EFIC	**6,562,500**	8,437,500	8.03%	11.50%
	$35,875,000	$46,125,000		
ADB Direct	**₱380,520,000**	₱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% of total outstanding debt, as of December 31, 2010 and 2009.

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, 2010				
	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%	**$7,021**	**$–**	**$–**	**$–**	**$7,021**
COFACE	6.13%	**7,177**	**–**	**–**	**–**	**7,177**
		$14,198	**–**	**–**	**–**	**14,198**
Floating-rate loans:						
ADB-CFS	LIBOR + 2.75% Margin	**8,756**	**–**	**–**	**–**	**8,756**
USD Bank	LIBOR + 3.00% Margin	**14,037**	**–**	**–**	**–**	**14,037**
		22,793	**–**	**–**	**–**	**22,793**
		$36,991	**$–**	**$–**	**$–**	**$36,991**

		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

Peso-Denominated Notes and Loans

		December 31, 2010				
	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**	**₱5,280,000**	**₱–**	**₱–**	**₱5,335,000**
Floating-rate loan:						
ADB-Direct	PHIREF + 4.66% Margin	**435,455**	**–**	**–**	**–**	**435,455**
PNB Loan	9.61%*	**105,000**	**210,000**	**1,785,000**	**–**	**2,100,000**
		540,455	**210,000**	**1,785,000**		**2,535,455**
		₱595,455	**₱5,490,000**	**₱1,785,000**	**₱–**	**₱7,870,455**

**Converted to floating interest rate based on PHIREF plus a margin of 0.5% upon re-pricing on December 15, 2010.*

		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

Interest on financial instruments classified as floating rate is repriced semi-annually and quarterly 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 noninterest-bearing and are therefore not subject to interest rate risk.

The interest rate exposure of the Company has changed with the prepayment of the foreign currency loans on January 14, 2011. With 100.0% of its financial instruments in local currency loans, around 48.0% of which is in floating interest rate, exposure is now limited to changes in six-month PHIREF and three-month PHIREF.

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 statements of income:

	Increase/Decrease in Basis Points	Effect on Income Before Income Tax
2010	**+50**	**(₱306,636)**
	-50	**306,636**
2009	+50	₱–
	-50	–

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
2010	**+50**	**₱16,745,077**	**₱–**
	-50	**(16,982,452)**	**–**
2009	+50	(₱598,355)	₱20,838,807
	-50	611,763	(21,188,994)

Foreign Currency Risk
The Company's foreign currency risk arises mainly from its exposure to U.S. dollar-denominated long-term loans which constitute 17% and 25% of its outstanding loans as of December 31, 2010 and 2009, respectively. These long-term loans were translated using US$1 = ₱43.89 and US$1 = ₱46.36 as of December 31, 2010 and 2009, 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, 2010 and 2009 are as follows:

	2010		2009	
	U.S. Dollar	**Euro**	U.S. Dollar	Euro
Assets:				
Cash and cash equivalents	**$863,344**	**€–**	$105,950	€–
Derivative assets	**66,116**		688,379	–
	929,460	–	794,329	–
Liabilities:				
Accounts payable and other current liabilities	**(163,731)**	**(147,134)**	(116,568)	(18,906)
Derivative liabilities	**(4,828,813)**	–	(959,258)	–
Long-term debt	**(37,517,996)**	–	(46,125,000)	–
	(42,510,540)	**(147,134)**	(47,200,826)	(18,906)
Net foreign currency-denominated liabilities	**($41,581,080)**	**(€147,134)**	($46,406,497)	(€18,906)

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
2010		
U.S. dollar	**+5%**	**(₱91,239,285)**
Euro	**+5%**	**(426,935)**
U.S. dollar	**–5%**	**91,239,285**
Euro	**–5%**	**426,935**

	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

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
2010	**+5%**	**₱98,064,611**	**₱–**
	-5%	**(98,064,611)**	**–**
2009	+5%	21,372,355	94,061,195
	-5%	(21,372,355)	(94,061,195)

On January 14, 2011, the Company's exposure to foreign exchange currency risk in relation to its long-term loans was eliminated with the full prepayment of its outstanding U.S. Dollar and ADB Direct loans.

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 2010 and 2009, 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 2010 and 2009 amounted only to ₱0.2 million and ₱0.1 million, respectively.

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.

On December 13, 2010, the Company issued a notice of prepayment to Mizuho as hedging counterparty indicating the Company's intent to cancel the cross currency and interest rate swap transactions on January 14, 2011, the same date as the prepayment of the loans. The cancellation proceeded in accordance with the notice.

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 and AFS financial assets, 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 AFS financial assets and investment in ROP treasury bonds and bills covering at least 81% and 85% of the Company's financial assets, except cash and cash equivalents, as of December 31, 2010 and 2009, respectively. 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, 2010	December 31, 2009
Cash and cash equivalents[a]	**₱1,121,004,369**	₱842,714,187
Receivables	**55,519,142**	27,764,868
Due from related parties	**39,900,221**	431,657
Investment in treasury bills[b]	**–**	4,000,000
Derivative assets	**2,901,514**	39,211,764
Investment in bonds	**–**	400,600,000
AFS financial assets	**424,093,000**	–
Other noncurrent financial assets[c]	**3,958,026**	1,829,343
Total credit risk exposure	**₱1,647,376,272**	₱1,316,551,819

[a] *Excludes cash on hand.*
[b] *Included in "Other current assets" account in the balance sheet.*
[c] *Included in "Other noncurrent 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 earlier. These are mainly collectible 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. In addition, TMC's performance under the O&M is guaranteed by its parent companies, MPTDC and Egis Road Operation. 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 Company also generates non-toll revenues in the form of service fees collected from business locators, generally called Toll Service Facilities (TSF), along the stretch of the NLE. The collection of such fees is provided in the STOA and is based on the principle that these TSF derive benefit from offering goods and services to NLE motorists. The fees range from one-time access fees to recurring fees calculated as a percentage of sales. The arrangements are backed by a service facility contract between the Company and the various locators. The credit risk on these arrangements is minimal because the fees are collected on a monthly basis mostly from well-established companies such as Petron, Shell and Chevron. The exposure is also limited given that the recurring amounts are not significant and there are adequate safeguards in the contract against payment delinquency. Nevertheless, the Company closely monitors receivables from the TSF.

As of December 31, 2010 and 2009, the aging analysis of past due but not impaired trade receivables is as follows:

	Neither Past Due nor Impaired	Past Due but not Impaired						Total
		<31 Days	31–60 Days	61–90 Days	91–180 Days	181 days–1 year	Total	
2010	**₱20,002,371**	**₱–**	**₱–**	**₱1,196,053**	**₱1,702,008**	**₱2,428,872**	**₱5,326,933**	**₱25,329,304**
2009	11,341,505	–	–	–	–	–	–	11,341,505

The table below shows the credit quality of the Company's financial assets that are neither past due nor impaired based on their historical experience with the corresponding third parties:

	December 31, 2010			
	Neither Past Due nor Impaired - High-grade	**Past Due but not Impaired**	**Impaired**	**Total**
Cash and cash equivalents[a]	**₱1,121,004,369**	**₱–**	**₱–**	**₱1,121,004,369**
Receivables:				
Trade receivables	**20,002,371**	**5,326,933**	**5,259,500**	**30,588,804**
Advances to officers and employees	**5,104,112**	**–**		**5,104,112**
Interest and other receivables	**25,085,726**	**–**		**25,085,726**
Due from related parties	**39,900,221**	**–**		**39,900,221**
Derivative assets	**2,901,514**	**–**		**2,901,514**
AFS financial assets	**424,093,000**	**–**		**424,093,000**
Other noncurrent financial assets[c]	**3,958,026**	**–**		**3,958,026**
	₱1,642,049,339	**₱5,326,933**	**₱5,259,500**	**₱1,652,635,772**

	December 31, 2009		
	Neither Past Due nor Impaired - High-grade	Impaired	Total
Cash and cash equivalents[a]	₱842,714,187	₱–	₱842,714,187
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[b]	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[c]	1,829,343	–	1,829,343
	₱1,316,551,819	₱5,259,500	₱1,321,811,319

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

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 as of December 31, 2010 and 2009 and cash and cash equivalents amounting to ₱1,146.9 million and ₱875.8 million as of December 31, 2010 and 2009, 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, 2010 and 2009 based on undiscounted payments:

	December 31, 2010				
	Within the Year	**2–3 Years**	**4–5 Years**	**More than 5 Years**	**Total**
Accounts payable and other current liabilities [a]	**₱192,210,790**	**₱–**	**₱–**	**₱–**	**₱192,210,790**
Due to related parties	**331,292,039**	**–**	**–**	**–**	**331,292,039**
Dividends payable	**181,684,800**	**–**	**–**	**–**	**181,684,800**
Long-term debt [b]	**2,651,334,355**	**6,532,295,666**	**2,022,426,834**	**–**	**11,206,056,855**
	3,356,521,984	**6,532,295,666**	**2,022,426,834**	**–**	**11,911,244,484**
Derivative liabilities:					
Derivative contracts – receipts	**(1,453,761,476)**	**–**	**–**	**–**	**(1,453,761,476)**
Derivative contracts – payments	**1,665,673,931**	**–**	**–**	**–**	**1,665,673,931**
	211,912,455	**–**	**–**	**–**	**211,912,455**
	₱3,568,434,439	**₱6,532,295,666**	**₱2,022,426,834**	**₱–**	**₱12,123,156,939**

	December 31, 2009				
	Within the Year	2–3 Years	4–5 Years	More than 5 Years	Total
Accounts payable and other current liabilities[a]	₱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[b]	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

[a] *Excluding statutory liabilities.*
[b] *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 59:41 and 55:45 as of December 31, 2010 and 2009, respectively, indicating that the Company has the capacity to incur additional long-term debt to build up its capital.

	2010	2009
Long-term debt	**₱9,354,332,475**	₱8,367,415,106
Total equity	**6,566,748,768**	6,886,463,228
Total capital	**₱15,921,081,243**	₱15,253,878,334
Debt to equity ratio	**59:41**	55:45

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

In 2010, the Company launched its capital restructuring plan which aims to maximize the Company's flexibility to pursue expansion opportunities within and outside the NLE concession and, at the same time, maintain a steady flow of dividends to shareholders. In order to do this, the Company had to take certain steps to complete its transition away from its project-finance origins. First of these steps is the prepayment of the U.S. Dollar and ADB Direct loans. While the prepayment entailed costs related to the cancellation of several hedge transactions, the low interest environment and strong liquidity of the local market ensured the Company that the loan prepayment and swap termination can be done efficiently. To effect the prepayment, the Company obtained a short-term Peso bridge loan facility that will eventually be refinanced with a long-term Peso loan facility. Post prepayment, the weighted average interest rate on the Company's long term loan facilities went down from 9.6% per annum to 6.6% per annum.

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, 2010 and 2009 is as follows:

	2010		2009	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Financial Assets				
FVPL -				
Derivative assets	**₱2,901,514**	**₱2,901,514**	₱31,910,484	₱31,910,484
Designated as accounting hedges -				
Derivative assets	–	–	7,301,280	7,301,280
	2,901,514	**2,901,514**	39,211,764	39,211,764
Loans and receivables:				
Cash and cash equivalents	**1,146,855,351**	**1,146,855,351**	875,794,119	875,794,119
Receivables:				
Trade	**25,329,304**	**25,329,304**	11,341,505	11,341,505
Advances to officers and employees	**5,104,112**	**5,104,112**	5,267,843	5,267,843
Interest and other receivables	**25,085,726**	**25,085,726**	11,155,520	11,155,520
Due from related parties	**39,900,221**	**39,900,221**	431,657	431,657
Other noncurrent financial assets	**3,958,026**	**3,867,359**	1,829,343	1,755,243
	1,246,232,740	**1,246,142,073**	905,819,987	905,745,887
HTM investments:				
Investment in bonds	–	–	400,600,000	405,947,568
Investment in treasury bills [(a)]	–	–	4,000,000	3,929,192
	–	–	404,600,000	409,876,760
AFS financial assets -				
Investment in bonds	**424,093,000**	**424,093,000**	–	–
	₱1,673,227,254	**₱1,673,136,587**	₱1,349,631,751	₱1,354,834,411
Financial Liabilities				
FVPL -				
Derivative liabilities	**₱211,912,455**	**₱211,912,455**	₱–	₱–
Designated as accounting hedges -				
Derivative liabilities	–	–	44,467,365	44,467,365
	211,912,455	**211,912,455**	44,467,365	44,467,365
Other financial liabilities:				
Accounts payable and other current liabilities [(b)]	**192,210,790**	**192,210,790**	223,911,836	223,911,836
Due to related parties	**331,292,039**	**331,292,039**	387,867,895	387,867,895
Dividends payable	**181,684,800**	**181,684,800**	143,589,600	143,589,600
Long-term debt	**9,354,332,475**	**9,845,181,364**	8,367,415,106	9,011,571,304
	10,059,520,104	**10,550,368,993**	9,122,784,437	9,766,940,635
	₱10,271,432,559	**₱10,762,281,448**	₱9,167,251,802	₱9,811,408,000

[(a)] *Included in "Other current assets" account in the balance sheet.*
[(b)] *Excluding statutory liabilities.*

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 values of the cross currency swap transactions as of December 31, 2010 were based on the actual settlement amount in January 2011 provided by the counterparty. As of December 31, 2009, the fair values of the 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.

Cash and Cash Equivalents, Receivables, Due from Related Parties,
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.

Investment in Bonds and Treasury Bills
As of December 31, 2009, 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	Amount
July 31, 2011	₱50,000,000
September 24, 2012	300,000,000
July 31, 2013	50,600,000
	₱400,600,000

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.

AFS financial assets
As of December 31, 2010, the Company's AFS financial assets consist of investments in fixed rate retail treasury bonds of the ROP. As discussed in Note 5, in 2009, investments in bonds are classified as HTM investments. As of December 31, 2009, HTM investments amounted to ₱400.6 million and stated at amortized costs. In August 2010, MNTC sold ₱300.0 million of its investment in retail treasury bonds and invested the same for new retail treasury bonds with higher yield at 5.9% from 5.3%. The maturity date of the new retail treasury bonds is August 2015.

The quoted ROP treasury bonds which bear fixed interest rates ranging from 5.9% to 9.0% is payable quarterly and with the following maturities:

Maturity Date	**Fair value**	Principal Amount
July 31, 2011	**₱51,812,500**	₱50,000,000
July 31, 2013	**56,545,500**	50,600,000
August 9, 2015	**315,735,000**	300,000,000
	₱424,093,000	₱400,600,000

The fair value is based on the quoted market price of the financial instruments as of December 31, 2010. Gain on fair value change in AFS financial assets for the period ended December 31, 2010 amounted to ₱16.4 million (net of tax of ₱7.0 million).

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 1.8% to 2.5% in 2010 and 4.4% to 4.8% in 2009.

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 0.3% to 6.1% and 0.6% to 6.1% in 2010 and 2009, respectively.

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, 2010 and 2009, the Company held the following financial instruments measured at fair value:

	December 31, 2010	Level 1	Level 2	Level 3
Financial Assets				
Financial Assets at FVPL –				
Derivative assets at FVPL	**₱2,901,514**	₱–	₱2,901,514	₱–
AFS financial assets –				
Investment in bonds	**424,093,000**	424,093,000	–	–
	₱426,994,514	₱424,093,000	₱2,901,514	₱–
Financial Liabilities				
Financial liabilities at FVPL –				
Derivative liabilities at FVPL	**₱211,912,455**	₱–	₱211,912,455	₱–

	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 at FVPL –				
Derivative liabilities accounted as accounting hedges	₱44,467,365	₱–	₱44,467,365	₱–

Derivative Instruments
In 2009 and 2008, the Company entered into cross currency 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, 2010**	December 31, 2009
ADB-CFS A	LIBOR + 2.75% Margin	**$7,443,443**	$9,562,500
ADB-CFS B	LIBOR + 2.75% Margin	**1,313,549**	1,687,500
USD Bank Facility	LIBOR + 3.00% Margin	**14,036,825**	18,028,125
COFACE	6.13%	**7,176,618**	8,409,375
EFIC	8.03%	**7,020,535**	8,437,500
		$36,990,970	$46,125,000
ADB Direct	PHIREF + 4.66% Margin	**₱435,454,674**	₱489,240,000

The following table provides the related fair values of the Company's derivative financial instruments outstanding as of December 31, 2010 and 2009:

	December 31, 2010		December 31, 2009	
	Asset	**Liability**	Asset	Liability
Cross currency swaps to hedge:				
ADB-CFS A	**₱–**	**(₱41,093,665)**	₱–	(₱3,493,233)
ADB-CFS B	**–**	**(9,030,529)**	–	(2,968,377)
COFACE	**2,901,514**	**–**	27,223,321	–
EFIC	**–**	**(34,976,345)**	–	(7,109,228)
USD Bank Facility	**–**	**(96,611,916)**	–	(30,896,527)
	2,901,514	**(181,712,455)**	27,223,321	(44,467,365)
Interest rate swaps to hedge:				
ADB Direct	**–**	**(17,200,000)**	7,301,280	–
COFACE	**–**	**(13,000,000)**	4,687,163	–
	–	**(30,200,000)**	11,988,443	–
	₱2,901,514	**(₱211,912,455)**	₱39,211,764	(₱44,467,365)

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-month PHIREF plus 2.75% per annum on the outstanding peso balance. As of December 31, 2010 and 2009, the outstanding notional amount of the swap amounted to US$6.5 million and US$8.4 million, respectively.

On February 26, 2009, MNTC entered into an interest rate swap where MNTC receives semi-annual interest based on six-month 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 amounted to ₱294.3 million and ₱378.4 million as of December 31, 2010 and 2009, respectively.

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, 2010 and 2009, the fair value changes of the interest rate swap and cross currency swap (both hedging the COFACE loan) amounted to ₱46.7 million loss and ₱19.2 million loss, respectively (see Note 18).

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-month 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, 2010 and 2009, the outstanding notional amount of the swap amounted to US$7.4 million and US$9.6 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-month 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, 2010 and 2009, the outstanding notional amount of the swap amounted to US$1.3 million and US$1.7 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 month starting December 15, 2008 until June 16, 2014 plus semi-annual interest at a rate of six-month 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, 2010 and 2009, the outstanding notional amount of the swap amounted to US$14.0 million and US$18.0 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 US$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 U.S 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, 2010 and 2009, the outstanding notional amount of the swap amounted to US$6.6 million and US$8.4 million, respectively.

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-month 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. As of December 31, 2010 and 2009 the outstanding notional amount of the interest rate swap amounted to ₱380.5 million and ₱489.2 million, respectively.

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 reserve" account for the years ended December 31, 2010 and 2009 are as follows:

	2010	2009
Balance at beginning of year	**(₱14,754,566)**	(₱50,859,390)
Changes in fair value of cash flow hedges	**(230,782,209)**	(92,696,079)
	(245,536,775)	(143,555,469)
Transferred to statement of income:		
Mark-to-market loss	**158,275,562**	–
Interest expense*	**91,808,514**	84,082,556
Foreign exchange loss (gain)	**(8,023,228)**	44,718,347
	242,060,848	128,800,903
	(3,475,927)	(14,754,566)
Tax effects of items taken directly to equity	**1,042,778**	4,426,370
Balance at end of year	**(₱2,433,149)**	(₱10,328,196)

**Included in "Interest expense on bank loans" under "Interest expense and other finance costs" account (see Note 18).*

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, 2010 and 2009 follow:

	2010	2009
Balance at beginning of year	**(₱5,255,601)**	₱23,180,957
Net changes in fair values of derivatives:		
Designated as accounting hedges	**(230,782,209)**	(92,696,079)
Not designated as accounting hedges* (see Note 18)	**(83,852,199)**	(19,219,364)
	(319,890,009)	(88,734,486)
Fair value of settled instruments:		
Designated as accounting hedges	**106,196,804**	82,408,182
Not designated as accounting hedges	**4,682,264**	1,070,703
Balance at end of year	**(₱209,010,941)**	(₱5,255,601)

**In 2010, these are recorded in the statement of income as follows: (a) ₱69,241,926 is included in mark-to-market loss under "Other expense" account; (b) ₱23,459,767 is included in "Interest expense" account; and (c) ₱8,849,494 foreign exchange gain is included in "Foreign exchange gain (loss) - net" account. In 2009, this is included in mark-to-market loss under "Other expense" account.*

No ineffectiveness was recognized in the statement of income.

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 ₱486.3 million and ₱461.3 million in 2010 and 2009, 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 and Others**

Value-Added Tax
When RA 9337 took effect, the BIR issued RR No. 16-2005 on September 1, 2005, which, for the first time, expressly referred to toll road operations as being subject to VAT. This notwithstanding VAT Ruling 078-99 issued 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, 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. 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 22, 2011.

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.

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

To fully implement the imposition of the VAT on toll fees, the BIR issued RMC No. 63-2010 dated July 19, 2010 which states that:

1. The VAT shall be imposed on the gross receipts of tollway operators from all types of vehicles starting August 16, 2010.

2. Tollway operators who have been assessed for VAT liabilities on receipts from toll fees for prior periods can apply for Abatement of the tax liability, surcharge and interest under Section 204 of the National Internal Revenue Code (NIRC) and RR No. 13-2001.

3. The accumulated input VAT account of the toll companies shall have a zero balance on August 16, 2010. Any input VAT that will thenceforth be reflected in the books of accounts and other accounting records of tollway operators will have to be for purchases of goods and services delivered/rendered and invoiced/receipted on or after August 16, 2010.

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

Meanwhile, on August 4, 2010, MNTC, in accordance with RMC No. 63-2010, applied for abatement of alleged VAT liabilities for taxable years 2006 and 2007. The BIR has yet to resolve the application for abatement of MNTC.

On August 13, 2010, the SC issued a TRO on the imposition of the 12% VAT on tollway operators. The TRO has not been lifted as of February 22, 2011.

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 and TRO issued by the SC on the imposition of VAT, 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 the 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.

- On May 21, 2010, the BIR issued a Notice of Informal Conference assessing MNTC for deficiency VAT plus penalties amounting to ₱1,026.6 million for taxable year 2009. Included also in the Notice is the increase of the deficiency VAT for taxable year 2008 from ₱470.9 million to ₱1,209.2 million (including penalties).

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

In 2008, the Company has received a Final Demand from the municipality of Guiguinto, Bulacan to pay the local business tax (LBT) assessments for the years 2005 to 2007 amounting to ₱67.4 million, inclusive of surcharges and penalties. The Company, through its legal counsel, protested and subsequently, in 2009 filed a complaint for annulment of assessment (with prayer for the issuance of TRO and/or writ of preliminary injunction) with the RTC of Malolos, Bulacan claiming, among others, that its predecessor, PNCC has never been subjected to LBT 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 RTC 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 TRO 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 March 2010, the Company received a final demand letter from the municipality of Guiguinto, Bulacan to pay LBT, permits, and regulatory fees. On March 12, 2010, the RTC of Malolos, Bulacan denied the Company's application for the issuance of a TRO and/or writ of preliminary injunction. On March 15, 2010, the Company filed with the Court of Appeals a petition for certiorari (with application for the issuance of a TRO and/or a writ of preliminary injunction) to annul or set aside the orders of the RTC of Malolos, Bulacan denying the Company's application for the issuance of a writ of preliminary injunction. The Court of Appeals, in its decision dated July 23, 2010, dismissed the petition. On August 17, 2010, the Company filed a motion for reconsideration. On December 3, 2010, the Court of Appeals denied the motion for reconsideration.

Meanwhile, on July 22, 2010, the Company filed another complaint with the RTC of Malolos, Bulacan seeking to annul and set aside the illegal assessment for unpaid LBT in the total amount of ₱34.0 million, inclusive of surcharges and penalties, for the years 2008 and 2009 issued against the Company by the Municipal Treasurer of Guiguinto, Province of Bulacan in February 2010.

The cases are pending before the RTC of Malolos, Bulacan.

As of February 22, 2011, the Company is in the process of discussing the issue on the prospective allocation of the LBT with the Bureau of Local Government Finance.

Real Property Tax

In 2008, the Company 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 SC 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 the Company a 30-year franchise for the construction, maintenance and operation of the NLE in violation of the PD 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.

The SC, in a decision dated October 19, 2010, among others, declared as valid and constitutional the STOA. Petitioner Francisco filed a motion for reconsideration dated November 5, 2010 while some of the petitioners in Marcos, et al. v. TRB et al. filed a partial motion for reconsideration dated October 8, 2010. On January 24, 2011, the Company filed a consolidated comment to the aforementioned motions for reconsideration.

Management believes that the petitioners' claims are without merit and is vigorously contesting the case. As of February 22, 2011, the consolidated cases are 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.

25. Supplementary Information Required Under Revenue Regulations 15-2010

Value-added tax

The NIRC of 1997 provides for the imposition of VAT on sales of goods and services. However, as of February 22, 2011, the issue on VAT surrounding the tollway industry has not yet been resolved. Accordingly, the Company does not subject its toll revenues to output VAT while its importations and purchases from other VAT-registered individuals or corporations are subject to input VAT.

The Company, however, subjected its non-toll revenues to output VAT.

Details of the Company's net sales/receipts, output VAT and input VAT accounts are as follows:

a. Net Sales/Receipts and Output VAT declared in the Company's VAT returns filed for the year:

	2010	
	Net Sales/Receipts	Output VAT
Taxable sales –		
Sales of services	₱89,274,496	₱10,712,940

The Company's sales of services are based on actual collections received, hence, may not be the same as amounts reflected in the statement of income.

The amount of output tax is deferred upon recording of sales services subject to VAT. These deferred output taxes are reclassed to output tax upon collection.

Sales from services represent collections received from such sales which for the year amounted to ₱89.3 million, the related revenues of which are recorded in ”Other income” account in the statement of income.

b. Input VAT declared in the Company’s VAT returns filed for 2010 are as follows:

Balance at beginning of year	₱1,738,764,430
Current year’s domestic purchases/payments for:	
Goods other than for resale or manufacture	359,250,813
Capital goods not subject to amortization	4,594,566
Capital goods subject to amortization	820,071
Services rendered by non-resident foreign corporations	188,732
Balance at end of year	₱2,103,618,612

Details of the Company’s importations for the year ended December 31, 2010 are shown below:

Total landed cost of imports	₱33,947,429
Customs duties	2,805,118
Others	421,357
Balance at end of year	₱37,173,904

Taxes, Duties and License Fees

This includes all other taxes, local and national, including real estate taxes, licenses and permit fees lodged under the “Taxes and licenses” account in the statements of income for the year ended December 31, 2010:

License and permits fees	₱42,045,161
Filing fees	8,936,338
Real property taxes	6,254,337
Fringe benefits taxes	3,588,392
Others	2,156,699
	₱62,980,927

Withholding Taxes

Details of withholding tax payments for the year ended December 31, 2010 are as follows:

Expanded withholding taxes	₱116,124,638
Withholding taxes on compensation and benefits	45,986,093
Final withholding taxes	41,703,441
Withholding taxes on VAT	188,732
	₱204,002,904

Tax Assessments and Litigations

Value-added Tax Assessments. The Company has received the following VAT assessments from the BIR:

- 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.

- On May 21, 2010, the BIR issued a Notice of Informal Conference assessing MNTC for deficiency VAT plus penalties amounting to ₱1,026.6 million for taxable year 2009. Included also in the Notice is the increase of the deficiency VAT for taxable year 2008 from ₱470.9 million to ₱1,209.2 million (including penalties).

On August 4, 2010, MNTC, in accordance with RMC No. 63-2010, applied for abatement of alleged VAT liabilities for taxable years 2006 and 2007. The BIR has yet to resolve the application for abatement of MNTC.

Local Business Tax Assessments. In 2008, the Company has received a Final Demand from the municipality of Guiguinto, Bulacan to pay the LBT assessments for the years 2005 to 2007 amounting to ₱67.4 million, inclusive of surcharges and penalties. The Company, through its legal counsel, protested and subsequently, in 2009 filed a complaint for annulment of assessment with the RTC of Malolos, Bulacan.

Meanwhile, on July 22, 2010, the Company filed another complaint with the RTC of Malolos, Bulacan seeking to annul and set aside the illegal assessment for unpaid LBT in the total amount of ₱34.0 million, inclusive of surcharges and penalties, for the years 2008 and 2009 issued against the Company by the Municipal Treasurer of Guiguinto, Province of Bulacan in February 2010.

The cases are pending before the RTC of Malolos, Bulacan.

Real Property Tax Assessment. In 2008, the Company 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 LBAA of Bulacan and prayed for the cancellation of the assessment. The case is still pending before the LBAA of Bulacan.