Tollways Management Corporation

Financial Statements
December 31, 2010 and 2009

and

Independent Auditors' Report

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INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Tollways Management Corporation

Report on the Financial Statements

We have audited the accompanying financial statements of Tollways Management Corporation, which comprise the balance sheets as at December 31, 2010 and 2009, and the 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.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Tollways Management Corporation as at 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 on taxes, duties and license fees in Note 20 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. Such information is the responsibility of the management of Tollways Management Corporation. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

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June 1, 2009, Valid until May 31, 2012
PTR No. 2641553, January 3, 2011, Makati City

February 22, 2011

TOLLWAYS MANAGEMENT CORPORATION
BALANCE SHEETS

	December 31	
	2010	2009
ASSETS		
Current Assets		
Cash and cash equivalents (Note 4)	**₱326,688,741**	₱286,391,023
Receivables (Notes 5 and 11)	**377,691,929**	398,829,944
Other current assets (Note 6)	**40,825,652**	33,359,999
Total Current Assets	**745,206,322**	718,580,966
Noncurrent Assets		
Property and equipment (Note 7)	**66,998,156**	82,797,084
Deferred income tax assets (Note 16)	**63,779,894**	64,000,543
Retirement plan asset (Note 15)	**3,292,300**	3,067,700
Deposits and other noncurrent assets (Note 8)	**18,572,106**	15,361,603
Total Noncurrent Assets	**152,642,456**	165,226,930
	₱897,848,778	₱883,807,896
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and other current liabilities (Notes 9 and 11)	**₱476,117,064**	₱508,413,464
Provisions (Note 10)	**83,549,805**	73,806,132
Income tax payable	**30,096,520**	28,564,484
Retention payable	**2,190,840**	1,755,832
Total Current Liabilities	**591,954,229**	612,539,912
Equity		
Capital stock - ₱100 par value		
Authorized, issued and outstanding - 380,000 shares	**₱38,000,000**	₱38,000,000
Retained earnings (Note 12)	**267,894,549**	233,267,984
Total Equity	**305,894,549**	271,267,984
	₱897,848,778	₱883,807,896

See accompanying Notes to Financial Statements.

TOLLWAYS MANAGEMENT CORPORATION
STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2010	2009
SERVICE REVENUES (Note 11)	**₱1,665,545,228**	₱1,698,047,982
COST OF SERVICES (Notes 11 and 13)	**926,762,367**	940,609,195
GROSS PROFIT	**738,782,861**	757,438,787
GENERAL AND ADMINISTRATIVE EXPENSES (Notes 11 and 14)	**245,693,938**	263,976,822
OTHER INCOME (EXPENSES)		
Provision for claims and losses (Note 10)	**47,356,727**	10,904,429
Interest and other income (Notes 4 and 7)	**(43,794,995)**	(21,562,854)
Reversal of provisions (Note 10)	**(35,427,316)**	(13,233,485)
Guarantee fees (Note 11)	**34,239,519**	33,211,387
Foreign exchange loss – net	**512,682**	4,468,597
Bank charges	**7,339**	210,723
Interest expense (Note 11)	**–**	4,348,233
	248,587,894	282,323,852
INCOME BEFORE INCOME TAX	**490,194,967**	475,114,935
PROVISION FOR INCOME TAX (Note 16)		
Current	**136,347,753**	141,386,812
Deferred	**220,649**	(11,445,592)
	136,568,402	129,941,220
NET INCOME	**353,626,565**	345,173,715
OTHER COMPREHENSIVE INCOME	**–**	–
TOTAL COMPREHENSIVE INCOME	**₱353,626,565**	₱345,173,715

See accompanying Notes to Financial Statements.

TOLLWAYS MANAGEMENT CORPORATION

STATEMENTS OF CHANGES IN EQUITY

	Years Ended December 31	
	2010	2009
CAPITAL STOCK	**₱38,000,000**	₱38,000,000
RETAINED EARNINGS (Note 12)		
Balance at beginning of year	**233,267,984**	192,094,269
Net income	**353,626,565**	345,173,715
Dividends declared	**(319,000,000)**	(304,000,000)
Balance at end of year	**267,894,549**	233,267,984
	₱305,894,549	₱271,267,984

See accompanying Notes to Financial Statements.

TOLLWAYS MANAGEMENT CORPORATION
STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱490,194,967**	₱475,114,935
Adjustments for:		
Depreciation and amortization (Notes 7, 13 and 14)	**42,345,896**	47,837,380
Reversal of provisions (Note 10)	**(35,427,316)**	(13,233,485)
Provision for claims and losses (Note 10)	**47,356,727**	10,904,429
Interest income (Note 4)	**(6,743,253)**	(8,879,423)
Interest expense (Note 11)	**–**	4,348,233
Gain on disposal of property and equipment (Note 7)	**(2,346,135)**	(3,672,284)
Retirement benefits cost (income) (Note 15)	**12,527,600**	(478,900)
Operating income before working capital changes	**547,908,486**	511,940,885
Decrease (increase) in:		
Receivables	**21,138,015**	95,990,769
Other current assets	**(7,465,653)**	(7,781,911)
Increase (decrease) in:		
Accounts payable and other current liabilities	**(32,296,400)**	48,046,359
Provisions	**(2,185,738)**	(4,074,034)
Retention payable	**435,008**	782,011
Cash generated from operations	**527,533,718**	644,904,079
Income tax paid	**(134,815,717)**	(170,365,947)
Net cash provided by operating activities	**392,718,001**	474,538,132
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of property and equipment (Note 7)	**(27,393,196)**	(33,210,579)
Interest received	**6,743,253**	8,879,423
Proceeds from disposal of property and equipment	**3,192,363**	6,406,428
Increase in deposits and other noncurrent assets	**(3,210,503)**	(6,368,620)
Retirement plan asset contribution (Note 15)	**(12,752,200)**	(2,327,800)
Net cash used in investing activities	**(33,420,283)**	(26,621,148)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments of:		
Dividends	**(319,000,000)**	(364,720,000)
Loan	**–**	(237,600,000)
Interest	**–**	(4,348,233)
Cash used in financing activities	**(319,000,000)**	(606,668,233)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**40,297,718**	(158,751,249)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**286,391,023**	445,142,272
CASH AND CASH EQUIVALENTS AT END OF YEAR	**₱326,688,741**	₱286,391,023

See accompanying Notes to Financial Statements.

TOLLWAYS MANAGEMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS

1. Corporate Information and Authorization for Issuance of Financial Statements

Corporate Information

Tollways Management Corporation (the Company) was incorporated on August 2, 2000 primarily to engage in and carry on the operations and maintenance of tollways, its facilities, interchanges and related works, or otherwise engage in the operation and maintenance of roads, highways, bridges, buildings and structures of all kinds, and to make, execute, take, extend, receive and finance any contracts or assignments of contracts therefore or relating thereto or connected therewith.

On November 13, 2008, Metro Pacific Investment Corporation (MPIC) acquired 99.84% of Metro Pacific Tollways Corporation (MPTC), formerly known as First Philippine Holdings Infrastructure, Inc. (FPII), which owns 100% of Metro Pacific Tollways Development Corporation (MPTDC), formerly known as First Philippine Infrastructure Development Corporation (FPIDC). MPTDC owns 67.1% of Manila North Tollways Corporation (MNTC) and 46% of the Company.

The Company, under an Operation and Maintenance Agreement (O&M Agreement) with MNTC, an affiliate, is the operator of Phase I consisting of Segments 1, 2, 3, 7 and 8.1 of the North Luzon Expressway (NLE) Project of MNTC. The Phase I of the NLE Project includes an 84-km stretch of road extending from Metro Manila to Sta. Inez Exit, Mabalacat, Pampanga and an 8.8-km stretch of road linking Tipo, Hermosa, Bataan to Subic. The O&M Agreement is effective until December 31, 2030.

The Company, Egis Road Operation Philippines, a stockholder, and First Philippine Holdings Corporation (FPHC) have a joint venture agreement (JVA) for the interim operation and maintenance of the Subic-Clark-Tarlac Expressway (SCTEx) (the Project). The Project was for an initial period of six (6) months, renewable for another six (6) months from the commencement of full commercial operations of SCTEx on April 28, 2008. Upon expiration of the second renewal last April 27, 2009, the Project was renewed for one (1) year. Subsequently or beginning April 28, 2010, the Project was renewed on a monthly basis, not exceeding six (6) months, or until October 28, 2010. In November 2010, BCDA advised that, effective October 28, 2010, the Project would be extended on a monthly basis, not exceeding six (6) months.

Under the JVA, the Company has a 20% interest. The parties, however, agreed to entitle the Company to all the income or payments received by the consortium. The Company has been operating the SCTEx using its own financial resources. On February 11, 2009, pursuant to a Share Purchase Agreement executed among FPHC, Benpres Holdings Corporation (BHC) and MPIC, MPIC exercised its option to acquire all of FPHC’s rights and interests under the JVA, the interim operation and maintenance and all other agreements with the BCDA in respect of the Project.

The registered office address of the Company is Km. 12, North Luzon Expressway, Caloocan City.

Authorization for Issuance of Financial Statements

The accompanying financial statements were authorized for issue by the Board of Directors (BOD) on February 22, 2011.

2. Summary of Significant Accounting Policies and Financial Reporting Practices

Basis of Preparation
The accompanying financial statements have been prepared on a historical cost basis and are presented in Philippine Peso (Peso), which is the Company's functional currency. All values are rounded to the nearest peso, except when otherwise indicated.

Statement of Compliance
The accompanying financial statements of the Company have been prepared in accordance with Philippine Financial Reporting Standards (PFRS).

Changes in Accounting Policies and Disclosures
The accounting policies adopted are consistent with those of the previous financial year, except for the improvement to PFRS, which the Company has adopted starting January 1, 2010. Adoption of this change in PFRS did not have any significant effect on the Company's financial statements.

- Philippine Accounting Standard (PAS) 7, *Statement of Cash Flows*
  The amendment explicitly states that only expenditure that results in a recognized asset can be classified as a cash flow from investing activities.

New Accounting Standards, Interpretations and Amendments
to Existing Standards Effective Subsequent to December 31, 2010
The Company will adopt the following standards and interpretations when these become effective. Except as otherwise indicated, the Company does not expect the adoption of these new and amended PFRS and Philippine Interpretations to have significant impact on its financial statements.

Effective in 2011
- Philippine Interpretation IFRIC 14 (Amendment) - *Prepayments of a Minimum Funding Requirement*, for annual periods beginning on or after January 1, 2011, with retrospective application, 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.

- Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments*, effective for annual periods beginning on or after July 1, 2010, 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 immediately in profit or loss.

- PAS 24 (Amended), *Related Party Disclosures*, effective for annual periods beginning on or after January 1, 2011, 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. Early adoption is permitted for either the partial exemption for government-related entities or for the entire standard.

- PAS 32, *Financial Instruments: Presentation (Amendment) - Classification of Rights Issues,* effective for annual periods beginning on or after February 1, 2010, 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.

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. The amendments listed below, are not expected to have a significant impact on the Company:

- PFRS 3, *Business Combinations,* clarifies that the amendments to PFRS 7, *Financial Instruments: Disclosures,* PAS 32 and PAS 39, *Financial Instruments: Recognition and Measurement*, that eliminate the exemption for contingent consideration, do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of PFRS 3.

- PFRS 7, *Financial Instruments: Disclosures*, emphasizes the interaction between quantitative and qualitative disclosures and the nature and extent of risks associated with financial instruments which should be applied retrospectively.

- PAS 1, *Presentation of Financial Statements,* clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements.

- PAS 27, *Consolidated and Separate Financial Statements,* clarifies that the consequential amendments from PAS 27 made to PAS 21, *The Effect of Changes in Foreign Exchange Rates*, PAS 28, *Investments in Associates*, and PAS 31, *Interests in Joint Ventures*, apply prospectively for annual periods beginning on or after July 1, 2010 or earlier when PAS 27 is applied earlier.

- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes,* clarifies that when the fair value of award credits is measured based on the value of the awards for which they could be redeemed, the amount of discounts or incentives otherwise granted to customers not participating in the award credit scheme, is to be taken into account.

Effective in 2012
- PAS 12, *Income Taxes (Amendment) - Deferred Tax: Recovery of Underlying Assets*, effective for annual periods beginning on or after January 1, 2012. It 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.

- 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.

- Philippine Interpretation IFRIC 15, *Agreement for Construction of Real Estate*, effective for annual periods beginning on or after January 1, 2012, covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The 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, *Construction Contracts*, 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.

Effective in 2013

- PFRS 9, *Financial Instruments: Classification and Measurement*, 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. The standard is effective for annual periods beginning on or after January 1, 2013. In subsequent phases, hedge accounting and derecognition will be addressed. The completion of this project is expected in early 2011.

The Company continues to assess the impact of the above new and amended accounting standards and interpretations effective subsequent to December 31, 2010 on the Company's financial statements in the period of initial application. Additional disclosures required by these amendments will be included in the financial statements when these amendments are adopted.

Cash and Cash Equivalents

Cash includes cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from the dates of acquisition and that are subject to an insignificant risk of change in value.

Financial Instruments

Date of Recognition

The Company recognizes a financial asset or a financial liability in the balance sheet when it becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place are recognized on the trade date.

Initial Recognition of Financial Instruments

All financial assets are initially recognized at fair value. Except for financial assets and financial liabilities classified as at fair value through profit or loss (FVPL), the initial measurement of financial assets includes transactions costs.

Determination of Fair Value

The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market prices at the close of business on the balance sheet date. For financial instruments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's-length market transactions; reference to the current market value of another instrument which is substantially the same; discounted cash flow analysis or other valuation models.

Determination of Amortized Cost
HTM investments and loans and receivables are measured at amortized cost. This is computed using the effective interest method less any allowance for impairment. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate (EIR).

Classification of Financial Instruments
The Company classifies its financial assets into the following categories: financial assets at FVPL, held-to-maturity (HTM) investments, available-for-sale (AFS) investments, and loans and receivables. The Company classifies its financial liabilities into financial liabilities at FVPL and other financial liabilities. The classification depends on the purpose for which the investments are acquired and whether they are quoted in an active market. Management determines the classification of its financial assets at initial recognition and, where allowed and appropriate, re-evaluates such designation at every balance sheet date.

Financial instruments are classified as financial liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument or a component that is a financial liability are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity, net of any related income tax benefits.

The Company has no financial assets and financial liabilities at FVPL, HTM investments and AFS investments. As of December 31, 2010 and 2009, the Company has the following categories of financial assets and financial liabilities:

(a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, the loans and receivables are subsequently measured at amortized cost using the EIR method less any allowance for impairment. Amortized cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the EIR. Gains and losses are recognized in profit or loss 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.

As of December 31, 2010 and 2009, the Company's loans and receivables consist of cash and cash equivalents, receivables and deposits amounting to ₱709.5 million and ₱687.0 million, respectively (Note 17).

(b) Other financial liabilities

Financial liabilities are initially recognized at the fair value of the consideration received less any directly attributable transaction costs. After initial recognition, these financial liabilities are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the amortization process.

As of December 31, 2010 and 2009, the Company's other financial liabilities consist of accounts payable and other current liabilities, provision for claims and losses and retention payable amounting to ₱482.0 million and ₱454.2 million, respectively (Note 17).

Derecognition of Financial Assets and Liabilities

Financial Assets

A financial asset (or, when applicable a part of a financial asset or part of a group of similar financial assets) is derecognized or removed from the balance sheet when:

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

Where the Company has transferred its rights to receive cash flows from an asset 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 the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Company's continuing involvement is the amount of the transferred asset that the Company may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on asset measured at fair value, the extent of the Company's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial Liabilities

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 will result into the removal of the original liability and the recognition of a new liability at fair value, and any resulting difference is recognized in profit or loss.

Impairment of Financial Assets

Loans and receivables

The Company assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment. The Company considers factors such as the age of the receivable, payment status and collection experience in determining individually impaired financial assets. For the purpose of a collective evaluation of impairment, financial assets are group on the basis of such credit risk characteristics as customer type, location and past due status.

If there is objective evidence that an impairment loss on loans and receivables 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 EIR computed at initial recognition). The carrying amount of the asset shall be reduced through the use of an allowance account and the amount of loss shall be recognized in profit or loss. Receivables, together with the associated allowance accounts, are written-off when there is no realistic prospect of future recovery.

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 profit or loss, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount 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 gross in the balance sheet.

Property and Equipment

Property and equipment are stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment in value. The initial cost of property and equipment comprises its purchase price, including import duties, taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the property and equipment have been put into operations, such as repairs and maintenance, are normally charged to income in the period when the cost 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 use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional cost of property and equipment.

Depreciation and amortization is calculated on a straight-line basis over the useful lives of the property and equipment. Depreciation and amortization of property and equipment commences when it is available for use. It ceases at the earlier of the date that it is classified as investment property or noncurrent asset held-for-sale and the date the asset is fully depreciated or derecognised. The useful life of each of the Company's property and equipment is estimated based on the period over which the asset is expected to be available for use. Such estimation is based on a collective assessment of industry practice and experience with similar assets.

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

	Number of Years
Transportation equipment	3 - 5
Office furniture, fixtures and equipment	3
Tools, construction and engineering equipment	2 - 3

Leasehold rights and improvements are amortized on a straight-line basis over the term of the lease or the asset's estimated useful life, whichever is shorter.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. 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 profit or loss in the year the item is derecognized.

The property and equipment's useful lives and depreciation and amortization methods are reviewed, and adjusted if appropriate, at each financial year-end.

Impairment of Nonfinancial Assets

The carrying values of property and equipment and other nonfinancial assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying value exceeds the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. The recoverable amount of the asset is the greater of net selling price or value in use. The net selling price is the amount obtainable from the sale of the asset in an arm's length transaction. 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 assessment of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Any impairment loss is charged to profit or loss.

Reversal of impairment losses recognized in the prior year, if any, is recorded when there is an indication that the impairment losses recognized for the asset no longer exist or have decreased. The reversal is recorded as income. However, the increase in carrying amount of an asset due to a reversal of an impairment loss is recognized to the extent that it does not exceed the carrying amount (net of accumulated depreciation and amortization) that would have been determined had no impairment loss been recognized for that asset in prior years.

Capital Stock

Capital stock is measured at par value for all shares issued. When the Company issues more than one class of stock, a separate account is maintained for each class of stock and number of shares issued.

Retained Earnings

Retained earnings includes all current and prior period results as reported in the profit or loss.

Revenue Recognition
Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably. The following specific recognition criteria must also be met before revenue is recognized:

Service Revenue
Revenue is recognized when services are rendered in accordance with the terms of the contracts.

Interest Income
Interest income from bank deposits are recognized as interest accrues based on the effective interest rate method (i.e., the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset).

Costs and Expenses
Costs and expenses are recognized in profit or loss when a decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably.

Leases
The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and 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 change in contractual terms, other than a renewal or extension of the arrangement;
b. A renewal option is exercised or extension granted, unless that 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) above, and at the date of renewal or extension period for scenario (b).

Company as Lessee
Leases where the lessor retains substantially all the risks and rewards of ownership of the asset are classified as operating leases. Operating leases are recognized as an expense in profit or loss on a straight-line basis over the lease term.

Accrued Expenses
Accrued expenses comprise expenses incurred in the current year, which is expected to be settled after the balance sheet date.

<u>Retirement Costs</u>

Defined Benefit Plan

The Company has a funded, noncontributory defined benefit retirement plan, covering all of its permanent employees. Retirement costs are actuarially determined using the projected unit credit method. This method reflects service rendered by employees to the date of valuation and incorporates assumptions concerning employees' projected salaries. The portion of the actuarial gains and losses is recognized when it exceeds the corridor (10% of the greater of the present value of obligation or market related value of the plan assets) at the previous reporting date, divided by the expected average remaining working lives of active plan members.

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 defined benefit liability is the aggregate of the present value of the defined benefit 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 a 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.

Defined Contribution Plan

The Company has a funded, contributory defined contribution plan covering all of its regular and full-time employees. The Company's obligation for each period is determined by the amounts to be contributed for that period. Consequently, no actuarial assumptions are required to measure the obligation or the expense and there is no possibility of any actuarial gain or loss to the Company. Moreover, the obligations are measured on an undiscounted basis, except where they do not fall due wholly within twelve months after the end of the period in which the employees render the related service.

<u>Borrowing Costs</u>

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the respective assets. All other borrowing costs are expensed in the period that they occur. Borrowing costs consist of interest and other costs that the Company incurs in connection with the borrowing of funds.

The Company capitalizes borrowing costs for all eligible assets where construction commenced on or after January 1, 2010 and continues to expense borrowing costs relating to construction projects that commenced prior to January 1, 2010.

Foreign Currency-denominated Transactions and Translation

Transactions in foreign currency are initially recorded at the applicable exchange rate at the date of transaction. Outstanding foreign currency-denominated monetary assets and liabilities are re-translated using the applicable closing exchange rate at the balance sheet date. Foreign exchange gains or losses arising from re-translation of foreign currency monetary items at rates different from those at which they were originally recorded are taken to profit or loss.

For income tax reporting purposes, foreign exchange gains or losses are treated as taxable income or deductible expenses in the period such are realized.

Income Taxes

Current Income Tax

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

Deferred Income Tax

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

Deferred income tax assets are recognized for all deductible temporary differences to the extent that it is probable that sufficient future taxable profits will be available against which the deductible temporary differences can be utilized.

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

Deferred income tax assets and 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 rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

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

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event and 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. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, 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.

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

Events After the Balance Sheet Date
Post year-end events that provide additional information on the Company's financial position at the balance sheet date (adjusting events) 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.

3. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The judgments, estimates and assumptions used in the financial statements are based upon management's evaluation of relevant facts and circumstances as of the balance sheet date. Future events may occur which can cause the assumptions used in arriving at those judgments and estimates to change. The effects of any changes will be reflected in the financial statements of the Company as they become reasonably determinable.

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

Determination of the Company's Functional Currency
Based on the economic substance of the underlying circumstances relevant to the Company, the functional currency of the Company has been determined to be the Peso. The functional currency is the currency of the primary economic environment in which the Company operates. It is the currency that mainly influences the revenue and costs of the Company and the currency that management uses when controlling and monitoring the performance and financial position of the Company.

Classification of Leases - Company as Lessee
The Company has entered into commercial property leases related to its office space and certain equipments. The Company has determined that it does not retain the significant risks and rewards of ownership of these properties which are being leased by the Company under operating lease arrangements. Rent expense recognized in 2010 and 2009 amounted to ₱0.07 million and ₱2.6 million, respectively (Note 13).

Legal Contingencies
The estimate of the probable costs for the resolution of possible claims has been developed in consultation with outside counsel handling the Company's defense in these matters and is based upon an analysis of potential results. There were no provision for legal contingencies made in 2010 and 2009.

Classification of Financial Instruments
The Company classifies financial instruments, or its component parts, on initial recognition, as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of the instruments. The substance of a financial instrument, rather than its legal form, governs its classification in the Company's balance sheet.

The Company determines the classification at initial recognition and re-evaluates this designation at every reporting period. The categories of the Company's financial assets and financial liabilities are disclosed in Note 17.

Estimates and Assumptions
The accompanying financial statements prepared in conformity with PFRS require management to make estimates and assumptions that affect amounts reported in the financial statements and related notes. In preparing these financial statements, the Company have made its best estimates and assumptions of certain amounts, giving due consideration to materiality. The Company believes that the following represent a summary of these significant estimates and assumptions and related impact and associated risks in the financial statements:

Valuation of Financial Assets and Financial Liabilities
Financial assets and liabilities on initial recognition are accounted for at fair value. The fair values of financial assets and financial liabilities on initial recognition are normally the transaction prices. This price is indicative of actual and regularly occurring market transactions on an arm's length basis.

The carrying values and fair values of financial assets and financial liabilities as of December 31, 2010 and 2009 are disclosed in Note 17.

Impairment of Loans and Receivables
The Company reviews its loans and receivables at each balance sheet date to assess whether an allowance for impairment should be recognized in the profit or loss. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance. In addition to specific allowances against individually significant loans and receivables, the Company also makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. This takes into consideration the length of relationship with the debtor, credit status of the debtor based on third party reports, and historical experience.

The carrying value of loans and receivables amounted to ₱709.5 million and ₱687.0 million as of December 31, 2010 and 2009, respectively (Note 17). No allowance for impairment are recognized on the Company's loans and receivables as of December 31, 2010 and 2009.

Estimated Useful Lives of Property and Equipment.
The Company estimates the useful lives of its property and equipment based on the period over which the assets are expected to be available for use. Such estimation is based on a collective assessment of industry practice, 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 these estimates brought about by changes in the factors mentioned above. A reduction in the estimated useful life of any property and equipment would increase the depreciation expense and decrease in the value of the asset.

As of December 31, 2010 and 2009, the carrying amounts of the Company's property and equipment amounted to ₱67.0 million and ₱82.8 million, respectively (Note 7).

Impairment of Nonfinancial Assets
The Company determines whether items of its nonfinancial assets are impaired whenever events or circumstances indicate that the carrying amount of the asset may not be recoverable. The determination of recoverable amount requires an estimation of the value-in-use of the cash-generating units to which the assets are allocated.

The preparation of the estimated future cash flows in determining value-in-use involves significant estimation and assumption. While management believes that the assumptions made are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and may lead to future impairment charges.

As of December 31, 2010 and 2009, there are no indications of impairment on the Company's property and equipment.

Retirement Benefits Cost
The determination of the obligation and cost for retirement is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 15 and include among others, discount rates and rates of compensation increase. In accordance with PAS 19, *Employee Benefits*, actual results that differ from the assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods. While the Company believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the retirement obligation.

As of December 31, 2010 and 2009, the Company's retirement plan asset amounted to ₱3.3 million and ₱3.1 million, respectively. The Company recognized retirement benefits cost of ₱12.5 million in 2010 and retirement benefits income of ₱0.5 million in 2009 (Note 15).

Realizability of Deferred Income Tax Assets
The Company's assessment on the recognition of deferred income tax assets on nondeductible temporary differences is based on the forecasted taxable income of the following reporting period. This forecast is based on the Company's past results and future expectations on revenues and expenses.

As of December 31, 2010 and 2009, the Company recognized net deferred income tax assets for all temporary differences amounting to ₱63.8 million and ₱64.0 million, respectively (Note 16).

4. **Cash and Cash Equivalents**

	2010	2009
Cash on hand and in banks	**₱61,695,886**	₱81,558,596
Short-term deposits	**264,992,855**	204,832,427
	₱326,688,741	₱286,391,023

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

Interest income earned and recognized in profit or loss amounted to ₱6.7 million and ₱8.9 million in 2010 and 2009, respectively.

5. Receivables

	2010	2009
Trade (Note 11)	**₱369,260,727**	₱393,971,514
Nontrade	**8,431,202**	4,858,430
	₱377,691,929	₱398,829,944

Trade receivables are noninterest-bearing and have a term of 30 to 60 days.

Nontrade receivables pertain to receivables from employees, such as claims for property damages, loan deficiency and shortages.

The Company's receivables are neither past due nor impaired. There were no provisions for impairment of receivables in 2010 and 2009.

6. Other Current Assets

	2010	2009
Inventory	**₱17,013,614**	₱7,908,728
Advances to contractors and suppliers	**6,242,542**	9,316,291
Prepaid expense	**5,269,402**	5,125,171
Input value added tax (VAT) (Note 20)	**4,724,262**	6,262,442
Others	**7,575,832**	4,747,367
	₱40,825,652	₱33,359,999

Inventory is composed of unused transit tickets, office supplies and materials for repairs and maintenance.

Other current assets classified as "Others" include advances from employees, recoverable cost and car plan loan.

7. Property and Equipment

	2010				
	Transportation Equipment	Office Furniture, Fixtures and Equipment	Leasehold Improvements	Tools, Construction and Engineering Equipment	Total
Cost:					
Balance at beginning of year	**₱173,006,281**	**₱82,024,549**	**₱19,192,124**	**₱106,043,761**	**₱380,266,715**
Additions	**12,930,965**	**8,116,765**	**3,320,556**	**3,024,910**	**27,393,196**
Disposals	**(8,900,514)**	**(51,661)**	**–**	**(1,369,537)**	**(10,321,712)**
Balance at end of year	**177,036,732**	**90,089,653**	**22,512,680**	**107,699,134**	**397,338,199**
Accumulated depreciation and amortization:					
Balance at beginning of year	**126,496,663**	**68,570,089**	**5,178,562**	**97,224,317**	**297,469,631**

(Forward)

	2010				
	Transportation Equipment	**Office Furniture, Fixtures and Equipment**	**Leasehold Improvements**	**Tools, Construction and Engineering Equipment**	**Total**
Depreciation and amortization for the year	**₱25,549,263**	**₱8,570,295**	**₱2,139,582**	**₱6,086,756**	**₱42,345,896**
Disposals	**(8,085,857)**	**(20,090)**	**–**	**(1,369,537)**	**(9,475,484)**
Balance at end of year	**143,960,069**	**77,120,294**	**7,318,144**	**101,941,536**	**330,340,043**
Net book value	**₱33,076,663**	**₱12,969,359**	**₱15,194,536**	**₱5,757,598**	**₱66,998,156**

	2009				
	Transportation Equipment	Office Furniture, Fixtures and Equipment	Leasehold Improvements	Tools, Construction and Engineering Equipment	Total
Cost:					
Balance at beginning of year	₱175,821,182	₱74,187,551	₱12,148,173	₱103,761,839	₱365,918,745
Additions	16,047,708	7,836,998	7,043,951	2,281,922	33,210,579
Disposals	(18,862,609)	–	–	–	(18,862,609)
Balance at end of year	173,006,281	82,024,549	19,192,124	106,043,761	380,266,715
Accumulated depreciation and amortization:					
Balance at beginning of year	112,750,797	59,925,596	3,859,586	89,224,737	265,760,716
Depreciation and amortization for the year	29,874,331	8,644,493	1,318,976	7,999,580	47,837,380
Disposals	(16,128,465)	–	–	–	(16,128,465)
Balance at end of year	126,496,663	68,570,089	5,178,562	97,224,317	297,469,631
Net book value	₱46,509,618	₱13,454,460	₱14,013,562	₱8,819,444	₱82,797,084

In 2010 and 2009, gain on disposal of property and equipment, which is included under “Interest and other income” in the statements of comprehensive income, amounted to ₱2.3 million and ₱3.7 million, respectively.

8. Deposits and Other Noncurrent Assets

	2010	2009
Deposits	**₱17,736,357**	₱14,445,277
Others	**835,749**	916,326
	₱18,572,106	₱15,361,603

Deposits and other noncurrent assets classified as “Others” include VAT subsidy checks and other assets.

9. Accounts Payable and Other Current Liabilities

	2010	2009
Trade	**₱51,124,875**	₱59,419,244
Accrued expenses:		
Personnel expenses	**117,825,806**	134,657,150
Outside services	**149,550,501**	104,972,684
Interest and guarantee fee (Note 11)	**29,654,618**	16,390,986

(Forward)

	2010	2009
Payable to related parties (Note 11)	**₱67,161,028**	₱109,788,293
Output VAT (Note 20)	**41,627,018**	62,406,217
Withholding taxes (Note 20)	**14,653,954**	13,509,320
Others	**4,519,264**	7,269,570
	₱476,117,064	₱508,413,464

Trade payables are noninterest-bearing and are normally settled on a 30-days' term.

Accounts payable and other current liabilities classified as "Others" include accrued purchases and unearned revenue.

10. Provisions

	2010	2009
Provision for claims and losses	**₱59,979,228**	₱19,976,046
Other provisions	**23,570,577**	53,830,086
	₱83,549,805	₱73,806,132

Movements in provision as of December 31 are presented below:

	2010	2009
Beginning balance	**₱73,806,132**	₱80,209,222
Provisions	**47,356,727**	10,904,429
Payments	**(2,185,738)**	(4,074,034)
Reversal	**(35,427,316)**	(13,233,485)
Ending balance	**₱83,549,805**	₱73,806,132

The Company recognized provision for losses based on estimates of claims and losses arising from its O&M Agreement (Note 11).

Other provision for probable loss of ₱23.6 million and ₱53.8 million as of December 31, 2010 and 2009, respectively, were recognized for estimated losses on claims by a third party. The information usually required by PAS 37, *Provisions, Contingent Liabilities and Contingent Assets,* is not disclosed on the grounds that it could prejudice the Company's position.

11. Related Party Transactions

Parties are considered to be related if one party has the ability, directly and indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

Terms and Conditions of Transactions with Related Parties
The Company has transactions with its stockholders, affiliates and other related parties. The more significant of these transactions include:

O&M Agreement
As discussed in Note 1, MNTC, a subsidiary of MPTDC, shall pay the Company a minimum fixed annual amount as operator's fee currently set at ₱637.1 million for the NLE and ₱40.6 million for Segment 7, subject to escalation plus a variable component. Service revenue earned from the agreement amounted to ₱1,311 million and ₱1,294 million in 2010 and 2009, respectively. Additional revenue for Segment 8.1, which started commercial operation on June 10, 2010, amounted to ₱17.5 million.

Pursuant to the agreement, accuracy bonus included in service revenue amounted to ₱19.5 million in 2010 and ₱19.0 million in 2009.

Penalties and claims are charged to the Company for delays and noncompliance of the responsibilities set in the agreement entered with MNTC. Penalties and claims are based on the computations and examinations done by the engineering department. Provisions for claims and losses amounted to ₱60.0 million and ₱20.0 million in 2010 and 2009, respectively.

Operator Equipment Loan Agreement (OELA)
MNTC and the Company have an Operator Equipment Loan Agreement (OELA) whereby MNTC has made available to the Company a financing facility. The loan is payable in one lump-sum payment on the last day of the term of the O&M Agreement less the book value of any machinery and equipment acquired by the Company from the proceeds of the OELA that will be returned to MNTC. The Company shall pay interest on unpaid principal amount of the loan at an interest rate of LIBOR plus 1% per annum.

Among others, the OELA contains certain negative covenants, which include non-incurrence of additional indebtedness, prepayment of indebtedness, sale, lease, encumbrance, assignment or otherwise transfer of substantial portion of its assets otherwise required by the mortgage, assignment and pledge agreement.

The loan was fully paid on December 18, 2009. Interest expense was recognized from the borrowings amounting to ₱4.1 million in 2009.

Guarantee Agreement
Pursuant to the O&M Agreement, liabilities incurred by the Company to MNTC are required to be underwritten by the corporate guarantees of Egis Road Operation Philippines and MPTDC (collectively, the "Guarantors"). The Company shall pay the Guarantors annual guarantee fees equal to 2.5% of the gross value of the relevant Corporate Guarantees. Any guarantee fee not paid within the payment dates shall earn an interest based on 91-day Philippine Treasury Bill Rate plus 2% per annum. Guarantee fees charged to operations amounted to ₱34.2 million and ₱33.2 million in 2010 and 2009, respectively. Outstanding payable amounted to ₱29.3 million and ₱16.1 million in 2010 and 2009, respectively.

Joint Venture Agreement
As discussed in Note 1, the Joint Venture of the Company, Egis Road Operation Philippines and MPIC is the interim operator of the SCTEx. The interim project entitled the Joint Venture to receive a monthly fixed fee of ₱29.0 million. Service revenue earned from the said project amounted to ₱310.7 million in 2010 and 2009.

Outside and Technical Services Agreement
Outside and technical services agreement with Egis Project Philippines, Inc. and Egis Road Operations Philippines amounting to ₱24.9 million in 2010 and ₱105.7 million in 2009 were recorded under cost of services. Related outstanding payable included in "Accrued expenses" under "Accounts payable and other current liabilities" amounted to ₱24.7 million and ₱52.1 million as of December 31, 2010 and 2009, respectively.

Management Services Agreement
MPTC performed management and financial services which involve the coordination and utilization of the Company's resources. Management fee charged to operations, included in outside services, amounted to ₱46.1 million and ₱42.3 million in 2010 and 2009, respectively. Outstanding payable included in "Accrued expenses" under "Accounts payable and other current liabilities" amounted to ₱41.1 million and ₱56.7 million as of December 31, 2010 and 2009, respectively.

Other Transactions
Compensation of key management personnel of the Company are as follows:

	2010	2009
Short-term employee benefits	**₱55,460,736**	₱49,536,714
Retirement benefits costs	**2,517,100**	45,900
	₱57,977,836	₱49,582,614

Outstanding Balances of Accounts with Related Parties
Outstanding balances of transactions with related parties are carried in the balance sheets under the following accounts:

	2010	2009
Receivables	**₱242,732,807**	₱288,219,649
Accounts payable and other current liabilities:		
Payable to related parties	**67,161,028**	109,788,293
Accrued interest and guarantee	**29,654,618**	16,390,986

12. **Retained Earnings**

Under the Corporation Code of the Philippines (Code), stock corporations are prohibited from retaining surplus profits in excess of 100% of the paid-up capital, except under certain conditions as provided in the Code.

As of December 31, 2010 and 2009, the Company's retained earnings is in excess of 100% of its paid-up capital. The Company intends to use the excess in retained earnings for future dividend declaration.

On February 15, 2010, the BOD approved declaration of cash dividends equivalent to ₱444.74 per share totaling to ₱169.0 million to stockholders of record as of February 15, 2010. In addition, on July 30, 2010, the BOD approved declaration of cash dividends equivalent to ₱394.74 per share totaling to ₱150.0 million to stockholders of record as of June 30, 2010. These dividends were already paid in full as of December 31, 2010.

On March 6, 2009, the BOD approved declaration of cash dividends equivalent to ₱331.58 per share totaling to ₱126.0 million to stockholders of record as of March 6, 2009. In addition, on July 30, 2009, the BOD approved declaration of cash dividends equivalent to ₱468.42 per share totaling to ₱178.0 million to stockholders of record as of July 30, 2009. These dividends were already paid in full as of December 31, 2009.

13. **Cost of Services**

	2010	2009
Personnel expenses:		
Salaries and wages	**₱332,375,807**	₱293,964,106
Other personnel expenses (Note 15)	**68,950,671**	58,294,440
Outside services	**255,379,019**	264,736,074
Communications, light and water	**88,586,696**	68,927,314
Repairs and maintenance	**49,114,832**	34,446,660
Transportation and travel	**42,646,283**	35,054,971
Depreciation and amortization (Note 7)	**30,543,585**	33,521,069
Supplies	**25,726,643**	32,395,999
Technical services	**24,931,767**	105,744,244
Entertainment, amusement and recreation	**728,716**	–
Taxes and licenses (Note 20)	**717,477**	985,082
Rent	**70,400**	2,422,737
Advertising and promotions	**45,001**	319,866
Others	**6,945,470**	9,796,633
	₱926,762,367	₱940,609,195

14. **General and Administrative Expenses**

	2010	2009
Personnel expenses:		
Salaries and wages	**₱65,840,925**	₱69,024,452
Other personnel expenses (Note 15)	**17,120,311**	17,652,723
Outside services	**73,396,968**	79,621,937
Taxes and licenses (Note 20)	**18,623,394**	21,675,940
Transportation and travel	**17,185,198**	16,697,397
Repairs and maintenance	**12,358,677**	9,648,215
Depreciation and amortization	**11,802,311**	14,316,311
Supplies	**10,413,159**	5,278,064
Entertainment, amusement and recreation	**3,135,846**	4,083,308
Advertising and promotions	**3,028,964**	3,094,721
Communications, light and water	**1,209,157**	7,876,924
Others	**11,579,028**	15,006,830
	₱245,693,938	₱263,976,822

15. **Retirement Plan**

Defined Benefit Plan
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. Retirement costs are determined in accordance with an actuarial study made for the plan which is normally obtained every two years.

The following tables summarize the components of retirement cost included in personnel expenses under "Cost of services" and "General and administrative expenses" and retirement plan asset, which are based on the 2010 and 2009 actuarial valuations:

Retirement Benefits Cost (Income)

	2010	2009
Current service cost	**₱10,236,500**	₱2,222,600
Interest cost	**4,548,200**	2,396,000
Expected return on plan assets	**(3,843,700)**	(2,061,500)
Net actuarial loss recognized during the year	**–**	(2,435,500)
Curtailment loss (gain)	**1,586,600**	(600,500)
	₱12,527,600	(₱478,900)

Movement in Retirement Plan Asset

	2010	2009
Balance at beginning of year	**₱3,067,700**	₱261,000
Retirement benefits income (cost)	**(12,527,600)**	478,900
Actual contributions	**12,752,200**	2,327,800
Balance at end of year	**₱3,292,300**	₱3,067,700

Movement in the present value of retirement obligation (PVRO) is as follows:

	2010	2009
Balance at beginning of year	**₱45,748,500**	₱6,899,499
Current service cost	**10,236,500**	2,222,600
Interest cost	**4,548,200**	2,396,000
Actuarial loss (gain)	**(7,144,300)**	34,744,601
Benefits paid	**(798,700)**	–
Effect of curtailment	**(2,700,700)**	(514,200)
Balance at end of year	**₱49,889,500**	₱45,748,500

Movement in the fair value of plan assets is as follows:

	2010	2009
Balance at beginning of year	**₱48,793,100**	₱42,329,501
Actual return on plan assets	**8,427,500**	6,020,699
Actual contributions	**12,752,200**	2,327,800
Benefits paid (retrenched)	**(4,287,500)**	(1,884,900)
Benefits paid (resigned)	**(798,700)**	–
Balance at end of year	**₱64,886,600**	₱48,793,100

The Company expects to contribute ₱4.1 million to its retirement plan in 2011.

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

	2010	2009
Investment in government securities/bonds	**67**	67
Investments in stocks	**28**	23
Loans/notes receivable	**2**	2
Other receivables	**2**	2
Deposit in banks	**1**	6

The reconciliation of the PVRO to the retirement plan assets recognized in the balance sheets follows:

	2010	2009
PVRO	**₱49,889,500**	₱45,748,500
Cumulative unrecognized actuarial gain (loss)	**11,704,800**	(23,100)
Fair value of plan assets	**(64,886,600)**	(48,793,100)
Retirement plan assets	**(₱3,292,300)**	(₱3,067,700)

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

	2010	2009
Cumulative unrecognized actuarial gain (loss) at beginning of year	**(₱23,100)**	₱35,169,002
Actuarial gain (loss) for the year due to PVRO and plan assets - net	**11,728,100**	(30,785,402)
Actuarial (gain) loss recognized	**–**	(2,435,500)
Effect of curtailment	**(200)**	(1,971,200)
Cumulative unrecognized actuarial gain (loss) at end of year	**₱11,704,800**	(₱23,100)
Cumulative unrecognized actuarial gain (loss) at beginning of year	**₱11,704,800**	(₱23,100)
Limit of corridor	**(6,488,700)**	(4,879,300)
Actuarial gain (loss) outside corridor to be recognized	**5,216,100**	–
Divided by expected average remaining service years of eligible employees	**15**	16
Amortization of actuarial gain (loss) to be recognized	**₱347,740**	₱–

The principal assumptions used to determine retirement plan assets as of December 31, 2010 and 2009 are as follows:

	2010	2009
Discount rate	**9.13%**	10.4%
Rate of compensation increase	**7.0%**	8.0%
Expected annual rate of return	**8.0%**	8.5%

Movement analysis of fair value of plan assets and PVRO for the current period and previous four periods are as follows:

	2010	2009	2008	2007	2006
PVRO	**(₱49,889,500)**	(₱45,748,500)	(₱6,899,499)	(₱36,865,400)	(₱29,205,200)
Fair value of plan assets	**64,886,600**	48,793,100	42,329,501	38,255,300	–
Surplus (deficit)	**₱14,997,100**	₱3,044,600	₱35,430,002	₱1,389,900	(₱29,205,200)

Experience adjustments gain (loss) on PVRO amounted to (₱9.2 million), ₱1.4 million, ₱7.1 million and (₱2.8 million) for the years 2010, 2009, 2008 and 2007, respectively. There were no experience adjustments on PVRO in 2006.

Defined Contribution Plan
The Company also has a funded, contributory defined contribution plan covering all of its regular and full-time employees. The plan provides for retirement benefit payment equal to the accumulated fund in the hands of the trustee. In 2010, the Company made contributions to the plan amounting to ₱3.5 million included in "Other personnel expenses" under "Personnel expenses".

16. Income Taxes

The Company's provision for current income tax in 2010 and 2009 represents regular corporate income tax (RCIT).

The components of the Company's net deferred income tax assets as of December 31, 2010 and 2009 are as follows:

	2010	2009
Deferred income tax assets on temporary differences arising from:		
Accrued expenses	**₱60,744,758**	₱60,248,617
Unamortized past service costs	**3,899,988**	4,549,986
Allowance for impairment	**122,250**	122,250
Unrealized foreign exchange loss	**588**	–
	64,767,584	64,920,853
Deferred income tax liability on retirement benefits asset	**(987,690)**	(920,310)
	₱63,779,894	₱64,000,543

A reconciliation between the provision for income tax computed at statutory income tax rate to the provision for income tax as shown in the statement of comprehensive income is summarized as follows:

	2010	2009
Income tax computed at statutory tax rate	**₱147,058,490**	₱142,534,481
Add (deduct) the tax effects of:		
Reversal of provision for losses	**(8,467,112)**	–
Interest income subjected to final tax	**(2,022,976)**	(2,663,827)
Benefit from availment of Optional Standard Deduction (OSD)	**–**	(14,079,806)
Nondeductible expenses	**–**	4,150,372
	₱136,568,402	₱129,941,220

Pursuant to the implementing terms of Revenue Regulations No. 16-2008 on Republic Act (R.A.) No. 9504, the Company opted to use the OSD instead of the itemized deductions for the year ended December 31, 2009 in the computation of RCIT. In 2010, the Company opted to use itemized deductions.

17. **Financial Assets and Liabilities**

Carrying and Fair Values of Financial Instruments

The following table summarizes the carrying and fair values of the financial assets and financial liabilities as of December 31:

	2010		2009	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Loans and receivables:				
Cash and cash equivalents*	**₱314,036,020**	**₱314,036,020**	₱273,718,167	₱273,718,167
Receivables	**377,691,929**	**377,691,929**	398,829,944	398,829,944
Deposits**	**17,736,357**	**17,736,357**	14,445,277	14,445,277
Total financial assets	**₱709,464,306**	**₱709,464,306**	₱686,993,388	₱686,993,388
Other financial liabilities:				
Accounts payable and other current liabilities***	**₱419,836,092**	**₱419,836,092**	₱432,497,927	₱432,497,927
Provision for claims and losses****	**59,979,228**	**59,979,228**	19,976,046	19,976,046
Retention payable	**2,190,840**	**2,190,840**	1,755,832	1,755,832
Total financial liabilities	**₱482,006,160**	**₱482,006,160**	₱454,229,805	₱454,229,805

**Excluding cash on hand amounting to ₱12,652,721 and 12,672,856 as of December 31, 2010 and 2009, respectively.*
***Included under "Deposits and other noncurrent assets" account.*
****Excluding output VAT amounting to ₱41,627,018 and ₱56,143,775, and withholding taxes amounting to ₱14,653,954 and ₱13,509,320 as of December 31, 2010 and 2009, respectively.*
*****Included under "Provisions" account.*

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

Current Financial Assets and Liabilities

The carrying amounts of cash and cash equivalents, receivables, accounts payable and other current liabilities, provision for claims and losses, and retention payable approximate their fair values either because of their short-term nature or the interest rates that they carry approximate interest rates for comparable instruments in the market.

Deposits

Since the maturities of the deposits cannot be determined, the fair values of such approximate its carrying values.

As of December 31, 2010 and 2009, the Company does not have financial instruments carried at fair value.

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

The Company's principal financial instrument comprises cash and cash equivalents, receivables and accounts payable and other current liabilities. The main purpose of this financial instrument is to fund the Company's operations.

The main risks arising from the Company's financial instruments are credit risk and liquidity risk. The Company is no longer exposed to interest rate risk and foreign currency risk since 2009 due to payment of the loan using its foreign currency-denominated short-term deposits.

The BOD reviews and approves policies for managing each of these risks and they are summarized below:

Credit Risk
Under the O&M Agreement, the Company has a 30-day credit term with MNTC. The Company continuously reviews credit policies and processes and implements various credit actions, depending on assessed risks, to minimize credit exposure. Since the Company's primary source of revenue is MNTC, there is significant credit risk in case MNTC will be in default. However, there are provisions stated in the O&M Agreement that will give the Company remedies to recover its costs and loss of profit.

The credit exposure of the Company which arises from default of the counterparty has a maximum exposure equal to the carrying balance of cash and cash equivalents, excluding cash on hand, and trade receivables.

As of December 31, 2010 and 2009, the Company's loans and receivables, which consists of cash and cash equivalents and receivables are neither past due nor impaired and are considered as Grade A.

The loans and receivables classified as Grade A pertains to deposits to counterparties with good credit rating or bank standing. For receivables, this covers, as of report date, receivables from customers that always pay on time or even before the maturity date.

Liquidity Risk
The Company's practice is to maintain a balance between continuity of funding and flexibility through the use of cash placements.

The table below summarizes the maturity profile of the Company's financial liabilities as of December 31, 2010 and 2009 based on undiscounted payments. The table also analyses the maturity profile of the Company's financial assets in order to provide complete view of the Company's contractual commitments and liquidity.

	2010			
	On Demand	**30 Days**	**Over 30 Days**	**Total**
Financial assets:				
Cash and cash equivalents	**₱326,688,741**	**₱–**	**₱–**	**₱326,688,741**
Receivables*	**38,113,508**	**339,578,421**	**–**	**377,691,929**
Deposits**	**–**	**–**	**17,736,357**	**17,736,357**
	364,802,249	**339,578,421**	**17,736,357**	**722,117,027**
Financial liabilities:				
Trade	**48,241,204**	**2,883,671**	**–**	**51,124,875**

(Forward)

	2010			
	On Demand	**30 Days**	**Over 30 Days**	**Total**
Accrued expenses:				
Personnel expenses	**₱20,308,606**	**₱18,117,180**	**₱79,400,020**	**₱117,825,806**
Outside services	**4,155,629**	**74,943,948**	**70,450,924**	**149,550,501**
Interest and guarantee	**29,318,557**	**–**	**336,061**	**29,654,618**
Payable to related parties	**62,085,584**	**5,075,444**	**–**	**67,161,028**
Provision for claims and losses***	**59,979,228**	**–**	**–**	**59,979,228**
Retention payable	**–**	**–**	**2,190,840**	**2,190,840**
Others	**–**	**4,519,264**	**–**	**4,519,264**
	224,088,808	**105,539,507**	**152,377,845**	**482,006,160**
Liquidity position	**₱140,713,441**	**₱234,038,914**	**(₱134,641,488)**	**₱240,110,867**

**Included under "Deposits and other noncurrent assets" account.*
***Excluding output VAT and withholding taxes amounting to ₱41,627,018 and ₱14,653,954, respectively, as of December 31, 2010.*
****Included under "Provisions" account.*

	2009			
	On Demand	30 Days	Over 30 Days	Total
Financial assets:				
Cash and cash equivalents	₱286,391,023	₱–	₱–	₱286,391,023
Receivables*	29,893,825	212,543,256	156,392,863	398,829,944
Deposits**	–	–	14,445,277	14,445,277
	316,284,848	212,543,256	170,838,140	699,666,244
Financial liabilities:				
Trade	23,736,980	13,656,924	22,025,340	59,419,244
Accrued expenses:				
Personnel expenses	37,700,152	18,809,582	78,147,416	134,657,150
Outside services	–	33,108,134	71,864,550	104,972,684
Interest and guarantee	16,054,925	–	336,061	16,390,986
Payable to related parties	–	43,035,351	66,752,942	109,788,293
Provision for claims and losses***	19,976,046	–	–	19,976,046
Retention payable	–	–	1,755,832	1,755,832
Others	2,028,129	–	5,241,441	7,269,570
	99,496,232	108,609,991	246,123,582	454,229,805
Liquidity position	₱ 216,788,616	₱103,933,265	(₱75,285,442)	₱245,436,439

**Included under "Deposits and other noncurrent assets" account.*
***Excluding output VAT and withholding taxes amounting to ₱56,143,775 and ₱13,509,320, respectively, as of December 31, 2009.*
****Included under "Provisions" account.*

Capital Risk Management

The primary objective of the Company's management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value. The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions.

The Company monitors capital using debt to equity ratio, which is debt divided equity.

	2010	2009
Total Debt - Accounts payable and other current liabilities	**₱476,117,064**	₱502,151,022
Capital stock	**₱38,000,000**	₱38,000,000
Retained earnings	**267,894,549**	233,267,984
Total Equity	**₱305,894,549**	₱271,267,984
Debt to equity ratio	**1.56:1:00**	1.85:1.00

19. **Other Matters**

The Company is contingently liable for liabilities arising from lawsuits or claims, filed by third parties which are either pending decisions by the courts or are subject to settlement agreements. The outcome of these lawsuits or claims cannot be presently determined. In the opinion of management and its legal counsel, the eventual liability from these lawsuits or claims, if any, will not have a material effect on the Company's financial position and results of operations.

The Company has unused approved credit facilities from local banks amounting to ₱265 million as of December 31, 2010 and 2009.

20. **Disclosures Required Under Revenue Regulation 15-2010 of the Bureau of Internal Revenue**

The Company reported and/or paid the following types of taxes for 2010:

VAT
The NIRC of 1997 provides for the imposition of VAT on sales of goods and services. Accordingly, the Company's revenues are subject to output VAT while its importations and purchases from other VAT-registered individuals or corporations are subject to input VAT. RA No. 9337 increased the VAT rate from 10.0% to 12.0%, effective February 1, 2006.

Details of the Company's net sales/receipts, output VAT and input VAT accounts as of December 31, 2010 are as follows:

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

	Net Sales/Receipts	Output VAT
Taxable Sales:		
Sales of services	₱1,612,120,814	₱193,454,498
Others	96,793,115	11,615,174
	₱1,708,913,929	₱205,069,672

The Company's sales that are subject to VAT are reported under the "Service revenue" account.

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 of services represent collections received from such sales which for the year amounted to ₱1,612.1 million, the related revenues of which are recorded in "Revenue" account in the statement of comprehensive income.

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

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

Balance at January 1	₱6,262,442
Current year's domestic purchases/payments for:	
Goods other than for resale or manufacture	60,155,149
Capital goods subject to amortization	2,392,348
Capital goods not subject to amortization	253,931
	₱69,063,870

Landed Costs and Custom Duties
Details of the Company's importations in 2010 are shown below:

Total landed cost of imports	₱8,562,728
Customs duties	1,734,865
Others	113,335
	₱10,410,928

Taxes and Licenses
This includes all other taxes, local and national, including licenses and permit fees presented under the "Taxes and Licenses" in the 2010 statement of comprehensive income:

License and permits fees	₱18,721,803
Fringe benefits taxes	546,135
Others	72,933
	₱19,340,871

Withholding Taxes
Details of withholding taxes for 2010 are as follows:

Withholding taxes on compensation and benefits	₱52,203,341
Expanded withholding taxes	42,263,802
Final withholding taxes	5,880,028
	₱100,347,171

The Company's outstanding withholding taxes payable on compensation and benefits and expanded withholding taxes payable amounted to ₱11.4 million and ₱3.3 million, respectively, as of December 31, 2010.