Manila North Tollways Corporation

(A Subsidiary of Metro Pacific Tollways Development Corporation)

Financial Statements
December 31, 2011 and 2010

and

Independent Auditors' Report

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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, 2011 and 2010, 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.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Manila North Tollways Corporation as at December 31, 2011 and 2010, 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 19-2011 and 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 required under Revenue Regulations 19-2011 and 15-2010 in Notes 28 and 29 to the financial statements, respectively, 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 management of Manila North Tollways 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.

Marydith C. Miguel

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February 23, 2012

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

	December 31	
	2011	2010
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 6, 13 and 25)	**₱1,120,917,161**	₱1,146,855,351
Receivables - net (Notes 7, 12 and 25)	**100,785,557**	65,110,104
Inventories - at cost (Note 12)	**55,260,432**	37,890,029
Advances to contractors and consultants (Note 12)	**21,173,438**	8,061,415
Due from related parties (Notes 12 and 25)	**9,757,757**	30,309,259
Input value-added tax (Notes 5 and 27)	**42,059,750**	–
Derivative assets (Note 25)	**–**	2,901,514
Available-for-sale financial assets (Notes 13 and 25)	**–**	51,812,500
Other current assets	**61,227,753**	42,252,750
Total Current Assets	**1,411,181,848**	1,385,192,922
Noncurrent Assets		
Property and equipment - net (Notes 8 and 13)	**121,536,860**	105,122,936
Service concession asset - net (Notes 9 and 13)	**15,556,734,023**	15,822,519,553
Available-for-sale financial assets (Notes 13 and 25)	**577,721,750**	372,280,500
Other noncurrent assets (Note 25)	**53,610,941**	21,162,090
Total Noncurrent Assets	**16,309,603,574**	16,321,085,079
	₱17,720,785,422	₱17,706,278,001
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and other current liabilities (Notes 10, 12 and 25)	**₱1,060,064,844**	₱575,554,935
Due to related parties (Notes 12 and 25)	**521,510**	9,942,347
Unearned toll revenue	**10,584,590**	30,985,896
Income tax payable	**31,355,870**	18,054,662
Dividends payable (Notes 12, 14 and 25)	**37,740,000**	181,684,800
Provisions (Note 11)	**249,103,430**	125,690,989
Current portion of long-term debt (Notes 8, 9, 13 and 25)	**145,174,660**	2,176,378,648
Derivative liabilities (Note 25)	**–**	211,912,455
Total Current Liabilities	**1,534,544,904**	3,330,204,732
Noncurrent Liabilities		
Long-term debt - net of current portion (Notes 8, 9, 13 and 25)	**8,905,442,780**	7,177,953,827
Accrued retirement costs (Note 17)	**10,646,909**	873,614
Provisions (Note 11)	**189,931,902**	308,342,672
Deferred tax liabilities - net (Note 22)	**325,841,056**	322,154,388
Derivative liabilities (Note 25)	**130,155,566**	–
Total Noncurrent Liabilities	**9,562,018,213**	7,809,324,501
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	**1,097,496,483**	1,027,025,649
Other comprehensive income reserve (Note 25)	**(4,624,495)**	14,011,951
Other reserve (Note 18)	**5,639,149**	–
Total Equity	**6,624,222,305**	6,566,748,768
	₱17,720,785,422	₱17,706,278,001

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	
	2011	2010
OPERATING REVENUES		
Toll fees	**₱6,464,946,010**	₱5,857,950,486
Sales of transponders and magnetic cards	**42,071**	543,900
	6,464,988,081	5,858,494,386
COST OF SERVICES (Notes 9, 11, 12 and 15)	**(2,854,496,993)**	(2,583,582,753)
GROSS PROFIT	**3,610,491,088**	3,274,911,633
CONSTRUCTION REVENUE (Notes 5 and 9)	**99,077,443**	1,253,064,437
CONSTRUCTION COSTS (Notes 5 and 9)	**(99,077,443)**	(1,253,064,437)
GENERAL AND ADMINISTRATIVE EXPENSES (Notes 5, 8, 11, 12, 16, 17 and 18)	**(609,917,384)**	(863,540,664)
INTEREST EXPENSE AND OTHER FINANCE COSTS (Notes 13 and 20)	**(1,266,011,049)**	(1,099,753,873)
INTEREST INCOME (Note 19)	**143,196,501**	90,106,282
FOREIGN EXCHANGE GAIN (LOSS) – Net	**(10,740,591)**	111,975,917
OTHER EXPENSE (Notes 21 and 25)	**(94,636,391)**	(227,517,489)
OTHER INCOME (Notes 12 and 21)	**370,187,822**	91,842,510
INCOME BEFORE INCOME TAX	**2,142,569,996**	1,378,024,316
PROVISION FOR INCOME TAX (Note 22)		
Current	**550,825,446**	43,756,592
Deferred	**11,673,716**	26,642,331
	562,499,162	70,398,923
NET INCOME	**₱1,580,070,834**	₱1,307,625,393

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	
	2011	2010
NET INCOME	**₱1,580,070,834**	₱1,307,625,393
OTHER COMPREHENSIVE INCOME		
Net gain (loss) on cash flow hedges (Note 25)	**(30,252,244)**	11,278,639
Income tax effect	**9,075,673**	(3,383,592)
	(21,176,571)	7,895,047
Gain on available-for-sale financial assets (Note 25)	**3,628,750**	23,493,000
Income tax effect	**(1,088,625)**	(7,047,900)
	2,540,125	16,445,100
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**(18,636,446)**	24,340,147
TOTAL COMPREHENSIVE INCOME	**₱1,561,434,388**	₱1,331,965,540

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, 2011 AND 2010

	Capital Stock - ₱100 Par Value	Additional Paid-in Capital	Retained Earnings	Other Comprehensive Income Reserve	Other Reserve	Total Equity
At January 1, 2011	**₱1,776,000,000**	**₱3,749,711,168**	**₱1,027,025,649**	**₱14,011,951**	**₱–**	**₱6,566,748,768**
Cash dividends (Note 14)	**–**	**–**	**(1,509,600,000)**	**–**	**–**	**(1,509,600,000)**
Equity contribution - executive stock option plan (Note 18)	**–**	**–**	**–**	**–**	**5,639,149**	**5,639,149**
Net income	**–**	**–**	**1,580,070,834**	**–**	**–**	**1,580,070,834**
Other comprehensive income (Note 25)	**–**	**–**	**–**	**(18,636,446)**	**–**	**(18,636,446)**
Total comprehensive income for the year	**–**	**–**	**1,580,070,834**	**(18,636,446)**	**–**	**1,561,434,388**
At December 31, 2011	**₱1,776,000,000**	**₱3,749,711,168**	**₱1,097,496,483**	**(₱4,624,495)**	**₱5,639,149**	**₱6,624,222,305**
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 25)	–	–	–	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

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	
	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱2,142,569,996**	₱1,378,024,316
Adjustments to reconcile income before income tax to net cash flows:		
Interest expense and other finance costs (Note 20)	**1,266,011,049**	1,099,753,873
Amortization of service concession asset (Notes 9 and 15)	**592,987,123**	559,180,335
Reversal of allowance for potential losses on input value-added tax (Notes 5 and 21)	**(288,052,966)**	–
Interest income (Note 19)	**(143,196,501)**	(90,106,282)
Mark-to-market loss on derivatives (Note 21)	**94,636,391**	227,517,489
Depreciation of property and equipment (Notes 8 and 16)	**31,524,935**	27,351,129
Deferred toll revenue realized	**(30,985,896)**	(21,134,973)
Movements in:		
Provisions	**5,001,671**	(100,278,569)
Accrued retirement costs	**9,773,295**	(8,739,377)
Provision for potential losses on claim for refund (see Note 16)	**8,640,240**	–
Executive stock option plan expense (see Note 18)	**5,639,149**	–
Gain on disposals of property and equipment (Note 8)	**(348,613)**	(1,817,591)
Unrealized foreign exchange gain – net	**(165,345)**	(105,280,640)
Provision for potential losses on input value-added tax (Note 16)	**–**	334,069,949
Working capital changes:		
Decrease (increase) in:		
Receivables	**(35,973,429)**	(37,702,438)
Inventories	**(17,370,403)**	(1,142,511)
Due from related parties	**20,551,502**	(29,877,602)
Advances to contractors and consultants	**(13,112,023)**	247,483,547
Input value-added tax (Note 9)	**(42,059,750)**	(334,069,949)
Other current assets	**2,482,837**	7,954,538
Increase (decrease) in:		
Accounts payable and other current liabilities	**475,928,881**	326,477,941
Due to related parties	**(9,420,837)**	(377,925,548)
Unearned toll revenue	**10,584,590**	30,985,896
Income tax paid	**(537,524,238)**	(29,125,086)
Net cash flows provided by operating activities	**3,548,121,658**	3,101,598,447
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of investment in bonds (Note 25)	**(200,000,000)**	(300,000,000)
Increase in other noncurrent assets	**(12,099,004)**	(16,145,520)
Interest received	**143,490,164**	90,463,484
Additions to:		
Property and equipment (Note 8)	**(38,501,480)**	(28,677,154)
Service concession asset (Note 9)	**(99,077,443)**	(1,253,064,437)
Proceeds from sale of:		
Investment in bonds (Note 25)	**50,000,000**	300,000,000
Property and equipment (Note 8)	**392,123**	5,040,538
Net cash flows used in investing activities	**(155,795,640)**	(1,202,383,089)

	Years Ended December 31	
	2011	2010
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from loans (Note 13)	**₱7,210,230,849**	₱1,523,000,000
Payments of:		
Dividends (Note 14)	**(1,653,544,800)**	(1,613,584,800)
Interest	**(1,117,259,877)**	(906,467,892)
Loans	**(7,498,803,399)**	(630,365,169)
Debt issue costs (Note 13)	**(150,032,833)**	–
Swap termination costs (Notes 21 and 25)	**(209,010,941)**	–
Net cash flows used in financing activities	**(3,418,421,001)**	(1,627,417,861)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**156,793**	(736,265)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(25,938,190)**	271,061,232
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR (Note 6)	**1,146,855,351**	875,794,119
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 6)	**₱1,120,917,161**	₱1,146,855,351

See accompanying Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS

1. Corporate Information

Manila North Tollways Corporation ("MNTC" or the "Company") was incorporated in the Philippines and registered in the Philippine Securities and Exchange Commission (SEC) 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 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 "Manila-North Expressway 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), then First Philippine Infrastructure, Inc. (FPII) in exchange for the shares of MPTC. Prior to the assignment of shares, MPTDC is 51.0% owned by FPHC. MPTDC and MPTC are Philippine corporations.

MPTDC (then FPIDC) 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 (then FPIDC), SBMA and BCDA, MPTDC undertook the immediate construction of the SBMA - Tipo Road (Segment 7) that connects Tipo in Hermosa, Bataan to Subic. Under the MOA, SBMA authorized MPTDC to charge and collect 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 (then FPIDC). 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 13, 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 (then FPII) 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 59.0% owned by Metro Pacific Holdings, Inc. (MPHI). MPHI is a Philippine corporation whose stockholders are Enterprise Investment Holdings, Inc. (EIH) (60.0%), Intalink B.V. (26.7%) and First Pacific International Limited (13.3%). First Pacific Company Limited (FPC), a company incorporated in Bermuda and listed in Hong Kong, through its subsidiaries, holds 40.0% equity interest in EIH and an investment financing, which under Hong Kong Generally Accepted Accounting Principles require FPC to account for the results and assets and liabilities of EIH and its subsidiaries as FPC group companies in Hong Kong.

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

The financial statements as at and for the years ended December 31, 2011 and 2010 were authorized for issuance by the Company's Board of Directors (BOD) on February 23, 2012, as reviewed and recommended for approval by the Audit Committee.

2. The Supplemental Toll Operation Agreement for the Manila-North Expressway

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 (then FPIDC) on August 29, 1995, PNCC assigned its rights, interests and privileges under its franchise to construct, operate and maintain toll facilities in the NLE in favor of MNTC, including the design, funding and rehabilitation of the NLE, and installation of the appropriate collection system therein. MPTDC (then FPIDC) in turn assigned all its rights, interests and privileges to the Binictican-Bo. Tipo road project, as defined in the MOU dated March 6, 1995, to MNTC, which assumed all the rights and obligations as necessary and integral part of the 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 then Secretary of Justice in his letter to the then 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 ₱3.1 million and ₱8.2 million in 2011 and 2010, 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 obtained TRB's approval for certain amendments to the STOA for the Manila-North Expressway which includes the integration of Segment 10 into Phase II; amendment of adjustment formula for the Authorized Toll Rate (ATR) 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 and Disclosures
The accounting policies adopted are consistent with those of the previous financial year except for the adoption of the following new and amended PFRS and Philippine Interpretations of the International Financial Reporting Interpretations Committee (IFRIC) which became effective on January 1, 2011.

- Philippine Accounting Standard (PAS) 24 (Revised), "Related Party Disclosures"
- PAS 32 (Amendment), "Financial Instruments: Presentation - Classification of Rights Issues"
- Philippine Interpretation IFRIC 14 (Amendment), "Prepayments of a Minimum Funding Requirement"
- Philippine Interpretation IFRIC 19, "Extinguishing Financial Liabilities with Equity Instruments"
- 2010 Improvements to PFRSs (May 2010)

The adoption of the standards or interpretations is described below:

- PAS 24 (Revised) — PAS 24 clarifies the definitions of a related party. The new definitions emphasize a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity. In addition, the amendment introduces an exemption from the general related party disclosure requirements for transactions with government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The adoption of the amendment did not have significant impact on the financial statements of the Company.
- PAS 32 — The amendment alters the definition of a financial liability in PAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The amendment has no effect on the financial position or performance of the Company because the Company does not have these types of instruments.
- Philippine Interpretation IFRIC 14 (Amendment) — The amendment removes an unintended consequence when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover such requirements. The amendment permits a prepayment of future service cost by the entity to be recognized as a pension asset. The Company is not

subject to minimum funding requirements in the Philippines, therefore the amendment of the interpretation has no effect on the financial position nor performance of the Company.

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. Except as indicated, the adoption of the following amendments resulted in changes to accounting policies but did not have significant impact on the financial position or performance of the Company.

- PFRS 7, "Financial Instruments: Disclosures" — The amendment was intended to simplify the disclosures provided by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context. The Company reflects the revised disclosure requirements in Note 24.

- PAS 1, "Presentation of Financial Statements" — The amendment clarifies that an entity may present an analysis of each component of other comprehensive income maybe either in the statement of changes in equity or in the notes to the financial statements. The Company provides this analysis in the statement of changes in equity.

- Philippine Interpretation IFRIC 13, "Customer Loyalty Programmes – Determining the fair value of award credits" — The amendment clarifies the meaning of fair value in the context of measuring award credits under customer loyalty programmes.

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

- PFRS 3, "Business Combinations – Measurement options available for non-controlling interest"
- PFRS 3, "Business Combinations – Contingent consideration arising from business combination prior to adoption of PFRS 3 (as revised in 2008)"
- PFRS 3, "Business Combinations – Un-replaced and voluntarily replaced share-based payment awards"
- PAS 27, "Consolidated and Separate Financial Statements"
- PAS 34, "Interim Financial Reporting"
- Philippine Interpretation IFRIC 19, "Extinguishing Financial Liabilities with Equity Instruments"

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

Initial Recognition and Measurement

The Company recognizes a financial asset or a financial liability when it becomes a party to the contractual provisions of the instrument. Financial assets are classified as financial assets at fair value through profit 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. The Company determines the classification of its financial assets at initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year-end.

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

All regular way purchases and sales of financial assets and liabilities 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.

Subsequent Measurement

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

a. Financial Assets and Liabilities at FVPL

Financial assets or liabilities at FVPL include financial assets and liabilities 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 at December 31, 2011 and 2010, the Company has outstanding cross currency and interest rate swaps classified as financial assets and liabilities at FVPL (see Note 25).

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) (see Notes 6, 7, 12 and 25).

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.

The Company has investments in fixed rate retail treasury bonds of the ROP that were previously classified as HTM investments. As further discussed in Note 25, in view of the pretermination of the HTM investments, the fixed rate retail treasury bonds were reclassified to AFS financial assets in 2010 and continue to be presented as such as at December 31, 2011 and 2010.

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 at December 31, 2011 and 2010, the Company's AFS financial assets consist of investments in fixed rate retail treasury bonds of the ROP (see Note 25).

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

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.

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 (see Notes 10, 12, 13, 14 and 25).

<u>Offsetting Financial Instruments</u>
Financial assets and financial 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.

<u>Fair Value of Financial Instruments</u>
The fair value of financial instruments that are traded in active markets at balance sheet date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. 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 not traded in an active market, the fair value is determined using valuation techniques. Such techniques may include:

- Using recent arm's length market transactions;
- Reference to the current fair value of another instrument that is substantially the same; and
- A discounted cash flow analysis or other valuation models.

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.

'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. Interest income continues to be accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income in the 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. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the statement of income.

Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount future cash flows for the purpose of measuring 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 has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

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

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

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

Derivatives and Hedge Accounting

Freestanding Derivatives. The Company uses derivative financial instruments, such as forward currency contracts and interest rate swaps, to hedge its foreign currency risks and interest rate risks, respectively. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

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

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

In cash flow hedges, changes in the fair value of a hedging instrument that qualifies as 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.

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

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

Embedded derivatives that are bifurcated from the host contracts are accounted for as financial assets at FVPL. Changes in fair values are recognized in the 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).

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

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

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

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 Arrangement
The Company accounts for its concession arrangement 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 Asset. The service concession asset is recognized initially at the fair value of the construction services. Following initial recognition, the service concession asset is carried at cost less accumulated amortization and any impairment losses.

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

Impairment of Property and Equipment and Service Concession Asset
The Company assesses at each balance sheet date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or 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. When the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples 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 balance sheet 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, 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.

Other reserve comprise the contribution from MPIC in relation to its executive stock option plan granted to MNTC employees accounted for as equity-settled share-based payment transactions.

Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the amount of the revenue can be measured reliably, regardless of when the payment is made. Revenue is measured at fair value of the consideration received or receivable, taking into account contractually defined terms of payment, excluding value-added tax (VAT), discounts and rebates. The Company assesses its revenue arrangement 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.

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

Interest income is recognized as the interest accrues using the effective interest 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. This includes refunds from lenders and other income.

Cost and Expenses Recognition

Cost and expenses are decreases in economic benefits during the accounting period in the form of outflows or decrease of assets or incurrence of liabilities that result in decrease in equity, other than those relating to distributions to equity participants. Cost of services, general and administrative expenses 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 asset during the construction period.

Borrowing Costs
Borrowing costs are capitalized as part of service concession asset 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.

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

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. Plan assets are assets that are held by a long-term employee benefit fund. Plan assets are not available to the creditors of the Company, nor can they be paid directly to the Company. Fair value is based on market price information and, in the case of quoted securities, it is the published bid price.

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.

A settlement occurs when an entity enters into a transaction that eliminates all further legal or constructive obligation for part or all of the benefits provided under a defined benefit plan, for example, when a lump sum cash payment is made to, or on behalf of, plan participants in exchange for their rights to receive specified post-employment benefits. Gains or losses on settlement of a defined benefit plan are recognized when the settlement occurs. The gains or losses on a settlement comprise: (a) any resulting change in the present value of the defined benefit obligation; (b) any resulting change in fair value of plan assets; and (c) any related actuarial gains and losses and past service cost that had not previously been recognized.

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

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

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

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

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

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

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.

Value-added Tax
Revenues, expenses and assets are recognized net of the amount of VAT except:

a. Where the VAT incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the VAT is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable.

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

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

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 at December 31, 2011:

- PFRS 7, "Financial Instruments: Disclosures – Enhanced Derecognition Disclosure Requirements" (effective for annual periods beginning on or after July 1, 2011) — This amendment requires additional disclosure about financial assets that have been transferred but not derecognized to enable the user of the Company's financial statements to understand the relationship with those assets that have not been derecognized and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognized assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognized assets. The amendment affects disclosures only and will have no impact on the Company's financial position or performance.

- PFRS 7, "Financial instruments: Disclosures — Offsetting Financial Assets and Financial Liabilities" (retrospectively applied for annual periods beginning on or after January 1, 2013) — These amendments require an entity to disclose information about rights of set-off and related arrangements (such as collateral agreements). The new disclosures are required for all recognized financial instruments that are set off in accordance with PAS 32. These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or 'similar agreement', irrespective of whether they are set-off in accordance with PAS 32. The amendments require entities to disclose, in a tabular format unless another format is more appropriate, the following minimum quantitative information. This is presented separately for financial assets and financial liabilities recognized at the end of the reporting period:

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

The amendment affects disclosures only and has no impact on the Company's financial position or performance.

- PFRS 9, "Financial Instruments: Classification and Measurement" (effective for annual periods beginning on or after January 1, 2015) — 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 impairment of financial assets will be addressed with the completion of this project expected on the first half of 2012. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Company's financial assets, but will potentially have no impact on classification and measurements of financial liabilities. The Company will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

- PFRS 10, "Consolidated Financial Statements" (effective for annual periods beginning on or after January 1, 2013) — PFRS 10 replaces the portion of PAS 27, "Consolidated and Separate Financial Statements", that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12, "Consolidation - Special Purpose Entities". PFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by PFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in PAS 27. This amendment will have no impact on the Company's financial position and performance.

- PFRS 11, "Joint Arrangements" (effective for annual periods beginning on or after January 1, 2013) — PFRS 11 replaces PAS 31, "Interests in Joint Ventures" and SIC-13, "Jointly-controlled Entities - Non-monetary Contributions by Venturers". PFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. The amendment will have no impact on the Company's financial position or performance.

- PFRS 12, "Disclosure of Involvement with Other Entities" (effective for annual periods beginning on or after January 1, 2013) — PFRS 12 includes all of the disclosures that were previously in PAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in PAS 31 and PAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required which will be disclosed by the Company in the financial statements upon adoption of the standard.

- PFRS 13, "Fair Value Measurement" (effective for annual periods beginning on or after January 1, 2013) — PFRS 13 establishes a single source of guidance under PFRS for all fair value measurements. PFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS when fair value is required or permitted. The Company is currently assessing the impact that this standard will have on the financial position and performance.

- PAS 1, "Financial Statement Presentation – Presentation of Items of Other Comprehensive Income" (effective for annual periods beginning on or after July 1, 2012) — The amendments change the grouping of items presented in other comprehensive income. Items that could be reclassified (or "recycled") to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and there is no impact on the Company's financial position or performance.

- PAS 12, "Income Taxes – Recovery of Underlying Assets" (effective for annual periods beginning on or after January 1, 2012) — The amendment clarified the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in PAS 40, "Investment Property" should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in PAS 16, "Property, Plant and Equipment" always be measured on a sale basis of the asset. The amendment will have no impact on the Company's financial position or performance as the Company has no investment property.

- PAS 19, "Employee Benefits" (Amendment), "Employee Benefits" (effective for annual periods beginning on or after January 1, 2013) — These amendments range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The Company currently recognizes actuarial gains and losses under the corridor approach. Upon adoption of the amended PAS 19, unrecognized actuarial gains or losses will be recognized immediately as other comprehensive income.

- PAS 27, "Separate Financial Statements" (as revised in 2011) (effective for annual periods beginning on or after January 1, 2013) — As a consequence of the new PFRS 10, "Consolidated Financial Statements" and PFRS 12, "Disclosure of Interests in Other Entities", what remains of PAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. This amendment will have no impact on the Company's financial position and performance.

- PAS 28, "Investments in Associates and Joint Ventures" (as revised in 2011) (effective for annual periods beginning on or after January 1, 2013) — As a consequence of the new PFRS 11, "Joint Arrangements" and PFRS 12, PAS 28 has been renamed PAS 28, "Investments in Associates and Joint Ventures", and describes the application of the equity method to investments in joint ventures in addition to associates. This amendment will have no impact on the Company's financial position and performance.

- PAS 32, "Financial Instruments: Presentation – Offsetting Financial Assets and Financial liabilities" (retrospectively applied for annual periods beginning on or after January 1, 2014) — These amendments to PAS 32 clarify the meaning of "currently has a legally enforceable right to set-off" and also clarify the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. While the amendment is expected not to have any impact on the net assets of the Company, any changes in offsetting is expected to impact leverage ratios and regulatory capital requirements. The Company is currently assessing impact of the amendments to PAS 32.

- 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. 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. The SEC and the Financial Reporting Standards Council (FRSC) have deferred the effectivity of this interpretation until the final Revenue standard is issued by International Accounting Standards Board (IASB) and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed. The Company does not conduct such activity and, therefore, does not expect this interpretation to have an impact on the Company's financial statements.

- Philippine Interpretation IFRIC 20, "Stripping Costs in the Production Phase of a Surface Mine" (effective for annual periods beginning on or after January 1, 2013) — This interpretation applies to waste removal costs that are incurred in surface mining activity during the production phase of the mine ("production stripping costs") and provides guidance on the recognition of production stripping costs as an asset and measurement of the stripping activity asset. The Company does not conduct such activity and, therefore, does not expect this interpretation to have an impact on the Company's financial statements.

5. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the financial statements in compliance with PFRS requires management to make judgments, estimates and assumptions 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 at 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 have 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 Arrangement. 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 asset is 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 asset. The carrying value of service concession asset amounted to ₱15,556.7 million and ₱15,822.5 million as at December 31, 2011 and 2010, respectively (see Note 9).

The Company also recognizes construction revenues and costs in accordance with PAS 11, "Construction Contracts." It measures contract revenue at the fair value of the consideration received or receivable. Given that MNTC has subcontracted the construction to outside contractors, the construction revenue recognized is equal to the construction costs. Construction revenue and costs recognized in statements of income amounted to ₱99.1 million and ₱1,253.1 million for the years ended December 31, 2011 and 2010, 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, "Provisions, Contingent Liabilities and Contingent Assets," 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 ₱370.4 million and ₱396.7 million as at December 31, 2011 and 2010, respectively (see Note 11).

Classifying HTM Investment. 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 as HTM investments. However, in 2010, the Company sold a significant portion of its investments in bonds before their maturity dates. Thus, the Company reclassified the remaining and newly acquired investment in bonds as AFS financial assets and re-measured the investments to fair value. The breach on the tainting rule precluded the Company from classifying any financial asset as HTM investments for two years and as such, its investments in bonds continues to be classified as AFS financial assets (see Note 25).

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 25.

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 2011 and 2010.

Receivables (net of allowance for doubtful accounts of ₱5.3 million as at December 31, 2011 and 2010) amounted to ₱100.8 million and ₱65.1 million as at December 31, 2011 and 2010, respectively (see Note 7).

Due from related parties amounted to ₱9.8 million and ₱30.3 million as at December 31, 2011 and 2010, 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 ₱577.7 million and ₱424.1 million as at December 31, 2011 and 2010, respectively (see Note 25). No impairment loss was recognized in 2011 and 2010 as there were no indicators of impairment.

Input/Output VAT. 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.

As further discussed in Note 27, the Company, together with other tollway operators, continued to discuss the issue of VAT with the concerned government agencies from 2005 to 2010. The BIR continuously upheld its position that the tollway operators are subject to VAT and issued several Revenue Memorandum Circulars (RMCs) for the imposition of the VAT. The BIR also continuously issued VAT assessments to the Company. On the other hand, the TRB continued to direct the tollway companies (including the Company) to defer the imposition of the VAT.

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

In view of the foregoing, the Company continued in 2010 the practice of not recognizing any VAT liability. However, the Company continued to recognize input VAT but given the uncertainty as to whether input VAT will be allowed to be offset against future output VAT, the Company continued to provide 100% allowance on the accumulated input VAT. Thus, as at December 31, 2010, the total accumulated input VAT amounted to ₱1,438.7 million and allowance for potential losses on input VAT is for same amount. Provision for potential losses on input VAT amounted to ₱334.1 million for the year ended December 31, 2010 (see Note 16).

On July 21, 2011, the SC upheld the legality of RMC No. 63-2010 issued by the BIR on July 19, 2010, in line with Section 108 of the National Internal Revenue Code (NIRC) that allows the imposition of VAT on all services for a fee. In relation to the SC Decision dated July 21, 2011, the BIR issued RMC No. 39-2011 dated August 31, 2011 to fully implement the imposition of VAT on the gross receipts of tollway operators from all types of vehicles starting October 1, 2011.

In view of RMC 39-2011, the Company started imposing VAT on toll fees from motorists and correspondingly started recognizing VAT liability on October 1, 2011. As at December 31, 2011, total output VAT liability amounted to ₱76.6 million. With respect to input VAT, the Company reversed the accumulated input VAT as at December 31, 2010 amounting to ₱1,438.7 million of which, ₱1,150.6 million relates to input VAT on operating expenses and were written off against the related allowance. The remaining ₱288.1 million input VAT was capitalized to service concession asset as this relates to the construction of service concession asset, property and equipment and other current and noncurrent assets (see Notes 8 and 9). Management believes that had the input VAT not been previously recognized, the input VAT should have formed part of the cost of the assets. The related allowance of ₱288.1 million on input VAT was reversed to income upon capitalization of the input VAT to service concession asset, property and equipment and other current and noncurrent assets (see Note 21). Starting October 1, 2011, as allowed under RMC No. 39-2011, the Company recognized input VAT from its purchases of goods and services, portion of which had been applied against output VAT set up as discussed above. As at December 31, 2011, the unapplied input VAT amounted to ₱42.1 million.

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, 2011 and 2010. Inventories amounted to ₱55.3 million and ₱37.9 million as at December 31, 2011 and 2010, respectively.

Estimated Useful Lives. The useful life of each of the Company's item of property and equipment and service concession asset is estimated based on the period over which the assets are expected to be available for use by the Company. Such estimation is based on a collective assessment of similar businesses, internal technical evaluation and experience with similar assets. The estimated useful life of each asset is reviewed periodically and updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the asset. It is possible, however, that future results of operations could be materially affected by changes in the amounts and timing of recorded expenses brought about by changes in the factors mentioned above. An increase in the estimated useful life of any item of property and equipment and service concession asset 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 asset in 2011 and 2010. The carrying value of property and equipment amounted to ₱121.5 million and ₱105.1 million as at December 31, 2011 and 2010, respectively (see Note 8). The carrying value of service concession asset amounted to ₱15,556.7 million and ₱15,822.5 million as at December 31, 2011 and 2010, respectively (see Note 9).

Impairment of Nonfinancial Assets. Impairment review of property and equipment and service concession asset 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, 2011 and 2010. There was no impairment testing performed for the years ended December 31, 2011 and 2010 as there were no indicators of impairment. The carrying value of property and equipment amounted to ₱121.5 million and ₱105.1 million as at December 31, 2011 and 2010, respectively (see Note 8). The carrying value of service concession asset amounted to ₱15,556.7 million and ₱15,822.5 million as at December 31, 2011 and 2010, 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 ₱325.8 million and ₱322.2 million as at December 31, 2011 and 2010, respectively (see Note 22).

Share-based Payments. The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payments requires determining the most appropriate valuation model for a grant of equity instruments, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payments are disclosed in Note 18.

Total cost arising from share-based payments recognized by the Company, included in salaries and employees benefits under "General and administrative expenses" account in the statement of income, amounted to ₱5.6 million for the year ended December 31, 2011 (see Note 18).

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 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 ₱10.6 million and ₱0.9 million as at December 31, 2011 and 2010, respectively. Cumulative unrecognized actuarial loss amounted to ₱36.6 million and ₱20.0 million as at December 31, 2011 and 2010, respectively (see Note 17).

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

The provision 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 ₱439.0 million and ₱434.0 million as at December 31, 2011 and 2010, 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 at December 31, 2011 and 2010 (see Note 27).

6. Cash and Cash Equivalents

This account consists of:

	2011	2010
Cash on hand and in banks (see Note 13)	**₱115,395,103**	₱290,552,581
Short-term deposits	**1,005,522,058**	856,302,770
	₱1,120,917,161	₱1,146,855,351

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:

	2011	2010
Trade receivables (see Note 12)	**₱89,345,710**	₱40,179,766
Advances to officers and employees (see Note 12)	**6,951,469**	5,104,112
Interest receivable	**3,513,967**	3,807,630
Other receivables (see Note 12)	**6,233,911**	21,278,096
	106,045,057	70,369,604
Less allowance for doubtful accounts	**5,259,500**	5,259,500
	₱100,785,557	₱65,110,104

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

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

Interest and other receivables are collectible within three months. As at December 31, 2010, other receivables include 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).

Receivables from Easytrip Services Corporation (ESC) amounting to ₱9.6 million as at December 31, 2010 previously classified under "Due from related parties" account was reclassified to "Receivables" account to conform with the current year presentation. The reclassification is only within current assets and no third balance sheet is needed.

There were no movements in the allowance for individually assessed impaired trade receivables as at December 31, 2011 and 2010.

8. Property and Equipment

The movements in this account follow:

	Building, Building Improvements and Leasehold Improvements	Transportation Equipment	Office Equipment and Others	Total
Cost:				
At January 1, 2010	₱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
Additions	2,285,388	16,390,137	19,825,955	38,501,480
Reclassifications (Note 5)	7,200,251	1,326,214	954,424	9,480,889
Disposals	–	(6,541,022)	(1,311,877)	(7,852,899)
At December 31, 2011	**₱79,309,742**	**₱62,620,744**	**₱147,252,034**	**₱289,182,520**

	Building, Building Improvements and Leasehold Improvements	Transportation Equipment	Office Equipment and Others	Total
Accumulated depreciation:				
At January 1, 2010	₱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
Depreciation (see Note 16)	5,002,690	10,125,768	16,396,477	31,524,935
Disposals	–	(6,497,568)	(1,311,821)	(7,809,389)
At December 31, 2011	**₱19,014,449**	**₱32,536,333**	**₱116,094,878**	**₱167,645,660**
Net book value:				
At December 31, 2011	**₱60,295,293**	**₱30,084,411**	**₱31,157,156**	**₱121,536,860**
At December 31, 2010	55,812,344	22,537,282	26,773,310	105,122,936
At January 1, 2010	57,172,974	22,982,062	26,864,822	107,019,858

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

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

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

Proceeds from the sale of property and equipment amounted to ₱0.4 million and ₱5.0 million in 2011 and 2010, respectively. Gain on disposal of property and equipment amounted to ₱0.3 million and ₱1.8 million for the years ended December 31, 2011 and 2010, respectively.

The gross carrying amounts of fully depreciated property and equipment that are still in use amounted to ₱101.8 million and ₱95.1 million as at December 31, 2011 and 2010, respectively.

9. Service Concession Asset

The movements in this account follow:

	2011	2010
Cost:		
Balance at beginning of year	**₱19,486,623,005**	₱18,233,558,568
Additions	**99,077,443**	1,253,064,437
Reclassification (see Note 5)	**228,124,150**	–
Balance at end of year	**₱19,813,824,598**	₱19,486,623,005

	2011	2010
Accumulated amortization:		
Balance at beginning of year	**₱3,664,103,452**	₱3,104,923,117
Amortization (see Note 15)	**592,987,123**	559,180,335
Balance at end of year	**₱4,257,090,575**	₱3,664,103,452
Carrying value:		
At December 31	**₱15,556,734,023**	₱15,822,519,553
At January 1	15,822,519,553	15,128,635,451

Additions during 2011 pertain mainly to pre-construction costs of Segments 8.2, 9 and 10 of Phase II of the Project while additions during 2010 pertain mainly to the construction of Segment 8.1. Borrowing costs capitalized amounted to ₱35.2 million for the year ended December 31, 2010. The interest rate used to determine the amount of borrowing costs eligible for capitalization was 9.6% in 2010. There were no borrowing costs capitalized in 2011 as Segment 8.1 already started tollway operation in June 2010.

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

10. Accounts Payable and Other Current Liabilities

This account consists of:

	2011	2010
Trade payables (see Note 12)	**₱300,892,097**	₱280,482,800
Accrued expenses (see Note 12)	**562,494,677**	170,257,984
Output value-added tax (see Note 5)	**76,582,161**	–
Withholding taxes payable	**33,523,365**	53,894,348
Interest payable	**32,472,965**	23,879,072
Retention payable	**29,112,003**	25,829,577
Others	**24,987,576**	21,211,154
	₱1,060,064,844	₱575,554,935

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

Accrued expenses consist of:

	2011	2010
PNCC fee (see Note 12)	**₱417,553,845**	₱32,366,834
Operator's fee (see Note 12)	**73,261,323**	33,588,046
Salaries and employee benefits	**35,263,818**	36,929,816
Repairs and maintenance	**10,862,490**	21,386,083

(Forward)

	2011	2010
Spare parts inventories	**₱8,441,549**	₱3,936,634
Professional fees	**5,790,763**	10,646,455
Outside services	**1,861,343**	7,750,310
Toll collection and medical services	**1,646,400**	1,810,828
Construction costs	**831,690**	9,766,486
Advertising and marketing expenses	**684,705**	5,685,396
Communication, light and water	**158,077**	780,902
Others	**6,138,674**	5,610,194
	₱562,494,677	₱170,257,984

Interest payable is settled within six months.

Trade and accrued payables to TMC, ESC, Egis Projects Philippines, Inc. (EPPI) and PNCC as at December 31, 2010, amounting to ₱321.3 million, previously classified as "Due to related parties" account were reclassified to "Accounts payable and other current liabilities" account to conform with the current year presentation. The reclassification is only within current liabilities and no third balance sheet is needed.

11. **Provisions**

The movements in this account follow:

	Heavy Maintenance	Others	Total
At January 1, 2010	₱415,827,304	₱118,484,926	₱534,312,230
Additions (see Notes 15 and 16)	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
Additions (see Notes 15 and 16)	120,000,000	38,799,285	158,799,285
Payments	(146,297,614)	(7,500,000)	(153,797,614)
At December 31, 2011	**₱370,394,626**	**₱68,640,706**	**₱439,035,332**
At December 31, 2011:			
Current	**₱180,462,724**	**₱68,640,706**	**₱249,103,430**
Noncurrent	**189,931,902**	**–**	**189,931,902**
	₱370,394,626	**₱68,640,706**	**₱439,035,332**
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

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 asset 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 asset.

Other provisions include estimated liabilities for certain reimbursements of corporate expenses being claimed against the Company by a related party (see Note 12). Other provisions also include estimated liabilities for losses on claims by a third party. The information usually required by PAS 37, “Provisions, Contingent Liabilities and Contingent Assets” is not disclosed as it may prejudice the Company’s negotiation with the third party.

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)	PNCC Fee (see Note 15)	Outside Services (see Note 16)	Repairs and Maintenance (see Note 15)	Other Income (see Note 21)
MPTC	**2011**	**₱58,500,000**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**
	2010	63,529,412	–	–	–	–	–
PNCC	**2011**	**–**	**–**	**385,244,775**	**–**	**–**	**–**
	2010	–	–	348,358,026	–	–	–
TMC	**2011**	**–**	**1,566,118,059**	**–**	**–**	**–**	**–**
	2010	–	1,339,566,588	–	–	–	–
EPPI	**2011**	**–**	**–**	**–**	**–**	**26,153,481**	**–**
	2010	–	–	–	–	24,279,987	–
ESC	**2011**	**–**	**–**	**–**	**32,835,319**	**–**	**–**
	2010	–	–	–	24,072,250	–	–
Smart Communications	**2011**	**–**	**–**	**–**	**–**	**–**	**27,807,317**
Inc. (Smart)	2010	–	–	–	–	–	325,000
PLDT	**2011**	**–**	**–**	**–**	**–**	**–**	**2,503,821**
	2010	–	–	–	–	–	63,422,748
Total	**2011**	**₱58,500,000**	**₱1,566,118,059**	**₱385,244,775**	**₱32,835,319**	**₱26,153,481**	**₱30,311,138**
	2010	63,529,412	1,339,566,588	348,358,026	24,072,250	24,279,987	63,747,748

Transactions with MPTC

- In 2011 and 2010, the Company was billed by MPTC an amount of ₱58.5 million (inclusive of VAT) and ₱71.2 million (inclusive of VAT), respectively, for managerial and financial advisory services. The Company and MPTC are in the process of formalizing the management agreement as at February 23, 2012.

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 Amended and Restated Shareholders’ Agreement (ARSA) dated September 30, 2004, shall be subordinated to operating expenses and the requirements of the financing agreements and shall be paid out subject to availability of funds. In December 2006, 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 ARSA, the Company continues to accrue and pay the PNCC entitlement.

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. Subsequently, PNCC filed a motion for clarification with the SC to clarify whether only PNCC's net income from the toll revenues, or PNCC's gross share in the NLE tollway revenues, should be remitted to the National Government. On April 12, 2011, the SC issued a Resolution directing MNTC to remit PNCC's share in the net income from toll revenues to the National Treasury and the TRB, with the assistance of the Commission on Audit (COA), was directed to prepare and finalize the implementing rules and guideline relative to the determination of the net income remittable by PNCC to the National Treasury.

In the meantime, while the guidelines have yet to be formulated, PNCC and TRB have agreed to remit the entire consigned amount to the National Treasury. Thus, PNCC, TRB and MNTC filed an urgent joint manifestation and motion with the RTC of Caloocan asking it to dismiss the Petition and remit the consigned amount to the National Treasury. MNTC subsequently filed a motion to dismiss PNCC's counterclaims against MNTC. On August 10, 2011, the RTC of Caloocan issued an Order dismissing PNCC's counterclaims against MNTC.

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

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

On January 11, 2012, RTC of Caloocan, despite the fact that the consigned amount has already been remitted to the National Treasury, granted FHC's petition filed on September 19, 2011. Following the grant made by the RTC of Caloocan, MNTC has not remitted to anyone the payments for the PNCC fees accruing for the month of December 2010 and the whole year of 2011 amounting to ₱417.6 million and the dividends declared to PNCC in 2011 amounting to ₱37.7 million. As at February 23, 2012, the case is still pending with the RTC of Caloocan.

- The Company claimed reimbursements from MPTDC for certain expenses incurred in behalf of MPTDC amounting to ₱5.5 million and ₱55.3 million in 2011 and 2010, respectively. Outstanding receivables from MPTDC amounted to ₱5.4 million and ₱28.8 million as at December 31, 2011 and 2010, respectively.

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 took 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.

  MPTDC (then FPIDC) and Egis Road Operation (collectively known as "Guarantors") guaranteed the liability of TMC under the O&M pursuant to the Agreements on the shareholders' corporate guarantee executed by the Guarantors with MNTC.

  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.

- On March 27, 2009, the Company 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 was substantially completed as at June 2010. There were no unapplied mobilization advances as at December 31, 2011 and 2010.

- 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. 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. Total services paid amounted to €0.3 million (₱16.4 million) in 2011 and €0.4 million (₱26.4 million) in 2010.

- 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.

- In October 2011, MNTC entered into an agreement with EPPI for the design, supply and installation of FOE at Dau, Mabalacat and Tipo Toll Plazas with the objective of having a single toll collection system for both the NLE and SCTEx. Total contract price amounted to €2.6 million, a fixed lump sum price, inclusive of VAT, and valid for 425 days from the Base Date. Unapplied mobilization advances to EPPI, included as part of "Advances to contractor and consultants" account in the balance sheet amounted to €0.2 million (₱9.0 million) as at December 31, 2011.

- The Company purchased spare parts inventories from EPPI. Total purchases amounted to ₱9.9 million in 2011 and ₱15.7 million in 2010.

- 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.

- In 2010, as part of MNTC's commercial policy on sponsorship of NLEX communication programs through co-branding, the Company and Smart, together with PLDT, entered into an agreement for the "Northern Fiesta Campaign" which is collaborative tourism promotion of local fiestas and festivals in the North and of safety and traffic discipline along the NLE through print media and through banners and traffic control gates stickers in the NLE toll plazas. Outstanding receivable from Smart for its share in the costs of the promotion amounted to ₱12.4 million (inclusive of VAT) and ₱1.0 million (inclusive of VAT) as at December 31, 2011 and 2010, respectively (see Note 7).

Also, on January 5, 2011, MNTC and Smart signed a Utility Facilities Contract where MNTC provides Smart an access for the construction, operation and maintenance of a cellsite inside the NLE right of way for an annual fee of ₱0.3 million which shall then be escalated annually to 4.5% starting on the fourth year of the contract and every year thereafter. The contract is effective from April 26, 2010 for a period of five years which may be renewed or extended upon mutual agreement by MNTC and Smart.

Total income of ₱27.8 million and ₱0.3 million from utility facilities and advertising in 2011 and 2010, respectively, were recorded as "Other income" account in the statement of income (see Note 21).

- 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, the contract of which is currently being negotiated between MNTC and PLDT. Pending the final contract, PLDT already paid ₱1.3 million for annual fee for the years ended December 31, 2011 and 2010. PLDT also paid ₱52.2 million for one-time exclusivity fee for the year ended December 31, 2010. There is no such transaction in 2011.

  In December 2010, MNTC also billed PLDT ₱9.8 million for one-time access fee and ₱0.1 million for the annual access fee for the Fiber Optic Overlay along Phase II Segment 8.1 (see Note 7). This was subsequently collected by MNTC together with the ₱0.1 million annual access fee in 2011.

  In relation to the joint sponsorship agreement discussed above, the Company has outstanding receivable from PLDT for its share in the costs of the promotion amounting to ₱1.7 million (inclusive of VAT) and ₱1.0 million (inclusive of VAT) as at December 31, 2011 and 2010, respectively (see Note 7).

  Total income from utility facilities and advertising amounting to ₱2.5 million and ₱63.4 million for the years ended December 31, 2011 and 2010, respectively were recorded under "Other income" account in the statements of income (see Note 21).

<u>Transactions with Other Related Parties</u>

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

	2011	2010
Short-term employee benefits	**₱83,777,148**	₱75,078,737
Retirement costs (see Note 17)	**10,786,377**	6,237,236
Executive stock option plan	**5,639,149**	–
	₱100,202,674	₱81,315,973

- 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 ₱0.6 million and ₱0.8 million in 2011 and 2010, respectively, recorded under "General and administrative expenses" account in the statements of income (see Note 16).

- Total advances to officers and employees amounted to ₱7.0 million and ₱5.1 million as at December 31, 2011 and 2010, respectively (see Note 7).

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

		Advances to Contractors and Consultants	Receivables (see Note 7)	Due from Related Parties	Accounts payable and other current liabilities (see Note 10)	Dividends payable	Due to Related Parties
MPTC	**2011**	**₱–**	**₱–**	**₱4,404,248**	**₱–**	**₱–**	**₱468,000**
	2010	–	–	–	–	–	9,942,347
MPTDC	**2011**	**–**	**–**	**5,353,509**	**–**	**–**	**53,510**
	2010	–	–	28,775,238	–	–	–
PNCC	**2011**	**–**	**–**	**–**	**417,553,845**	**37,740,000**	**–**
	2010	–	–	–	32,366,834	–	–
TMC	**2011**	**–**	**–**	**–**	**295,636,057**	**–**	**–**
	2010	–	–	1,534,021	257,198,618	–	–
ESC	**2011**	**–**	**52,943,771**	**–**	**43,835,308**	**–**	**–**
	2010	–	9,590,962	–	16,502,167	–	–
EPPI	**2011**	**16,095,285**	**–**	**–**	**6,055,494**	**–**	**–**
	2010	–	–	–	15,282,073	–	–
Smart	**2011**	**–**	**12,421,535**	**–**	**–**	**–**	**–**
	2010	–	976,483	–	–	–	–
PLDT	**2011**	**–**	**1,673,970**	**–**	**–**	**–**	**–**
	2010	–	12,060,094	–	–	–	–
	2011	**₱16,095,285**	**₱67,039,276**	**₱9,757,757**	**₱763,080,704**	**₱37,740,000**	**₱521,510**
	2010	–	22,627,539	30,309,259	321,349,692	–	9,942,347

All amounts receivables from/payables to related parties are non-interest bearing.

Outstanding balances at year-end are unsecured and settlement occurs in cash for the outstanding receivables from/payables to related parties, while advances to contractors and consultants will be applied to future services rendered.

As at December 31, 2011 and 2010, 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.

As also discussed in Notes 7 and 10, due from and due to related parties amounting to ₱9.6 million and ₱321.3 million, respectively, as at December 31, 2010 were reclassified to "Receivables" and "Accounts payable and other current liabilities" accounts, respectively, to conform with current year presentation.

13. **Long-term Debt**

This account consists of:

	2011	2010
Peso-denominated Notes and Loans:		
Term Loan Facility	**₱1,000,000,000**	₱–
Series A Notes	**6,210,230,849**	–
Philippine National Bank Loan (PNB)	**1,995,000,000**	2,100,000,000
Fixed Rate Corporate Notes (FXCN)	–	5,335,000,000
Asian Development Bank (ADB) Direct Loan (ADB Direct)	–	435,454,674
	9,205,230,849	7,870,454,674
U.S. Dollar-denominated Loans:		
USD Bank Facility (USD)	–	616,006,080
ADB Complementary Finance Scheme(ADB-CFS)	–	384,300,597
Credit Agricole Corporate and Investment Bank (COFACE)	–	314,945,870
Export Finance and Insurance Corporation (EFIC)	–	308,096,178
	–	1,623,348,725
	9,205,230,849	9,493,803,399
Less unamortized debt issue costs	**154,613,409**	139,470,924
	9,050,617,440	9,354,332,475
Less current portion of long-term debt - net of unamortized debt issue costs of ₱21,927,648 in 2011 and ₱42,424,751 in 2010	**145,174,660**	2,176,378,648
	₱8,905,442,780	₱7,177,953,827

The unamortized debt issue costs incurred in connection with the availment of long-term debt amounting to ₱154.6 million and ₱139.5 million as at December 31, 2011 and 2010, respectively, were deducted against the long-term debt. The movements in debt issue costs are as follows:

	2011	2010
Balance at beginning of year	**₱139,470,924**	₱226,995,394
Amortization during the year* (see Note 20)	**(134,890,348)**	(206,237,216)
Debt issue costs incurred during the year	**150,032,833**	122,343,370
Foreign exchange adjustments	–	(3,630,624)
Balance at end of year	**₱154,613,409**	₱139,470,924

* *Includes amortization of debt issue costs capitalized to service concession asset amounting to ₱667,833 in 2010.*

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

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 in 2009. Interest rate on ADB Direct is 4.66% in 2010.

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. Interest rate on the PNB Loan is initially fixed at 9.61% per annum. On November 22, 2010, the interest rate of the PNB Loan was amended from fixed to floating rate based on a six-month Philippine Dealing System Treasury Fixing (PDSTF) plus a spread of 0.50%. As at December 31, 2010, loan drawdowns on the facility amounted to ₱2.1 billion as at December 31, 2011 and 2010. Interest rates range from 2.16% to 5.88% in 2011 and 2.16% to 9.61% in 2010.

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 at December 31, 2010. Upon TRB's final acceptance of Segment 8.1, as certified by its independent engineer, the Company arranged the cancellation of the SBLC effective April 11, 2011.

The security for the above loans, which were released in April 2011, 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.

On March 11, 2011, MNTC entered into an interest rate swap transaction with PNB to convert the floating-rate PNB loan to fixed rate effective March 14, 2011. The interest rate swap effectively fixed the floating rate of the said loan over the remaining tenor at 5.9% per annum.

On April 15, 2011, the Company entered into a Corporate Notes Facility Agreement with various local financial institutions for fixed-rate unsecured notes amounting to ₱6.2 billion, with tenors ranging from 5 years, 7 years and 10 years ("Series A Notes"). Proceeds of the notes were used to prepay the ₱2.7 billion short-term loan in full and to partially prepay the 2006-issued FXCNs, with outstanding amount of ₱3.0 billion, on April 19, 2011. Weighted average fixed interest rate on the Series A Notes is 7.22% p.a. Debt issue costs incurred in the availment of the Series A Notes amounted to ₱141.9 million in 2011. Acceleration of the unamortized debt issue costs relating to the prepayment of the 2006-issued FXCN amounted to ₱61.3 million in 2011.

On April 15, 2011, the Company entered into an Amended and Restated Loan Agreement with PNB to amend certain commercial terms of the 2009 PNB Loan, incorporate the interest rate conversion from fixed to floating rate, and align the loan covenants with that of the Series A Notes.

On November 29, 2011, the Company issued a notice of prepayment to the remaining 2006-issued FXCN holders which agreed to relax the loan covenants but did not accept the Company's initial prepayment offer. On December 15, 2011, these Noteholders with outstanding notes of ₱2.3 billion were prepaid in full. Acceleration of unamortized debt issue costs relating to the prepayment of the remaining 2006-issued FXCN holders amounted to ₱36.1 million.

The prepayment fees paid to Noteholders in relation to the prepayment of the 2006-issued FXCN amounting to ₱329.9 million were recognized as part of "Interest expense and other finance costs" in the 2011 statement of income (see Note 20).

On December 12, 2011, the company entered into a Term Loan Facility Agreement for a ₱1.0 billion fixed-rate term loan facility from The Insular Life Assurance Company, Ltd. and the Philippine American Life and General Insurance Company. The loan facility has a final maturity date of 15 years, with two bullet repayment tranches of ₱500.0 million each after 10 and 15 years from availment date. Average fixed interest rate on the loan facility is 7.10% per annum. Debt issue cost incurred in the availment of the fixed-rate term loans amounted to ₱8.1 million.

As at December 31, 2011 and 2010, the Company is in compliance with the required financial ratios and other loan covenants.

14. **Equity**

Details of capital stock of the Company as at December 31, 2011 and 2010 are as follows:

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

Shareholders' Agreement (SA)

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 ARSA provides, among others, the transfer of certain Company shares from MPTDC to LIL resulting to a revised equity participation as follows: MPTDC - 67.1%; LIL - 16.5%; Egis - 13.9%; and PNCC - 2.5%.

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.

Cash Dividends
The Company's BOD declared the following cash dividends in 2011 and 2010:

Declaration Date	Record Date	Payment Date	Cash Dividend per Share	Total
August 3, 2011	August 3, 2011	August 12, 2011	₱40	₱710,400,000
December 16, 2011	December 15, 2011	December 31, 2011	45	799,200,000
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

Unpaid dividends amounted to ₱37.7 million and ₱181.7 million as at December 31, 2011 and 2010, respectively.

15. Cost of Services

This account consists of:

	2011	2010
Toll operation and maintenance costs	**₱2,261,491,237**	₱2,023,834,358
Amortization of service concession asset (see Note 9)	**592,987,123**	559,180,335
Cost of inventories	**18,633**	568,060
	₱2,854,496,993	₱2,583,582,753

Toll operation and maintenance costs consist of:

	2011	2010
Operator's fee (see Note 12)	**₱1,566,118,059**	₱1,339,566,588
PNCC fee (see Note 12)	**385,244,775**	348,358,026
Repairs and maintenance (see Note 12)	**127,680,969**	202,939,397
Provision for heavy maintenance (see Note 11)	**109,116,393**	54,911,915
Insurance	**48,957,913**	43,511,555
Toll collection and medical services	**21,297,634**	21,331,200
Others	**3,075,494**	13,215,677
	₱2,261,491,237	₱2,023,834,358

16. **General and Administrative Expenses**

This account consists of:

	2011	2010
Salaries and employee benefits (see Notes 12, 17 and 18)	**₱196,334,506**	₱156,805,995
Taxes and licenses	**70,063,924**	62,980,927
Advertising and marketing expenses	**60,289,272**	50,267,216
Management fees (see Note 12)	**58,500,000**	63,529,412
Outside services (see Note 12)	**49,639,497**	38,161,293
Provisions (see Note 11)	**38,799,285**	29,051,247
Professional fees	**31,562,736**	39,753,685
Depreciation (see Note 8)	**31,524,935**	27,351,129
Representation and travel	**26,264,300**	26,683,326
Communication, light and water	**9,523,453**	9,031,653
Repairs and maintenance	**9,103,440**	5,893,608
Provision for potential losses on claim for refund	**8,640,240**	–
Collection charges	**5,445,734**	6,716,137
Office supplies	**3,420,286**	4,033,197
Training and development costs	**3,171,569**	2,296,450
Directors' fees	**590,000**	810,000
Rentals	**517,354**	376,339
Provision for potential losses on input VAT (see Note 5)	**–**	334,069,949
Miscellaneous	**6,526,853**	5,729,101
	₱609,917,384	₱863,540,664

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 statements of income and "Accrued retirement costs" account in the balance sheets, which are based on the latest actuarial valuation.

	2011	2010
Components of provision for retirement benefits:		
Current service cost	**₱13,055,802**	₱5,680,909
Interest cost	**6,512,846**	3,790,217
Expected return on plan assets	**(1,890,146)**	(1,778,791)
Past service cost - vested benefits	**18,588,469**	–
Past service cost - non-vested benefits	**231,907**	–
Net actuarial loss (gain) recognized for the year	**657,333**	(308,775)
	₱37,156,211	₱7,383,560

	2011	2010
Accrued retirement costs:		
Balance at beginning of year	**₱873,614**	₱9,612,991
Contribution during the year	**(27,382,916)**	(16,122,937)
Provision for retirement benefits for the year	**37,156,211**	7,383,560
	₱10,646,909	₱873,614

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

	2011	2010
Balance at beginning of year	**₱68,082,135**	₱35,455,729
Current service cost	**13,055,802**	5,680,909
Interest cost	**6,512,846**	3,790,217
Past service cost - vested benefits	**18,588,469**	–
Past service cost - non-vested benefits	**927,627**	–
Benefits paid	**(3,271,234)**	(8,526,589)
Actuarial loss	**21,510,124**	31,681,869
Balance at end of year	**₱125,405,769**	₱68,082,135

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

	2011	2010
Balance at beginning of year	**₱47,253,657**	₱35,575,826
Expected return on plan assets	**1,890,146**	1,778,791
Contribution during the year	**27,382,916**	16,122,937
Benefits paid	**(3,271,234)**	(8,526,589)
Actuarial gain	**4,217,070**	2,302,692
Balance at end of year	**₱77,472,555**	₱47,253,657

The actual return on plan assets amounted to ₱6.1 million in 2011 and ₱4.1 million in 2010.

The Company expects to contribute ₱23.7 million to its defined benefit retirement plan in 2012.

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

	2011	2010
Investments in:		
Government securities	**82.45%**	71.39%
Perpetual preferred shares	**8.12%**	13.26%
Loans/notes receivable	**4.71%**	7.84%
Cash in banks	**4.06%**	7.13%
Receivables and others	**0.66%**	0.38%
	100.00%	100.00%

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

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

	2011	2010
PVRO	**₱125,405,769**	₱68,082,135
FVPA	**(77,472,555)**	(47,253,657)
Underfunded PVRO	**47,933,214**	20,828,478
Cumulative unrecognized actuarial loss at end of year	**(36,590,585)**	(19,954,864)
Unrecognized past service cost – non-vested benefits	**(695,720)**	–
Accrued retirement costs	**₱10,646,909**	₱873,614

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

	2011	2010
Cumulative unrecognized actuarial loss (gain) at beginning of year	**₱19,954,864**	(₱9,733,088)
Actuarial loss for the year due to PVRO	**21,510,124**	31,681,869
Actuarial gain for the year due to FVPA	**(4,217,070)**	(2,302,692)
	37,247,918	19,646,089
Less actuarial loss (gain) recognized for the year	**657,333**	(308,775)
Cumulative unrecognized actuarial loss at end of year	**₱36,590,585**	₱19,954,864

Cumulative unrecognized actuarial loss (gain) at beginning of year	**₱19,954,864**	(₱9,733,088)
Limit of corridor	**(6,808,214)**	(3,557,583)
Actuarial loss (gain) outside corridor to be amortized	**13,146,650**	(6,175,505)
Divided by expected average remaining service years of eligible employees	**20**	20
Amortization of actuarial loss (gain) to be recognized for the year	**₱657,333**	(₱308,775)

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

	2011	2010
Discount rate	**5.54%**	8.10%
Rate of increase in compensation	**12.00%**	12.00%
Expected rate of return	**4.00%**	4.00%

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

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

	2011	2010	2009	2008	2007
PVRO	**₱125,405,769**	₱68,082,135	₱35,455,729	₱14,822,369	₱30,912,241
FVPA	**(77,472,555)**	(47,253,657)	(35,575,826)	(24,068,574)	(4,258,003)
Underfunded (Overfunded) PVRO	**47,933,214**	20,828,478	(120,097)	(9,246,205)	26,654,238
Experience adjustments on retirement obligation - loss (gain)	**(111,365)**	6,097,300	700,476	(470,161)	247,229
Experience adjustments on plan assets - loss (gain)	**(4,217,070)**	(2,302,692)	(5,584,086)	(1,121,903)	1,997

18. Share-based Payment Plan

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

As amended, the overall limit on the number of shares which may be issued upon exercise of all options to be granted and yet to be exercised under the Plan must not exceed 5% of the shares in issue from time to time. The maximum number of shares in respect of which options may be granted under the Plan shall not exceed 5% of the issued shares of MPIC on June 14, 2007 or the date when an event of any change in the corporate structure or capitalization affecting MPIC's shares occurred, as the case may be.

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

MPIC has granted, on July 2, 2010, options in respect of 94,300,000 common shares of MPIC to new directors and senior management officers of MPIC and to selected management committee members of MPIC subsidiaries (includes the Company). The stock options will expire on July 2, 2015. With respect to the stock options granted to MPIC subsidiaries, said stock options will vest as follows: 30% on July 2, 2011; 35% on July 2, 2012; and 35% on July 2, 2013.

A summary of the Company's stock option activity received from MPIC and related information for the years ended December 31, 2011 and 2010 follows:

	2011		2010	
	Number of shares	**Exercise price**	Number of shares	Exercise price
Outstanding at beginning of year	**7,700,000**	**₱2.73**	–	₱–
Granted during the year	**–**	**–**	7,700,000	2.73
Exercised during the year	**1,200,000**	**2.73**	–	–
Outstanding at end of year	**6,500,000**	**₱2.73**	7,700,000	₱2.73
Exercisable at end of year	**2,310,000**	**₱–**	–	₱–

The weighted average remaining contractual life for the share options outstanding as at December 31, 2011 and 2010 is 3.5 year and 4.5 years, respectively.

The fair value of the options granted is estimated at the date of grant using Black-Scholes-Merton formula, taking into account the terms and conditions upon which the options were granted. The following tables list the inputs to the model used for the ESOP in 2010:

	30% vesting on July 2, 2011	35% vesting on July 2, 2012	35% vesting on July 2, 2013
Grant date		July 2, 2010	
Spot price	₱2.65	₱2.65	₱2.65
Exercise price	₱2.73	₱2.73	₱2.73
Risk-free rate	4.61%	5.21%	5.67%
Expected volatility*	69.27%	67.52%	76.60%
Term to vesting (in days)	365	731	1,096
Call price	₱0.73	₱1.03	₱1.39

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

In 2011, executive stock options expense, recognized by the Company in salaries and employee benefits under "General and administrative expenses" account in the statement of income amounted to ₱5.6 million. Executive stock options expense in 2010 was not recognized as the amount was not significant.

Carrying value of the ESOP, recognized under "Other reserve" in the statement of changes in equity, amounted to ₱5.6 million as at December 31, 2011.

19. Interest Income

Sources of interest income follow:

	2011	2010
Cash and cash equivalents	**₱107,975,299**	₱63,108,977
Investment in bonds:		
AFS financial assets	**34,658,167**	9,625,315
HTM investments	**–**	15,290,641
Investment in treasury bills – HTM investments	**–**	799,731
Others	**563,035**	1,281,618
	₱143,196,501	₱90,106,282

20. Interest Expense and Other Finance Costs

Sources of interest expense and other finance costs follow:

	2011	2010
Interest expense on bank loans (see Note 13)	**₱794,415,849**	₱884,813,687
Finance costs:		
Loan prepayment fees (see Note 13)	**329,943,301**	–
Amortization of debt issue costs (see Note 13)	**134,890,348**	205,569,383
Lenders' fees	**5,602,677**	8,502,273
Bank charges	**1,158,874**	868,530
	₱1,266,011,049	₱1,099,753,873

21. Other Income and Other Expense

Details of other income and other expense follow:

Other Income

	2011	2010
Reversal of allowance for potential losses on input VAT (see Note 5)	**₱288,052,966**	₱–
Income from advertising (see Note 12)	**32,697,931**	–
Refunds from lenders	**24,183,224**	–
Income from toll service facilities	**20,220,627**	23,839,704
Income from utility facilities (see Note 12)	**1,814,636**	63,747,748
Others	**3,218,438**	4,255,058
	₱370,187,822	₱91,842,510

Other Expense

Other expenses represent the mark-to-market loss on derivatives amounting to ₱94.6 million and ₱227.5 million in 2011 and 2010, respectively (see Note 25).

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 in 2010 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 25).

22. Income Taxes

The provision for current income tax for the years ended December 31, 2011 and 2010 is as follows:

	2011	2010
Regular corporate income tax (RCIT)	**₱522,300,904**	₱26,084,636
Final tax on interest income from banks	**28,524,542**	17,671,956
	₱550,825,446	₱43,756,592

RCIT in 2010 is imposed on those taxable income not covered by the Company's ITH. The Company's ITH expired on December 31, 2010 and RCIT is imposed on all taxable income in 2011 (see Note 26).

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

	2011	2010
Deferred tax assets:		
Provision for heavy maintenance	**₱99,742,297**	₱106,786,301
Fair value changes on derivatives charged to statement of income	**28,928,219**	61,660,504
Movement in present value of loans	–	31,153,367
Unearned toll revenue	**3,175,377**	9,295,769
Unamortized past service cost	**4,100,123**	2,810,537
Allowance for doubtful accounts	**1,577,850**	1,577,850
Fair value changes on derivatives deferred in equity	**10,118,451**	1,042,778
Accrued retirement costs	**3,194,073**	262,084
Provision for potential losses on claim for refund	**2,592,072**	–
	153,428,462	214,589,190
Deferred tax liabilities:		
Difference in amortization of service concession asset	**(447,928,145)**	(406,391,156)
Unrealized foreign exchange gains - net	**(49,603)**	(99,258,691)
Unamortized realized foreign exchange losses capitalized	**(23,155,245)**	(24,045,831)
Fair value changes on AFS financial assets	**(8,136,525)**	(7,047,900)
	(479,269,518)	(536,743,578)
Deferred tax liabilities – net	**(₱325,841,056)**	(₱322,154,388)

For tax purposes, the Company used the units of production method of depreciation for service concession asset 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:

	2011	2010
Income before income tax	**₱2,142,569,996**	₱1,378,024,316
Income tax computed at statutory tax rate of 30%	**642,770,999**	413,407,295
Add (deduct) the tax effects of:		
Reversal of allowance for potential losses on input VAT (Note 5)	**(86,415,890)**	–
Interest income already subjected to final tax	**(42,790,040)**	(26,647,399)
Nondeductible expenses and others	**20,409,551**	35,857,351
Net income under ITH (see Note 26)	–	(486,251,785)
Provision for potential losses on input VAT	–	100,220,985
Amortization of capitalized input VAT	–	6,505,392
Final tax on interest income	**28,524,542**	17,671,956
Change in unrecognized deferred tax	–	(4,133,929)
Write-off of deferred tax asset relating to pre-operating expenses	–	13,769,057
Provision for income tax	**₱562,499,162**	₱70,398,923

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

	2011	2010
Balance at beginning of year	**₱322,154,388**	₱285,080,565
Provision for income tax during the year recognized in the statements of income	**11,673,716**	26,642,331
Income tax effect during the year recognized in the statements of comprehensive income	**(7,987,048)**	10,431,492
Balance at end of year	**₱325,841,056**	₱322,154,388

23. **Subic-Clark-Tarlac Expressway (SCTEx) 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. On June 9, 2010, BCDA formally awarded the Company 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 eight 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.

On July 20, 2011, MNTC and BCDA signed a Business and Operating Agreement (BOA) covering the assignment by BCDA to MNTC of its rights, interest and obligations under the TOA relating to the management, operation and maintenance of the SCTEx (which shall include the exclusive right to possess and use the SCTEx toll road and facilities and the right to collect toll). BCDA shall retain all rights, interests and obligations under the TOA relating to the design, construction and financing of the SCTEx. Nevertheless, the Parties hereby acknowledge that BCDA has, as at date of the Agreement, designed, financed and constructed the SCTEx as an operable toll road in accordance with the TOA. The BOA was the result of the amendments made to the previously signed Concession Agreement between BCDA and MNTC last November 2010. The BOA must be approved by the President of the Republic of the Philippines before MNTC could take over the management of SCTEx.

From and after the effective date, each BCDA and MNTC shall be entitled to a direct share in the Audited Gross Toll Revenues from the SCTEx.

The term of the agreement shall be from effective date, until October 30, 2043. At the end of the contract term or upon termination of the Agreement, the SCTEx shall be turned over to BCDA/successor-in-interest conformably with law, and in all cases in accordance with and subject to the terms and conditions of the STOA to be entered into by and among MNTC, BCDA and ROP, through TRB, in relation to SCTEx.

As at February 23, 2012, 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 and has not been accounted for accordingly in the financial statements.

24. 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, receivables from trade debtors and payables to trade creditors, which arise directly from its operations. The Company also holds AFS financial assets.

The Company also enters into derivative transactions, particularly interest rate swaps and cross currency swaps, to manage the interest rate and foreign currency risks arising its operations and 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 25). 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. However, in March 2011, the Company entered again into an interest rate swap transaction for its floating-rate PNB Loan.

Aside from the risks discussed above, the Company is also exposed to credit and liquidity risks which are discussed in detail below.

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to interest rate risk relates primarily to the Company's long-term debt obligations with floating interest rates. In accordance with its interest rate management policy, the Company converted 60% of its 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 cash flow 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 25). Under these transactions, the counterparty shall pay semi-annual interest in U.S. dollar at floating 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, 2011**	December 31, 2010	Floating and Fixed Interest Rate	Fixed Interest Rate
ADB-CFS A	**$–**	$7,437,500	LIBOR + 2.75% Margin	8.30%
ADB-CFS B	**–**	1,312,500	LIBOR + 2.75% Margin	8.88%
USD Bank Facility	**–**	14,021,875	LIBOR + 3.00% Margin	9.10%
COFACE	**–**	6,540,625	6.13%	7.60%
EFIC	**–**	6,562,500	8.03%	11.50%
	$–	$35,875,000		
ADB Direct	**₱–**	₱380,520,000	PHIREF + 4.66% Margin	9.40%
PNB	**2,100,000,000**	–	PHIREF + 0.50% Margin	5.88%
	₱2,100,000,000	₱380,520,000		

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 to total outstanding debt, as at December 31, 2011 and 2010 has been totally eliminated.

The cross currency swap on the COFACE Covered Loan features a shift from a fixed interest rate to floating interest rate (see Note 25). 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

As discussed in Note 13, the outstanding U.S. dollar denominated loans as at December 31, 2010 were fully paid on January 14, 2011.

Peso-denominated Notes and Loans

		December 31, 2011				
	Interest Rate	**Within the Year ('000)**	**2–3 Years ('000)**	**4–5 Years ('000)**	**More than 5 Years ('000)**	**Total ('000)**
Fixed-rate loans:						
Series A-5	6.535%	**₱10,000**	**₱20,000**	**₱970,000**	**₱–**	**₱1,000,000**
Series A-7	7.270%	**42,102**	**84,205**	**84,205**	**3,999,719**	**4,210,231**
Series A-10	7.704%	**10,000**	**20,000**	**20,000**	**950,000**	**1,000,000**
Term-loan facility	7.10%	**–**	**–**	**–**	**1,000,000**	**1,000,000**
		62,102	**124,205**	**1,074,205**	**5,949,719**	**7,210,231**
Floating-rate loan -						
PNB Loan	PHIREF + 0.50% Margin	**105,000**	**997,500**	**892,500**	**–**	**1,995,000**
		₱167,102	**₱1,121,705**	**₱1,966,705**	**₱5,949,719**	**₱9,205,231**

		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 loans:						
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.*

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 cash flow interest rate risk.

The cash flow interest rate exposure of the Company has changed with the prepayment of its foreign currency loans on January 14, 2011. With 100.0% of its financial instruments in local currency loans, around 22.0% of which is in floating interest rate, exposure is now limited to changes in six-month PHIREF and three-month PHIREF. In March 2011, the Company mitigated its exposure to interest-rate fluctuations by fixing the remaining floating-rate loan via an interest rate swap transaction.

The following table demonstrates the sensitivity of income to changes in interest rates with all other variables held constant. The management expects that interest rates will move by ±50 basis points within the next reporting period. There is no other impact on the Company's equity other than those already affecting the statement of income:

	Increase/Decrease in Basis Points	Effect on Income Before Income Tax
2011	**+50**	**₱–**
	-50	**–**
2010	+50	(₱306,636)
	-50	306,636

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. There is no other impact on the Company's equity other than those already affecting the statement of income:

	Increase/Decrease in Basis Points	Effect on Income Before Income Tax
2011	**+50**	**₱29,170,563**
	-50	**(20,496,654)**
2010	+50	₱16,745,077
	-50	(16,982,452)

Foreign Currency Risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. As at December 31, 2011, the Company is not significantly exposed to foreign currency risk as MNTC fully paid its U.S. dollar denominated loans in January 2011 (see Note 13). The minimal exposure to foreign currency risk relates to the Company's foreign currency denominated cash and cash equivalents as at December 31, 2011.

As at December 31, 2010, the Company's foreign currency risk arises mainly from its exposure to U.S. dollar-denominated long-term loans which constitute 25% of its outstanding loans as at such date. These long-term loans were translated using US$1 = ₱43.89 as at December 31, 2010. 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 Philippine peso in March 2009. This 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 ATR adjustment formula was revised starting 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 and their Philippine peso equivalents as at December 31, 2011 and 2010 are as follows:

	2011		2010			
	U.S. Dollar	**Philippine Peso[a]**	U.S Dollar	Philippine Peso[a]	Euro	Philippine Peso[b]
Assets:						
Cash and cash equivalents	**$391,860**	**₱17,214,410**	$863,344	₱37,892,168	€–	₱–
Derivative assets	–	–	66,116	2,901,514	–	–
	391,860	**17,214,410**	929,460	40,793,682	–	–
Liabilities:						
Accounts payable and other current liabilities	–	–	(163,731)	(7,186,154)	(147,134)	(8,538,186)
Derivative liabilities	–	–	(4,828,813)	(211,912,455)	–	–
Long-term debt	–	–	(37,517,996)	(1,646,664,844)	–	–
	–	–	(42,510,540)	(1,865,763,453)	(147,134)	(8,538,186)
Net foreign currency denominated assets (liabilities)	**$391,860**	**₱17,214,410**	($41,581,080)	(₱1,824,969,771)	(€147,134)	(₱8,538,186)

[a] *Exchange rate used to translate the U.S. dollar amounts into Philippine peso was ₱43.93 to US$1.00 and ₱43.89 to US$1.00 as at December 31, 2011 and 2010, respectively.*

[b] *Exchange rate used to translate the euro amounts into Philippine peso was ₱58.03 to €1.00 as at December 31, 2010.*

The following table demonstrates sensitivity of income to changes in foreign exchange rates with all variables held constant. Management estimates that U.S. dollar and Euro 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 Philippine Peso to U.S. Dollar and Euro Exchange Rates	Effect on Income Before Income Tax
2011		
U.S. dollar	**+5%**	**₱860,720**
U.S. dollar	**–5%**	**(860,720)**
2010		
U.S. dollar	+5%	(₱91,239,285)
Euro	+5%	(426,935)
U.S. dollar	–5%	91,239,285
Euro	–5%	426,935

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. There is no other impact on the Company's equity other than those already affecting the statement of income.

	Increase/Decrease in Peso:U.S. Dollar Exchange Rate	Effect on Income Before Income Tax
2011	**+5%**	**₱–**
	-5%	**–**
2010	+5%	₱98,064,611
	-5%	(98,064,611)

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

Credit risk is the risk that the Company will incur a loss arising from customers, clients or counterparties that fail to discharge their contracted obligations. 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 2011 and 2010, the cut-off date for the determination of the ADA variance is on January 30, 2011 and 2010, respectively, following the 30-day policy. As at January 30, 2011 and 2010, the declined ADA reload transactions in 2011 and 2010 amounted only to ₱0.03 million and ₱0.20 million, respectively.

In prior years, 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 & 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 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 does not require collateral for its financial assets.

The Company's credit risk is concentrated on AFS financial assets covering at least 83% and 81% of the Company's financial assets, except cash and cash equivalents, as at December 31, 2011 and 2010, respectively. The table below shows the maximum exposure to credit risk for the Company's financial assets, without taking account of any collateral, credit enhancements and other credit risk mitigation techniques.

	December 31, 2011	December 31, 2010
Cash and cash equivalents[a]	**₱1,068,923,344**	₱1,121,004,369
Receivables[b]	**93,834,088**	60,005,992
Due from related parties	**9,757,757**	30,309,259
Derivative assets	**–**	2,901,514
AFS financial assets	**577,721,750**	424,093,000
Refundable deposits[c]	**3,712,110**	3,958,026
Total credit risk exposure	**₱1,753,949,049**	₱1,642,272,160

[a] *Excluding cash on hand.*
[b] *Excluding advances to officers and employees.*
[c] *Included in "Other noncurrent assets" account in the balance sheets.*

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 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 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. 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 at December 31, 2011 and 2010, the aging analysis of past due but not impaired trade receivables follows. All other financial assets of the Company are neither past due nor impaired as at December 31, 2011 and 2010.

	Neither Past Due nor Impaired	Past Due but not Impaired						
		<31 Days	31–60 Days	61–90 Days	91–180 Days	181 Days – 1 Year	Total	Total
2011	**₱63,742,079**	**₱–**	**₱1,649,252**	**₱1,205,370**	**₱2,971,381**	**₱14,518,128**	**₱20,344,131**	**₱84,086,210**
2010	29,593,333	–	–	1,196,053	1,702,008	2,428,872	5,326,933	34,920,266

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

	December 31, 2011			
	Neither Past Due nor Impaired - High-grade	**Past Due but not Impaired**	**Impaired**	**Total**
Cash and cash equivalents[(a)]	**₱1,068,923,344**	**₱–**	**₱–**	**₱1,068,923,344**
Receivables:				
Trade receivables	**63,742,079**	**20,344,131**	**5,259,500**	**89,345,710**
Interest receivables	**3,513,967**	**–**	**–**	**3,513,967**
Other receivables	**6,233,911**	**–**	**–**	**6,233,911**
Due from related parties	**9,757,757**	**–**	**–**	**9,757,757**
AFS financial assets	**577,721,750**	**–**	**–**	**577,721,750**
Refundable deposits[(b)]	**3,712,110**	**–**	**–**	**3,712,110**
	₱1,733,604,918	**₱20,344,131**	**₱5,259,500**	**₱1,759,208,549**

[(a)] *Excluding cash on hand.*
[(b)] *Included in "Other noncurrent assets" account in the balance sheets.*

	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	29,593,333	5,326,933	5,259,500	40,179,766
Interest receivables	3,807,630	–	–	3,807,630
Other receivables	21,278,096	–	–	21,278,096
Due from related parties	30,309,259	–	–	30,309,259
Derivative assets	2,901,514	–	–	2,901,514
AFS financial assets	424,093,000	–	–	424,093,000
Refundable deposits[(b)]	3,958,026	–	–	3,958,026
	₱1,636,945,227	₱5,326,933	₱5,259,500	₱1,647,531,660

[(a)] *Excluding cash on hand.*
[(b)] *Included in "Other noncurrent assets" account in the balance sheets.*

With the exception of the impaired portion and past due accounts, all of the Company's financial assets are considered high-grade receivables since these are receivables from counterparties who are not expected to default in settling their obligations. These counterparties include reputable local and international banks and companies and the Philippine government. Other counterparties also have corresponding collectibles from the Company for certain contracted services. The first layer of security comes from the Company's ability to offset amounts receivable from these counterparties against payments due to them.

Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. The Company is not exposed to significant liquidity risk because of the nature of its operations which provides daily inflows of cash from toll collections. The Company is able to build up sufficient cash from operating revenues prior to the maturity of its payment obligations. In 2011, the Company arranged additional short-term lines to boost its ability to meet short-term liquidity needs. The Company has short-term credit lines amounting to ₱1,300.0 million and ₱900.0 million as at December 31, 2011 and 2010, respectively and cash and cash equivalents amounting to ₱1,120.9 million and ₱1,146.9 million as at December 31, 2011 and 2010, respectively, that are allocated to meet the Company's short-term liquidity needs.

The table below summarizes the maturity profile of the Company's financial assets and financial liabilities as at December 31, 2011 and 2010 based on undiscounted payments:

	December 31, 2011				
	Within the Year	**2–3 Years**	**4–5 Years**	**More than 5 Years**	**Total**
Financial Assets:					
Cash and cash equivalents	**₱1,120,917,161**	**₱–**	**₱–**	**₱–**	**₱1,120,917,161**
Receivables [a]	**99,093,588**	**–**	**–**	**–**	**99,093,588**
Due from related parties	**9,757,757**	**–**	**–**	**–**	**9,757,757**
AFS financial assets [b]	**–**	**62,807,250**	**635,281,250**	**–**	**698,088,500**
Other noncurrent financial assets	**–**	**3,712,110**	**–**	**–**	**3,712,110**
	₱1,229,768,506	**₱66,519,360**	**₱635,281,250**	**₱–**	**₱1,931,569,116**
Financial Liabilities:					
Accounts payable and other current liabilities [c]	**₱949,731,707**	**₱–**	**₱–**	**₱–**	**₱949,731,707**
Due to related parties	**521,510**	**–**	**–**	**–**	**521,510**
Dividends payable	**37,740,000**	**–**	**–**	**–**	**37,740,000**
Long-term debt [d]	**710,271,301**	**2,234,363,797**	**2,960,033,115**	**7,212,813,426**	**13,117,481,639**
	1,698,264,518	**2,234,363,797**	**2,960,033,115**	**7,212,813,426**	**14,105,474,856**
Derivative liabilities:					
Derivative contracts – receipts	**(45,570,427)**	**(130,888,718)**	**(46,419,353)**	**–**	**(222,878,498)**
Derivative contracts – payments	**112,382,630**	**204,446,940**	**39,762,734**	**–**	**356,592,304**
	66,812,203	**73,558,222**	**(6,656,619)**	**–**	**133,713,806**
	₱1,765,076,721	**₱2,307,922,019**	**₱2,953,376,496**	**₱7,212,813,426**	**₱14,239,188,662**

[a] *Excluding advances to officers and employees.*
[b] *Including interest to be received.*
[c] *Excluding statutory liabilities.*
[d] *Including interest to be paid.*

	December 31, 2010				
	Within the Year	2–3 Years	4–5 Years	More than 5 Years	Total
Financial Assets:					
Cash and cash equivalents	₱1,146,855,351	₱–	₱–	₱–	1,146,855,351
Receivables [(a)]	65,265,492	–	–	–	65,265,492
Due from related parties	30,309,259	–	–	–	30,309,259
Derivative assets	2,901,514	–	–	–	2,901,514
AFS financial assets [(b)]	54,291,667	68,310,000	396,516,250	–	519,117,917
Other noncurrent financial assets	–	3,958,026	–	–	3,958,026
	₱1,299,623,283	₱72,268,026	₱396,516,250	₱–	₱1,768,407,559
Financial Liabilities:					
Accounts payable and other current liabilities [(c)]	₱513,560,482	₱–	₱–	₱–	₱513,560,482
Due to related parties	9,942,347	–	–	–	9,942,347
Dividends payable	181,684,800	–	–	–	181,684,800
Long-term debt [(d)]	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

[(a)] *Excluding advances to officers and employees.*
[(b)] *Including interest to be received.*
[(c)] *Excluding statutory liabilities.*
[(d)] *Including interest to be paid.*

Capital Management

The primary objective of the Company's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximize shareholder value while complying with the financial covenants required by the lenders. These loan covenants were overhauled in April 2011. Under the new loan agreement, MNTC is required a Maintenance DSCR of not less than 1.15 times and maintain a Debt to Equity Ratio not exceeding 3.0 times for the first three years after the date of the loan agreement and not exceeding 2.5 times after such period. The loan agreement provides that MNTC may incur new loans or declare dividends as long as the Pro-forma DSCR for the relevant year is not less than 1.30 times.

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 at only 58:42 and 59:41 as at December 31, 2011 and 2010, respectively, indicating that the Company has the capacity to incur additional long-term debt to build up its capital.

	2011	2010
Long-term debt	**₱9,050,617,440**	₱9,354,332,475
Total equity	**6,624,222,305**	6,566,748,768
Total capital	**₱15,674,839,745**	₱15,921,081,243
Debt to equity ratio	**58:42**	59:41

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 Philippine peso bridge loan facility that will eventually be refinanced with a long-term Philippine 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.

In 2011, the Company completed the implementation of its capital restructuring program through a series of transactions that also extended the maturity of its loan obligations amidst the low-interest rate environment. The Company also ended the year with an improved leverage ratio, boosting its debt capacity in preparation for the financing of expansion projects.

25. Financial Assets and Financial Liabilities

Fair values

A comparison of carrying and fair values of all of the Company's financial instruments by category as at December 31, 2011 and 2010 follows:

	2011		2010	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Financial Assets				
FVPL -				
Derivative assets	**₱–**	**₱–**	₱2,901,514	₱2,901,514
	–	–	2,901,514	2,901,514
Loans and receivables:				
Cash and cash equivalents	**1,120,917,161**	**1,120,917,161**	1,146,855,351	1,146,855,351
Receivables:				
Trade	**84,086,210**	**84,086,210**	34,920,266	34,920,266
Interest receivables	**3,513,967**	**3,513,967**	3,807,630	3,807,630
Other receivables	**6,233,911**	**6,233,911**	21,278,096	21,278,096
Due from related parties	**9,757,757**	**9,757,757**	30,309,259	30,309,259
Refundable deposits[(a)]	**3,712,110**	**3,708,618**	3,958,026	3,867,359
	1,228,221,116	**1,228,217,624**	1,241,128,628	1,241,037,961

	2011		2010	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
AFS financial assets -				
Investment in bonds	**577,721,750**	**577,721,750**	424,093,000	424,093,000
	₱1,805,942,866	**₱1,805,939,374**	₱1,668,123,142	₱1,668,032,475
Financial Liabilities				
FVPL -				
Derivative liabilities	**₱130,155,566**	**₱130,155,566**	₱211,912,455	₱211,912,455
	130,155,566	**130,155,566**	211,912,455	211,912,455
Other financial liabilities:				
Accounts payable and other current liabilities[(b)]	**949,731,707**	**949,731,707**	513,560,482	513,560,482
Due to related parties	**521,510**	**521,510**	9,942,347	9,942,347
Dividends payable	**37,740,000**	**37,740,000**	181,684,800	181,684,800
Long-term debt	**9,050,617,440**	**9,616,868,839**	9,354,332,475	9,845,181,364
	10,038,610,657	**10,604,862,056**	10,059,520,104	10,550,368,993
	₱10,168,766,223	**₱10,735,017,622**	₱10,271,432,559	₱10,762,281,448

[(a)] *Included in "Other noncurrent assets" account in the balance sheets.*
[(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
As at December 31, 2011, the fair values of the interest rate swap transactions is the net present value of estimated future cash flows using Philippine risk free rates ranging from 1.9% to 8.2%. The fair values of the cross currency swap transactions as at December 31, 2010 were based on the actual settlement amount in January 2011 provided by the counterparty.

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

AFS Financial Assets
As at December 31, 2011 and 2010, the Company's AFS financial assets consist of investments in fixed rate retail treasury bonds of the ROP. 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:

	December 31, 2011		December 31, 2010	
Maturity Date	**Fair Value**	**Principal Amount**	Fair Value	Principal Amount
July 31, 2011	**₱–**	**₱–**	₱51,812,500	₱50,000,000
July 31, 2013	**55,596,750**	**50,600,000**	56,545,500	50,600,000
August 9, 2015	**313,125,000**	**300,000,000**	315,735,000	300,000,000
March 3, 2016	**209,000,000**	**200,000,000**	–	–
	₱577,721,750	**₱550,600,000**	₱424,093,000	₱400,600,000

As discussed in Note 5, investments in bonds are previously classified as HTM investments and carried at amortized cost. In August 2010, prior to bonds' maturity, 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. In March 2011, the Company acquired additional ₱200.0 million of treasury bonds with interest rate of 6% maturing on March 3, 2016.

The pretermination of the bonds precludes the Company from classifying any existing and new investments as HTM investments, hence the reclassification of investments in bonds from HTM investments to AFS financial assets.

Proceeds from the maturity of bonds on July 31, 2011 amounted to ₱50.0 million. There were no disposals of bonds in 2011.

The fair value is based on the quoted market price of the financial instruments as at December 31, 2011 and 2010. Gain on fair value change in AFS financial assets for the years ended December 31, 2011 and 2010 amounting to ₱2.5 million (net of tax of ₱1.0 million) and ₱16.4 million (net of tax of ₱7.0 million), respectively, are recognized as other comprehensive income.

Refundable Deposits
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 2.2% in 2011 and 1.8% to 2.5% in 2010.

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. In 2011, the prevailing peso interest rates ranged from 2.2% to 7.1%. In 2010, the prevailing credit adjusted U.S. risk-free rates and prevailing peso interest rates ranged from 0.3% to 3.7% and 2.2% to 6.1%, respectively.

Fair Value Hierarchy
As at December 31, 2011 and 2010, the Company held the following financial instruments measured at fair value:

	December 31, 2011	Level 1	Level 2	Level 3
Financial Assets				
AFS financial assets –				
Investment in bonds	**₱577,721,750**	**₱577,721,750**	**₱–**	**₱–**
Financial Liabilities				
Financial liabilities at FVPL –				
Derivative liabilities at FVPL	**₱130,155,566**	**₱–**	**₱130,155,566**	**₱–**

	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	₱–

Derivative Instruments
On various dates in 2011, 2009 and 2008, the Company entered into cross currency and interest rate swap transactions to hedge its foreign exchange and interest rate exposures on the following loans:

Loan Facility	Interest Rate	Outstanding Balance as at **December 31, 2011**	December 31, 2010
ADB-CFS A	LIBOR + 2.75% Margin	**$–**	$7,443,443
ADB-CFS B	LIBOR + 2.75% Margin	**–**	1,313,549
USD Bank Facility	LIBOR + 3.00% Margin	**–**	14,036,825
COFACE	6.13%	**–**	7,176,618
EFIC	8.03%	**–**	7,020,535
		$–	$36,990,970
ADB Direct	PHIREF + 4.66% Margin	**₱–**	₱435,454,674
PNB	PHIREF + 0.50% Margin	**1,995,000,000**	2,100,000,000
		₱1,995,000,000	₱2,535,454,674

The following table provides the related fair values of the Company's derivative financial instruments outstanding as at December 31, 2011 and 2010:

	December 31, 2011		December 31, 2010	
	Asset	**Liability**	Asset	Liability
Cross currency swaps to hedge:				
ADB-CFS A	**₱–**	**₱–**	₱–	(₱41,093,665)
ADB-CFS B	**–**	**–**	–	(9,030,529)
COFACE	**–**	**–**	2,901,514	–
EFIC	**–**	**–**	–	(34,976,345)
USD Bank Facility	**–**	**–**	–	(96,611,916)
	–	–	2,901,514	(181,712,455)
Interest rate swaps to hedge:				
ADB Direct	**–**	**–**	–	(17,200,000)
COFACE	**–**	**–**	–	(13,000,000)
PNB Loan	**–**	**(130,155,566)**	–	–
	–	**(130,155,566)**	–	(30,200,000)
	₱–	**(₱130,155,566)**	₱2,901,514	(₱211,912,455)

Derivatives Accounted for as Non-hedge Transactions.

COFACE

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 at December 31, 2010, the outstanding notional amount of the swap amounted to US$6.5 million.

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 as at December 31, 2010.

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 December 31, 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.

As discussed in Note 21, the Company cancelled the cross currency and interest rate swap transactions (including the COFACE covered loan) on January 14, 2011, the same date as the prepayment of the related loans. Thus, there is no outstanding notional amount for the COFACE swap as at December 31, 2011.

Derivatives Accounted for Under Cash Flow Hedge Accounting.

ADB-CFS A
On September 22, 2008, MNTC entered into across-currency swap transaction with Mizuho to hedge the cash flow variability on the ADB loan due to movements in foreign exchange and interest rates effective September 23, 2008. 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. The cross-currency swap effectively transformed the floating rate U.S. dollar loan into a fixed rate peso-denominated loan.

As at December 31, 2010, the outstanding notional amount of the swap amounted to US$7.4 million. As discussed in Note 21, this swap was preterminated in 2011.

ADB-CFS B
On September 30 2008, MNTC entered into a cross-currency swap transaction with Mizuho to hedge the cash flow variability on the ADB loans due to movements in foreign exchange and interest rates effective October 3, 2008. 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.

The cross-currency swap effectively transformed the floating rate U.S. dollar loan into a fixed rate peso-denominated loan.

As at December 31, 2010, the outstanding notional amount of the swap amounted to US$1.3 million. As discussed in Note 21, this swap was preterminated in 2011.

USD Bank Facility
On September 30, 2008, MNTC entered into cross currency swap transaction with Mizuho to hedge the cash flow variability on the ADB loans due to movements in foreign exchange and interest rates effective October 3, 2008. Under the cross currency swap, MNTC will receive US$24.0 million in installments of US$2.0 million every six months starting December 15, 2008 until June 16, 2014 plus semi-annual interest at a rate of six-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. The cross-currency swap effectively transformed the floating rate U.S. dollar loan into a fixed rate peso-denominated loan.

As at December 31, 2010, the outstanding notional amount of the swap amounted to US$14.0 million. As discussed in Note 21, this swap was preterminated in 2011.

EFIC
On December 24, 2008, 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. 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 at December 31, 2010, the outstanding notional amount of the swap amounted to US$6.6 million. As discussed in Note 21, this swap was preterminated in 2011.

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 at December 31, 2010 the outstanding notional amount of the interest rate swap amounted to ₱380.5 million. As discussed in Note 21, this swap was preterminated in 2011.

PNB Term Loan
On March 11, 2011, MNTC entered into a pay-fixed, receive-floating interest rate swap contract to hedge the variability of cash flows pertaining to the floating rate PNB Term Loan effective March 14, 2011. Under the swap, MNTC will receive semi-annual interest equal to six-months PDST-F plus 0.50% per annum spread and pay semi-annual fixed interest of 5.9% per annum, based on the amortizing principal balance of the PNB Term Loan, starting from June 15, 2011 until December 15, 2015. The interest rate swap effectively fixed the floating rate of the said loan over the duration of the agreement at 5.9% per annum.

The swap was designated as cash flow hedge at trade date. As at June 30, 2011, the effectiveness ratio was only 58.05% and the hedging relationship failed to meet the 80% to 125% hedge effectiveness criterion of PAS 39. As a result, the hedge was dedesignated by the Company. The ₱39.0 million (gross of ₱10.7 million tax) deferred in equity representing the negative fair value change of the swap up to March 31, 2011 (the last testing date when the hedge was still effective) is being amortized over the term of the hedged loan and recognized under “Interest expense and other finance costs” account. Fair value changes of the swap subsequent to March 31, 2011 is recognized in the “Mark-to-market loss” account included in “Other expense” account in the statement of income. As at December 31, 2011, the outstanding notional amount of the interest rate swap amounted to ₱1,995.0 million with a negative fair value of ₱130.2 million. The unamortized amount deferred in equity amounted to ₱33.7 million (gross of ₱10.1 million tax) after amortization of ₱5.3 million. The negative fair value change of the swap from April 1, 2011 to December 31, 2011 amounted to ₱91.2 million.

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

As at December 31, 2011 and 2010, there are no derivatives accounted for as cash flow hedges.

Hedge Effectiveness of Cash Flow Hedges. Movements of the Company’s cumulative translation adjustments on cash flow hedges under “Other comprehensive income reserve” account for the years ended December 31, 2011 and 2010 follow:

	2011	2010
Balance at beginning of year	**(₱3,475,927)**	(₱14,754,566)
Changes in fair value of cash flow hedges	**(59,250,968)**	(230,782,209)
	(62,726,895)	(245,536,775)
Transferred to statements of income:		
Mark-to-market loss	**3,475,927**	158,275,562
Interest expense*	**25,522,797**	91,808,514
Foreign exchange gain	**–**	(8,023,228)
	28,998,724	242,060,848
	(33,728,171)	(3,475,927)
Tax effects of items taken directly to equity	**10,118,451**	1,042,778
Balance at end of year	**(₱23,609,720)**	(₱2,433,149)

**Included in “Interest expense on bank loans” under “Interest expense and other finance costs” account (see Note 20).*

No ineffectiveness was recognized in the statements of income.

Fair Value Changes on Derivatives. The net changes in the fair values of all derivative instruments for the years ended December 31, 2011 and 2010 follow:

	2011	2010
Balance at beginning of year	**(₱209,010,941)**	(₱5,255,601)
Net changes in fair values of derivatives:		
Designated as accounting hedges	**(59,250,968)**	(230,782,209)
Not designated as accounting hedges* (see Note 21)	**(112,777,098)**	(83,852,199)
	(381,039,007)	(319,890,009)
Fair value of settled instruments:		
Designated as accounting hedges	**20,255,865**	106,196,804
Not designated as accounting hedges	**230,627,576**	4,682,264
Balance at end of year	**(₱130,155,566)**	(₱209,010,941)

**In 2011, these are recorded in the statement of income as follows: (a) ₱91,160,464 is included in mark-to-market loss under "Other expense" account and (b) ₱21,616,634 is included in "Interest expense" account. 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.*

No ineffectiveness was recognized in the statements of income.

26. 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 in 2010.

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.

27. **Contingencies and Others**

a. 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 asset 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 has not been acted upon by the BIR as at February 23, 2012.

On December 21, 2009, the 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, stating among others that the VAT shall be imposed on the gross receipts of tollway operators from all types of vehicles starting August 16, 2010 and that the accumulated input VAT account of the toll companies shall have a zero balance on August 16, 2010. Any input VAT that will thenceforth be reflected in the books of accounts and other accounting records of tollway operators will have to be for purchases of goods and services delivered/rendered and invoiced/receipted on or after August 16, 2010.

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 was not able to resolve the application for abatement of MNTC because on August 13, 2010, the SC issued a temporary restraining order on the imposition of the 12% VAT on tollway operators. However, on July 19, 2011, the SC upheld the legality of RMC No. 63-2010 issued by the BIR on July 19, 2010, in line with Section 108 of the National Internal Revenue Code that allows the imposition of VAT on all services for a fee.

In relation to the SC Decision dated July 21, 2011, the BIR issued RMC No. 39-2011 dated August 31, 2011 to fully implement VAT on the gross receipts of tollway operators from all types of vehicles starting October 1, 2011. Other provisions of RMC No. 39-2011 follow:

i. 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 NIRC and RR No. 13-2001.
ii. The accumulated input VAT account of the toll companies shall have a zero balance on October 1, 2011. Any input VAT that will thenceforth be reflected in the books of accounts and other accounting records of tollway operators will have to be for purchases of goods delivered and invoiced on or after October 1, 2011. Whereas, for services, it should be for purchases of services which will be rendered and receipted on or after October 1, 2011.
iii. No future claims for tax credit or refunds shall be allowed for any VAT passed-on to the Tollways operators on any of their purchases made prior to October 1, 2011.
iv. All tollway operators are required to comply with the invoice/receipt format prescribed under RMC No. 40-2005.

In view of RMC No. 39-2011, the Company started imposing VAT on toll fees from motorists and correspondingly started recognizing VAT liability on October 1, 2011. The Company also reduced its accumulated input VAT to zero as at September 30, 2011. The input VAT were either charged to expense or capitalized to assets.

Through all the years that the issues of VAT are being discussed, the Company continues to receive the following VAT assessments:

- 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.

- 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.

- Notice of Informal Conference issued by the BIR on May 21, 2010 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.

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

Local Business Tax (LBT)
In 2008, the Company received an assessment from the municipality of Guiguinto, Bulacan for alleged deficiency of its share of LBT 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 other things, that its predecessor, PNCC has never been subjected to LBT and nevertheless the Company had regularly paid the LBT and obtained its business permits solely from Pasig City (and later Caloocan City) where its principal office is located continuing customary practice.

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 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 but the motion was denied by the Court of Appeals on December 3, 2010.

On July 25, 2011, the Company received a copy of the decision of the RTC of Malolos, Bulacan dated July 7, 2011. The RTC dismissed the Company's complaint for lack of merit and upheld the imposition of taxes and further ordered the Company to settle the taxes upon finality of the decision. The Company filed its motion for reconsideration on August 9, 2011, which was denied by the RTC in an order dated October 6, 2011. A proffer of excluded evidence and a petition for review with the RTC of Malolos, Bulacan and Court of Tax Appeals (CTA), respectively, were filed on November 9, 2011 by the Company. As at February 23, 2012, the CTA has not yet acted on the petition.

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. On May 20, 2011, the Company filed a manifestation with the RTC that with the categorical withdrawal of the assessment by the Municipal Government, there is no longer any need to pursue this case. The RTC issued an order dated May 23, 2011 which deemed the case closed and terminated.

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

During the first quarter of 2012, the Company paid LBT to various LGUs following the above BLGF ruling.

<u>Real Property Tax (RPT)</u>
In 2008, the Company received real property tax assessments covering the toll expressway traversing 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 the claims on LBT and RPT cannot be presently determined. Management believes that these claims will not have a significant impact on the Company's financial statements. With regards to the RPT, 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.

c. Others

The Company is a co-respondent [together with TRB, PNCC, other tollway companies, TMC, MPTDC (then FPIDC) and BHC] in two SC cases, where, based on the following allegations, the petitioners' claimed that the STOAs for the North Luzon Expressway, the South Luzon Expressway and the South Metro Manila Skyway are null and void:

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

- the STOAs 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 was granted and the Philippine Constitution; and

- the provisions of the STOAs 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 other things, declared as valid and constitutional the challenged STOAs. 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.

In a resolution dated March 22, 2011, the SC resolved to among other things, deny with finality the motion for reconsideration filed by Petitioner Francisco and the partial motion for reconsideration dated October 8, 2010 filed by the petitioners, as the basic issues raised therein have been passed upon by the court and no substantial arguments were presented to warrant the reversal of the questioned decision. The SC issued an entry of judgment certifying that the October 19, 2010 decision declaring, among other things, the STOA as valid and constitutional has, on July 1, 2011, become final and executory and thereby recorded in the Book of Entries of Judgments.

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.

28. Supplementary Information Required Under Revenue Regulations 19-2011

On December 9, 2011, the Bureau of Internal Revenue (BIR) has issued Revenue Regulations (RR) No. 19-2011 prescribing the new income tax forms to be used effective calendar year 2011. In the case of corporations using BIR Form 1702, the taxpayer is now required to include as part of its Notes to the Audited Financial Statements, which will be attached to the income tax return, schedules and information on taxable income and deductions taken.

The schedule and information of taxable income and deductions taken are as follows:

Sales, Revenue, Receipts and Fees	
Toll Fees – net	₱6,444,544,704
Sale of transponders and magnetic cards	42,071
	6,444,586,775
Cost of Sales/Services	
Operator's fee	1,566,118,059
Depreciation of service concession asset	753,128,389
PNCC fee	385,244,775
Heavy maintenance expense	132,596,406
Repairs and maintenance	127,680,969
Insurance	48,957,913
Toll collection and medical services	21,297,634
Cost of transponders	18,633
Others	3,075,494
	3,038,118,272
Non-Operating Taxable Other Income	
Foreign exchange gain	319,956,367
Income from advertising	32,697,931
Refund from lenders	24,183,224
Income from toll service facilities	20,220,627
Income from utility facilities	1,814,636
Others	3,781,474
	402,654,259
Total Gross Income	3,809,122,762

Less: Itemized deductions	
Salaries and allowances	₱174,837,998
Rental	517,354
Professional fees	31,562,736
Director's allowance	590,000
Management services	58,500,000
Security services	3,729,272
Janitorial services	3,761,868
Other outside services	42,148,357
Advertising	60,289,272
Repairs and maintenance:	
Labor	5,063,898
Material and supplies	4,039,542
Office supplies	3,420,286
Interest and financing costs	1,528,628,981
SSS, Philhealth, HDMF contributions	1,785,442
Insurance	1,218,113
Representation and entertainment	4,946,894
Transportation, travel and accommodation	13,969,095
Fuel and oil	7,348,311
Communication, light and water	9,523,453
Taxes and licenses	69,756,520
Depreciation	31,524,935
Charitable contributions	130,000
Miscellaneous	2,210,118
Others:	
Trainings, workshops and seminars	3,171,569
Collection charges	5,445,734
	2,068,119,748
Net Taxable Income	₱1,741,003,014

29. **Supplementary Information Required Under Revenue Regulations 15-2010**

In compliance with the requirements set forth by RR No. 15-2010 hereunder are the information on taxes and license fees paid as at and for the year ended December 31, 2011.

Value-added tax (VAT)

Prior to September 1, 2011, 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. Toll fees collected were classified as exempt receipts in the Company's VAT returns.

On July 21, 2011, the Supreme Court (SC) upheld the legality of RMC No. 63-2010 issued by the BIR on July 19, 2010. In relation to the SC Decision dated July 21, 2011, the BIR issued RMC No. 39-2011 dated August 31, 2011 to fully implement the imposition of VAT on the gross receipts of tollway operators from all types of vehicles starting October 1, 2011. In view of RMC No. 39-2011, the Company started imposing VAT on toll fees from motorists and correspondingly started recognizing VAT liability on October 1, 2011. The Company also reduced its accumulated input VAT to zero as at September 30, 2011.

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

	2011	
	Net Sales/Receipts	Output VAT
Sales of services:		
Vatable receipts	₱1,741,238,479	₱208,948,618
Exempt receipts	4,813,411,772	–
	₱6,554,650,251	₱208,948,618

The Company's sales of services are based on actual collections received, hence, may not be the same as amounts reflected in the statements 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 ₱6,554.7 million, of which ₱6,472.3 million pertains to toll collections and ₱82.4 million pertains to collections from toll service facilities and others which are recorded in "Other income" account in the statements of income.

b. Input VAT declared in the Company's VAT returns filed for 2011 are as follows:

Balance at beginning of year:	
Carried over from previous period	₱2,092,464,810
Input VAT deferred on capital goods exceeding ₱1.0 million from previous period	440,862
Current year's domestic purchases/payments for:	
Domestic purchase of services:	
Services lodged under cost of service	199,865,717
Services lodged under other accounts	50,176,791
Capital goods not subject to amortization	6,773,956
Capital goods subject to amortization	159,257
Deductions from input tax	(2,239,405,118)
Input VAT claimed against output VAT	(110,320,273)
Balance at end of year	₱156,002

Balance at end of year pertains to input VAT deferred on capital goods exceeding ₱1.0 million from current year that will be carried forward to the next period.

Importations

Details of the Company's importations for the year ended December 31, 2011 are shown below:

Total landed cost of imports	₱22,625,208
Customs duties	513,386
Balance at end of year	₱23,138,594

Input VAT on importation amounting to ₱2.7 million is included as part of capital goods not subject to amortization as presented in (b) above.

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 statement of income for the year ended December 31, 2011:

a. Local taxes

License and permits fees	₱42,581,938
Real property taxes	7,696,684
Filing, registration and notarial fees	430,305
	₱50,708,927

b. National taxes

Documentary stamp taxes	₱15,950,658
Fringe benefits taxes	3,096,935
	₱19,047,593

The documentary stamp taxes (DST) paid included as part of taxes and licenses under "General and administrative expense" account in the balance sheet pertain to the short-term loan transaction of the Company amounting to ₱2,700.0 million and to the foreign currency remittances amounting to ₱1,633.8 million as at December 31, 2011.

The Company also paid DST of ₱36.1 million on loans availed amounting to ₱7,210.2 million. These are capitalized as part of debt issue costs incurred on the loan availments and are amortized over the life of the loans.

Withholding Taxes
Details of withholding tax payments for the year ended December 31, 2011 are as follows:

Expanded withholding taxes	₱74,766,264
Withholding taxes on compensation and benefits	21,196,020
Final withholding taxes	39,547,907
Withholding taxes on VAT	3,096,935
	₱138,607,126

Tax Assessments and Litigations

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

- 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.

- 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.

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 received an assessment from the municipality of Guiguinto, Bulacan for alleged deficiency of its share of LBT 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.

On July 25, 2011, the Company received a copy of the Decision of the RTC of Malolos, Bulacan dated July 7, 2011. The RTC dismissed the Company's complaints for lack of merit and upheld the imposition of taxes and further ordered the Company to settle the taxes upon finality of the decision. MNTC filed its Motion for Reconsideration on August 9, 2011, which was denied again by the RTC in an order dated October 6, 2011. A proffer of excluded evidence and a petition for review with the RTC of Malolos,Bulacan and Court of Tax Appeals (CTA), respectively, were filed on November 9, 2011 by the Company. As at February 23, 2012, the CTA has not yet acted on the Petition.

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 case is pending before the RTC of Malolos, Bulacan. On May 20, 2011, the Company filed a manifestation with the RTC that with the categorical withdrawal of the assessment by the Municipal Government, there is no longer any need to pursue this case. The RTC issued an order dated May 23, 2011 which deemed the case closed and terminated.

Real Property Tax Assessment. In 2008, the Company received real property tax assessments covering the toll expressway traversing 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.