COVER SHEET

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SEC Registration Number

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

(Company's Full Name)

10th Floor, MGO Building, Legaspi Corner Dela Rosa Streets, Legaspi Village, Makati City

(Business Address: No. Street City/Town/Province)

Mr. Christopher Daniel C. Lizo

(Contract Person)

(632) 888-0888

(Company Telephone Number)

1 2	3 1
Month	*Day*

(Fiscal Year)

A A C F S

(Form Type)

0 8	1 0
Month	*Day*

(Annual Meeting)

(Secondary License Type, If Applicable)

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

256

Total No. of Stockholders

₱9,308.1 million	
Domestic	Foreign

To be accomplished by SEC Personnel concerned0

File Number

LCU

Document ID

Cashier

S T A M P S

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BOA/PRC Reg. No. 0001,
December 28, 2012, valid until December 31, 2015
SEC Accreditation No. 0012-FR-3 (Group A),
November 15, 2012, valid until November 16, 2015

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Metro Pacific Tollways Corporation
10th Floor, MGO Building
Legaspi corner, Dela Rosa Streets
Legaspi Village, Makati City

We have audited the accompanying consolidated financial statements of Metro Pacific Tollways Corporation (a subsidiary of Metro Pacific Investments Corporation) and its subsidiaries, which comprise the consolidated balance sheets as at December 31, 2012 and 2011, and the consolidated statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2012, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements present fairly, in all material respects, the financial position of Metro Pacific Tollways Corporation and its subsidiaries as at December 31, 2012 and 2011, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2012 in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

Belinda T. Beng Hui
Partner
CPA Certificate No. 88823
SEC Accreditation No. 0943-A (Group A),
March 18, 2010, valid until March 17, 2013
Tax Identification No. 153-978-243
BIR Accreditation No. 08-001998-78-2012,
June 19, 2012, valid until June 18, 2015
PTR No. 3669663, January 2, 2013, Makati City

February 26, 2013

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

	December 31	
	2012	2011
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 8 and 33)	**₱3,334,619,906**	₱1,653,539,917
Receivables (Notes 9, 20 and 33)	**167,077,277**	102,212,349
Inventories - at cost (Note 20)	**45,259,533**	55,260,432
Advances to contractors and consultants (Note 20)	**17,120,885**	82,757,480
Due from related parties (Notes 20 and 33)	**343,168,278**	560,141,362
Derivative assets (Note 33)	**224,894,466**	–
Available-for-sale financial assets (Notes 15 and 33)	**53,003,500**	–
Input value-added tax (Notes 5 and 35)	**45,596,568**	49,855,787
Other current assets	**130,594,898**	100,667,805
Total Current Assets	**4,361,335,311**	2,604,435,132
Noncurrent Assets		
Notes receivable (Notes 10 and 33)	**6,577,566,742**	–
Due from related parties (Notes 20 and 33)	**65,050,205**	65,232,060
Investment in an associate (Note 11)	**175,130,966**	147,231,019
Service concession asset (Note 12)	**15,179,563,780**	15,552,074,333
Property and equipment (Note 13)	**119,734,372**	123,654,717
Intangible assets (Note 14)	**13,918,628**	12,709,316
Available-for-sale financial assets (Notes 15 and 33)	**915,559,026**	905,968,276
Pension asset (Note 25)	**20,024,566**	–
Other noncurrent assets (Notes 16 and 33)	**161,432,156**	67,797,742
Total Noncurrent Assets	**23,227,980,441**	16,874,667,463
	₱27,589,315,752	₱19,479,102,595
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and other current liabilities (Notes 17, 20 and 33)	**₱1,947,816,126**	₱1,089,444,206
Due to related parties (Notes 20 and 33)	**7,222,774**	8,178,596
Unearned toll revenue	**–**	10,584,590
Long-term incentive plan payable (Note 25)	**92,356,928**	–
Dividends payable (Notes 20, 21 and 33)	**277,108,310**	40,225,431
Income tax payable	**151,565,349**	31,355,828
Provisions (Note 18)	**248,710,026**	249,103,430
Current portion of long-term debt (Notes 19 and 33)	**144,299,038**	145,174,660
Total Current Liabilities	**2,869,078,551**	1,574,066,741

(Forward)

	December 31	
	2012	2011
Noncurrent Liabilities		
Long-term debt - net of current portion (Notes 19 and 33)	**₱8,761,669,286**	₱8,905,442,780
Deposits for shares subscription (Note 21)	**6,771,600,000**	–
Accrued retirement costs (Note 25)	**–**	10,646,909
Long-term incentive plan payable (Note 25)	**38,814,200**	60,515,894
Financial guarantee obligation (Notes 20 and 33)	**65,050,205**	65,232,060
Provisions (Note 18)	**252,433,157**	189,931,902
Deferred tax liabilities - net (Note 29)	**393,987,665**	343,315,408
Derivative liabilities (Note 33)	**–**	130,155,566
Total Noncurrent Liabilities	**16,283,554,513**	9,705,240,519
Equity (Note 21)		
Capital stock	**5,065,198,859**	5,065,198,859
Equity adjustment on reverse acquisition	**(581,085,463)**	(581,085,463)
Retained earnings	**1,733,574,023**	1,607,472,401
Treasury shares	**(193,597,437)**	(193,597,437)
Other comprehensive income reserve (Notes 15 and 33)	**7,748,400**	(3,103,035)
Other reserves (Notes 24 and 25)	**35,105,334**	24,074,498
Total Equity Attributable to Equity Holders of the Parent	**6,066,943,716**	5,918,959,823
Non-controlling interests	**2,369,738,972**	2,280,835,512
Total Equity	**8,436,682,688**	8,199,795,335
	₱27,589,315,752	₱19,479,102,595

See accompanying Notes to Consolidated Financial Statements.

METRO PACIFIC TOLLWAYS CORPORATION
(A Subsidiary of Metro Pacific Investments Corporation)
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31		
	2012	2011	2010
OPERATING REVENUES			
Toll fees (net of discounts amounting to ₱56,778,507 in 2012, ₱61,436,477 in 2011 and ₱50,985,008 in 2010)	**₱6,784,126,258**	₱6,464,946,010	₱5,857,950,486
Sales of transponders and magnetic cards	**5,625**	42,071	543,900
	6,784,131,883	6,464,988,081	5,858,494,386
COST OF SERVICES (Notes 18, 20 and 22)	**(2,767,072,303)**	(2,854,496,993)	(2,583,582,753)
GROSS PROFIT	**4,017,059,580**	3,610,491,088	3,274,911,633
CONSTRUCTION REVENUE (Notes 5 and 12)	**224,847,664**	99,077,443	1,253,064,438
CONSTRUCTION COSTS (Notes 5 and 12)	**(224,847,664)**	(99,077,443)	(1,253,064,438)
GENERAL AND ADMINISTRATIVE EXPENSES (Notes 18, 20 and 23)	**(834,083,324)**	(811,860,835)	(990,596,383)
INTEREST EXPENSE AND OTHER FINANCE COSTS (Notes 19, 20 and 27)	**(694,947,852)**	(1,276,922,425)	(1,110,673,453)
EQUITY IN NET EARNINGS OF ASSOCIATES (Notes 6 and 11)	**228,459,455**	245,991,687	162,668,220
INTEREST INCOME (Notes 20 and 26)	**135,723,273**	161,261,687	109,499,696
FOREIGN EXCHANGE GAIN (LOSS) - Net	**1,312,885**	(10,753,384)	111,910,835
OTHER INCOME (Notes 5, 6, 20, 28 and 33)	**159,636,620**	524,690,208	174,976,962
OTHER EXPENSE (Notes 28 and 33)	**(45,020,915)**	(94,636,391)	(227,517,489)
INCOME BEFORE INCOME TAX	**2,968,139,722**	2,348,261,635	1,505,180,021
PROVISION FOR INCOME TAX (Note 29)			
Current	**809,707,221**	557,622,075	51,837,904
Deferred	**43,741,385**	11,673,716	26,642,331
	853,448,606	569,295,791	78,480,235
NET INCOME	**₱2,114,691,116**	₱1,778,965,844	₱1,426,699,786
Attributable to			
Equity holders of the Parent	**₱1,470,176,415**	₱1,257,353,313	₱996,491,029
Non-controlling interests	**644,514,701**	521,612,531	430,208,757
	₱2,114,691,116	₱1,778,965,844	₱1,426,699,786
Basic/Diluted Earnings Per Share Attributable to Equity Holders of the Parent (Note 30)	**₱0.30**	₱0.25	₱0.20

See accompanying Notes to Consolidated Financial Statements.

METRO PACIFIC TOLLWAYS CORPORATION
(A Subsidiary of Metro Pacific Investments Corporation)
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years ended December 31		
	2012	2011	2010
NET INCOME	**₱2,114,691,116**	₱1,778,965,844	₱1,426,699,786
OTHER COMPREHENSIVE INCOME (LOSS)			
Net gain (loss) on cash flow hedges (Note 33)	**10,508,656**	(30,252,244)	11,278,639
Income tax effect (Note 29)	**(3,152,597)**	9,075,673	(3,383,592)
	7,356,059	(21,176,571)	7,895,047
Gain on fair value change in available-for-sale financial assets (Note 15)	**12,594,250**	3,628,750	23,493,000
Income tax effect (Note 29)	**(3,778,275)**	(1,088,625)	(7,047,900)
	8,815,975	2,540,125	16,445,100
TOTAL OTHER COMPREHENSIVE INCOME (LOSS)	**16,172,034**	(18,636,446)	24,340,147
TOTAL COMPREHENSIVE INCOME	**₱2,130,863,150**	₱1,760,329,398	₱1,451,039,933
Attributable to			
Equity holders of the Parent	**₱1,481,027,850**	₱1,244,848,259	₱1,012,823,268
Non-controlling interests	**649,835,300**	515,481,139	438,216,665
	₱2,130,863,150	₱1,760,329,398	₱1,451,039,933

See accompanying Notes to Consolidated Financial Statements.

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010

	Capital Stock	Equity Adjustment on Reverse Acquisition	Retained Earnings	Treasury Shares	Other Comprehensive Income Reserve	Other Reserves (Note 21)	Total Equity Attributable to Equity Holders of the Parent	Non-controlling Interests	Total Equity
At January 1, 2012	**₱5,065,198,859**	**(₱581,085,463)**	**₱1,607,472,401**	**(₱193,597,437)**	**(₱3,103,035)**	**₱24,074,498**	**₱5,918,959,823**	**₱2,280,835,512**	**₱8,199,795,335**
Cash dividends - ₱0.27 per share (Note 21)	–	–	**(1,344,074,793)**	–	–	–	**(1,344,074,793)**	–	**(1,344,074,793)**
Cash dividends of a subsidiary - ₱96 per share (Note 20)	–	–	–	–	–	–	–	**(560,931,840)**	**(560,931,840)**
Cost of share-based payment (Note 24)	–	–	–	–	–	**3,070,578**	**3,070,578**	–	**3,070,578**
Long-term incentive plan reserves (Note 25)	–	–	–	–	–	**7,960,258**	**7,960,258**	–	**7,960,258**
	5,065,198,859	**(581,085,463)**	**263,397,608**	**(193,597,437)**	**(3,103,035)**	**35,105,334**	**4,585,915,866**	**1,719,903,672**	**6,305,819,538**
Net income	–	–	**1,470,176,415**	–	–	–	**1,470,176,415**	**644,514,701**	**2,114,691,116**
Other comprehensive income (Notes 15 and 33)	–	–	–	–	**10,851,435**	–	**10,851,435**	**5,320,599**	**16,172,034**
Total comprehensive income for the year	–	–	**1,470,176,415**	–	**10,851,435**	–	**1,481,027,850**	**649,835,300**	**2,130,863,150**
At December 31, 2012	**₱5,065,198,859**	**(₱581,085,463)**	**₱1,733,574,023**	**(₱193,597,437)**	**₱7,748,400**	**₱35,105,334**	**₱6,066,943,716**	**₱2,369,738,972**	**₱8,436,682,688**
At January 1, 2011	₱5,065,198,859	(₱581,085,463)	₱1,605,119,088	(₱193,597,437)	₱9,402,019	₱1,949,447	₱5,906,986,513	₱2,194,365,532	₱8,101,352,045
Cash dividends - ₱0.25 per share (Note 21)	–	–	(1,255,000,000)	–	–	–	(1,255,000,000)	–	(1,255,000,000)
Cash dividends of a subsidiary - ₱85 per share (Note 20)	–	–	–	–	–	–	–	(496,658,400)	(496,658,400)
Cost of share-based payment (Note 24)	–	–	–	–	–	6,985,309	6,985,309	–	6,985,309
Long-term incentive plan reserves (Note 25)	–	–	–	–	–	15,139,742	15,139,742	–	15,139,742
Non-controlling interest arising from business combination (see Note 6)	–	–	–	–	–	–	–	67,647,241	67,647,241
	5,065,198,859	(581,085,463)	350,119,088	(193,597,437)	9,402,019	24,074,498	4,674,111,564	1,765,354,373	6,439,465,937
Net income	–	–	1,257,353,313	–	–	–	1,257,353,313	521,612,531	1,778,965,844
Other comprehensive income (Notes 15 and 33)	–	–	–	–	(12,505,054)	–	(12,505,054)	(6,131,392)	(18,636,446)
Total comprehensive income for the year	–	–	1,257,353,313	–	(12,505,054)	–	1,244,848,259	515,481,139	1,760,329,398
At December 31, 2011	₱5,065,198,859	(₱581,085,463)	₱1,607,472,401	(₱193,597,437)	(₱3,103,035)	₱24,074,498	₱5,918,959,823	₱2,280,835,512	₱8,199,795,335
At January 1, 2010	₱5,065,198,859	(₱581,085,463)	₱1,800,336,276	(₱193,597,437)	(₱6,930,220)	₱–	₱6,083,922,015	₱2,241,328,116	₱8,325,250,131
Cash dividends - ₱0.24 per share (Note 21)	–	–	(1,191,708,217)	–	–	–	(1,191,708,217)	–	(1,191,708,217)
Cash dividends of a subsidiary - ₱93 per share (Note 20)	–	–	–	–	–	–	–	(543,402,720)	(543,402,720)
Cost of share-based payment (Note 24)	–	–	–	–	–	1,949,447	1,949,447	–	1,949,447
Non-controlling interest arising from business combination (see Note 6)	–	–	–	–	–	–	–	58,223,471	58,223,471
	5,065,198,859	(581,085,463)	608,628,059	(193,597,437)	(6,930,220)	1,949,447	4,894,163,245	1,756,148,867	6,650,312,112
Net income	–	–	996,491,029	–	–	–	996,491,029	430,208,757	1,426,699,786
Other comprehensive income (Notes 15 and 33)	–	–	–	–	16,332,239	–	16,332,239	8,007,908	24,340,147
Total comprehensive income for the year	–	–	996,491,029	–	16,332,239	–	1,012,823,268	438,216,665	1,451,039,933
At December 31, 2010	₱5,065,198,859	(₱581,085,463)	₱1,605,119,088	(₱193,597,437)	₱9,402,019	₱1,949,447	₱5,906,986,513	₱2,194,365,532	₱8,101,352,045

See accompanying Notes to Consolidated Financial Statements.

METRO PACIFIC TOLLWAYS CORPORATION
(A Subsidiary of Metro Pacific Investments Corporation)
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2012	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱2,968,139,722**	₱2,348,261,635	₱1,505,180,021
Adjustments to reconcile income before tax to net cash flows:			
Interest expense and other finance costs (Note 27)	**694,947,852**	1,276,922,425	1,110,673,453
Amortization of service concession asset (Notes 12 and 22)	**597,358,217**	592,987,123	559,180,335
Equity in net earnings of associates (Notes 6 and 11)	**(228,459,455)**	(245,991,687)	(162,668,220)
Interest income (Note 26)	**(135,723,273)**	(161,261,687)	(109,499,696)
Long-term incentive plan (Note 25)	**78,615,492**	75,655,636	–
Movements in:			
Provisions	**62,107,851**	5,001,671	(28,610,745)
Pension asset/Accrued retirement costs	**(30,671,475)**	9,773,295	(8,739,377)
Mark-to-market loss on derivative assets (Notes 28 and 33)	**44,844,434**	94,636,391	227,517,489
Depreciation of property and equipment (Notes 13 and 23)	**27,768,690**	28,308,266	24,123,289
Provision for potential losses on claim for refund (Note 23)	**11,060,341**	8,640,240	–
Deferred toll revenue realized	**(10,584,590)**	(30,985,896)	(21,134,973)
Amortization of intangible assets (Notes 14 and 23)	**7,547,442**	6,902,591	5,506,350
Mark-to-market gain on derivatives arising from convertible note (Notes 28 and 33)	**(3,222,025)**	–	–
Executive stock option plan expense (Note 24)	**3,070,578**	6,985,309	1,949,447
Loss (gain) on disposals of property and equipment (Note 13)	**176,481**	(457,363)	(1,817,591)
Unrealized foreign exchange loss (gain) – net	**102,158**	(152,552)	(105,215,559)
Reversal of allowance for potential losses on input value-added tax (Notes 5 and 28)	**–**	(288,052,966)	–
Gain on bargain purchase (Notes 6 and 28)	**–**	(30,951,517)	–
Reversal of accrued expenses (Note 28)	**–**	(11,000,000)	–
Provision for potential losses on input value added tax (Notes 5 and 23)	**–**	–	334,069,949
Working capital changes:			
Decrease (increase) in:			
Receivables	**(61,831,976)**	(35,979,526)	(27,970,214)
Inventories	**10,000,899**	(17,370,403)	(1,142,511)
Due from related parties	**(44,156,686)**	(29,743,636)	7,390,247
Advances to contractors and consultants	**(14,080,987)**	(74,696,065)	247,483,547
Input value-added tax (Notes 5 and 12)	**4,259,219**	(46,687,186)	(334,069,949)
Other current assets	**4,052,553**	(13,434,990)	(24,022,657)

(Forward)

	Years Ended December 31		
	2012	2011	2010
Increase (decrease) in:			
Accounts payable and other current liabilities	**₱83,260,624**	₱484,751,051	₱11,471,668
Due to related parties	**(955,822)**	(247,479)	(2,682,964)
Unearned toll revenue	**–**	10,584,590	30,985,896
Income tax paid	**(686,328,448)**	(538,884,814)	(39,716,249)
Net cash provided by operating activities	**3,381,297,816**	3,423,512,456	3,198,240,986
CASH FLOWS FROM INVESTING ACTIVITIES			
Increase in other noncurrent assets	**(32,050,372)**	(12,099,004)	(16,145,520)
Dividends received (Note 11)	**200,559,508**	182,212,741	146,740,000
Interest received	**121,817,176**	150,681,757	99,387,563
Acquisition of:			
Notes receivable (Notes 10 and 17)	**(6,197,040,000)**	–	–
Investment in bonds (Note 15)	**(50,000,000)**	(200,000,000)	(300,000,000)
Investment in shares of stock (Note 15)	**–**	(12,500,000)	–
Investment in subsidiary, net of cash acquired (Note 6)	**–**	–	(78,614,048)
Additions to:			
Service concession asset (Note 12)	**(224,847,664)**	(99,077,443)	(1,253,064,438)
Property and equipment (Note 13)	**(30,492,351)**	(39,647,467)	(24,406,034)
Intangible assets (Note 14)	**(8,756,754)**	(7,235,682)	(11,451,426)
Proceeds from:			
Sale of property and equipment (Note 13)	**6,467,525**	1,759,802	5,040,538
Maturity in investment in bonds (Note 15)	**–**	50,000,000	–
Sale of investment in bonds (Note 15)	**–**	–	300,000,000
Net cash provided by (used in) investing activities	**(6,214,342,932)**	14,094,704	(1,132,513,365)
CASH FLOWS FROM FINANCING ACTIVITIES			
Deposits for shares subscription (Note 21)	**6,771,600,000**	–	–
Proceeds from loans (Note 19)	**–**	7,210,230,849	1,523,000,000
Payments of:			
Dividends to stockholders (Notes 20 and 21)	**(1,113,020,723)**	(1,252,810,916)	(1,191,708,217)
Dividends to non-controlling stockholders (Note 20)	**(324,048,960)**	(640,603,200)	(505,304,584)
Loans	**(167,102,307)**	(7,498,803,399)	(630,365,169)
Interest	**(653,200,747)**	(1,117,297,660)	(906,488,023)
Swap termination costs (Notes 28 and 33)	**–**	(209,010,941)	–
Debt issue costs (Note 19)	**–**	(150,032,833)	–
Net cash provided by (used in) financing activities	**4,514,227,263**	(3,658,328,100)	(1,710,865,993)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**(102,158)**	144,000	(801,346)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**1,681,079,989**	(220,576,940)	354,060,282
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR (Note 8)	**1,653,539,917**	1,874,116,857	1,520,056,575
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 8)	**₱3,334,619,906**	₱1,653,539,917	₱1,874,116,857

See accompanying Notes to Consolidated Financial Statements.

METRO PACIFIC TOLLWAYS CORPORATION
(A Subsidiary of Metro Pacific Investments Corporation)
AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. **Corporate Information**

General
Metro Pacific Tollways Corporation (MPTC or the Parent Company) and its subsidiaries (collectively referred to as "the Company") were incorporated in the Philippines and registered with the Philippine Securities and Exchange Commission (SEC) on various dates. The primary purpose of MPTC is that of investment holding.

On November 13, 2008, First Philippine Holdings Corporation (FPHC) and Benpres Holdings Corporation (BHC), former shareholders of MPTC, then First Philippine Infrastructure, Inc. (FPII), sold their combined 99.8% ownership interest in MPTC to Metro Pacific Investments Corporation (MPIC). MPIC, a publicly-listed Philippine corporation, 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 MPTC is 10th Floor, MGO Building, Legaspi corner Dela Rosa Streets, Legaspi Village, Makati City.

On December 17, 2012, the Philippine Stock Exchange (PSE) approved the Parent Company's petition of voluntary delisting and accordingly ordered the delisting of the Parent Company's shares effective December 21, 2012.

The consolidated financial statements were approved and authorized for issuance by the Board of Directors (BOD) on February 26, 2013, as reviewed and recommended for approval by the Audit Committee.

Toll Operations
Metro Pacific Tollways Development Corporation (MPTDC), a wholly owned subsidiary of MPTC, owns 100.0% of Luzon Tollways Corporation (LTC), 67.1% of Manila North Tollways Corporation (MNTC) and 46.0% of Tollways Management Corporation (TMC). MPTDC, then First Philippine Infrastructure Development Corporation (FPIDC), was 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 Philippine National Construction Corporation (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.

MPTDC established MNTC jointly with PNCC for the purpose of implementing the rehabilitation of the North Luzon Expressway (NLE) and the installation of 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

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 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 in 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 Joint Venture Agreement (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 MNTC all its rights, interests and privileges over Segment 7. On the same date, MPTDC and MNTC entered into an Operation and Maintenance Agreement (S7 O&M) whereby MNTC 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 MNTC and TMC, a 46.0% owned associate of MPTDC, TMC took over the operation and maintenance of Segment 7 from MPTDC (see Note 20).

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 as at February 26, 2013.

On June 5, 2010, the Department of Public Works and Highways (DPWH) accepted MPTDC's unsolicited proposal for the NLE to South Luzon Expressway (SLEx) Connector Road project ("the Connector Road Project"), subject to submission of requested additional documents and further discussion with DPWH. MPTDC submitted the additional documents and subsequently was granted the "original proponent" status for the Connector Road Project. The Connector Road Project is approximately 13 kilometer elevated toll road which will connect the NLE to the SLEx, and will traverse the Central Business District of Metro Manila primarily utilizing the existing Philippine National Railways right-of-way. As at February 26, 2013, MPTDC continues to discuss with DPWH and other government agencies on this Connector Road Project.

As further discussed in Note 31, on July 20, 2011, MNTC and BCDA signed the Business and Operating Agreement (BOA) covering the assignment by BCDA to MNTC of its right, interests and obligations relating to the management operation and maintenance of the Subic-Clark-Tarlac Expressway (SCTEx). The BOA was the result of the amendments made to the previously signed Concession Agreement between BCDA and MNTC last November 2010.

2. **The Supplemental Toll Operation Agreement (STOA) 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 a 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 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 20, 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. No fees were billed by TRB in 2012.

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, in consideration of the construction of Segment 8.1, TRB approved MNTC'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.

From 2007 to 2010, MNTC obtained TRB's approval for certain amendments to the STOA which includes (a) the integration of Segment 10 into Phase II – July 2007; (b) amendment of adjustment formula for the Authorized Toll Rate (ATR) by removing the foreign exchange factor – July 2008; (c) adoption of an integrated operations period for Phase I and Segment 8.1 and extension of the concession period until December 31, 2037 – October 2008; and (d) modification of alignments of Phase II Segments 9 and 10 – February 2010.

3. Basis of Preparation and Summary of Significant Accounting Policies

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

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

Basis of Consolidation
The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries as at December 31, 2012 and 2011 and for each of the three years in the period ended December 31, 2012.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting year as the Parent Company, using consistent accounting policies. All intra-group balances, transactions, income and expenses, unrealized gains and losses and dividends resulting from intra-group transactions are eliminated in full.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Company loses control over a subsidiary, it:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary
- Derecognizes the carrying amount of any non-controlling interest
- Derecognizes the cumulative translation differences recorded in equity
- Recognizes the fair value of the consideration received
- Recognizes the fair value of any investment retained
- Recognizes any surplus or deficit in profit or loss
- Reclassifies the Parent Company's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate.

Non-controlling interests represent the interest in MNTC and Metro Strategic Infrastructure Holdings, Inc. (MSIHI) not held by the Parent Company, and are presented separately in the consolidated statement of income and within equity in the consolidated balance sheet, separately from equity attributable to equity holders of the parent.

The Parent Company's subsidiaries are as follows:

	Activity	Percentage of Ownership	
		2012	2011
MPTDC (see Notes 1 and 2)	Holding Company	**100.0**	100.0
LTC (dormant)*	Tollway Operations	**100.0**	100.0
MNTC* (see Notes 1 and 2)	Tollway Operations	**67.1**	67.1
MSIHI (see Note 6)	Holding Company	**57.0**	57.0

**Owned through MPTDC.*

MSIHI. MSIHI is primarily engaged to purchase, subscribe for, or otherwise acquire and own or dispose of real and personal properties including shares of stock, bonds, debentures, notes, other evidences of indebtedness, and any other securities, contracts or obligations. MSIHI's main asset is its 2.0% interest in Citra Metro Manila Tollways Corporation (CMMTC) (see also Note 15). CMMTC is engaged primarily in the design, construction and financing of the Metro Manila Skyway (in three stages) and the proposed Metro Manila Tollways projects. The 30-year franchise period for the Stage 1 of the South Metro Manila Skyway (SMMS) and for the integrated Stage 1 and Stage 2 of the SMMS commenced on October 10, 1999 and April 25, 2011, respectively.

Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year except for the following amended PFRS, which were effective beginning January 1, 2012.

- PFRS 7, "Financial Instruments: Disclosures - Transfers of Financial Assets" (Amendments) — The amendments require additional disclosures about financial assets that have been transferred but not derecognized to enhance the understanding of the relationship between those assets that have not been derecognized and their associated liabilities. In addition, the amendments require disclosures about continuing involvement in derecognized assets to enable users of financial statements to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognized assets. The amendments affect disclosures only and have no impact on the Company's financial position or performance.

- Philippine Accounting Standard (PAS) 12, "Income Taxes - Deferred Tax: Recovery of Underlying Assets" (Amendment) — The amendment to PAS 12 clarifies the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that the carrying amount of investment property measured using the fair value model in PAS 40, "Investment Property", will be recovered through sale and, accordingly, requires that any related deferred tax should be measured on a 'sale' basis. The presumption is rebutted if the investment property is depreciable and it is held within a business model whose objective is to consume substantially all of the economic benefits in the investment property over time ('use' basis), rather than through sale. Furthermore, the amendment introduces the requirement that deferred tax on non-depreciable assets measured using the revaluation model in PAS 16, "Property, Plant and Equipment", always be measured on a sale basis of the asset. The amendment has no impact on the Company's financial position or performance as the Company has no investment property and non-depreciable assets measured using revaluation model.

Business Combinations and Goodwill

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

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

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through the consolidated statement of income.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognized in accordance with PAS 39, "Financial Instruments: Recognition and Measurement", either in profit or loss or as a charge to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity. In instances where the contingent consideration does not fall within the scope of PAS 39, it is measured in accordance with the appropriate PFRS.

Goodwill (included under "Other noncurrent assets") is initially measured at cost being the excess of the aggregate of the consideration transferred, the amount recognized for non-controlling interest and the acquisition date fair value of previously held equity interest in the acquired over the net identifiable acquired assets and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the consolidated statement of income.

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

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

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

the acquisition date had been recognized from that date and goodwill or any gain recognized shall be adjusted from the acquisition date by an amount equal to the adjustment to the fair value at the acquisition date of the identifiable asset, liability or contingent liability being recognized or adjusted.

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

Investment in an Associate
The Company's investment in its associate is accounted for under the equity method. An associate is an entity in which the Company has significant influence.

Under the equity method, the investment in the associate is carried in the consolidated balance sheet at cost plus post-acquisition changes in the Company's share in net assets of the associate, less any impairment in value. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

The consolidated statement of income reflects the Company's share in the results of operations of the associate. Where there has been a change recognized directly in the equity of the associate, the Company recognizes its share of any changes and discloses this, when applicable, in the consolidated statement of changes in equity. Unrealized gains and losses resulting from transactions between the Company and the associate are eliminated to the extent of the interest in the associate.

The Company's share of profit of an associate is shown on the face of the consolidated statement of income. This is the profit attributable to equity holders of the associate and, therefore, is profit after tax and non-controlling interests in the subsidiaries of the associate.

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

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

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

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

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 and loss (FVPL), loans and receivables, held-to-maturity (HTM) investments, and AFS financial assets or as derivatives designated as hedging instruments in an effective hedge, as appropriate. 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 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, other financial liabilities, 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 or 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 consolidated 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, or

- The assets or liabilities are part of a group of financial assets or 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 consolidated balance sheet, with any gains or losses being recognized in the consolidated statement of income.

The Company accounts for its derivative transactions (including embedded derivatives) under this category with fair value changes being reported directly in the consolidated 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 consolidated 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, 2012, the Company has derivative asset arising from the options embedded in the notes receivable which is classified as financial asset at FVPL. As at December 31, 2011, the Company has outstanding interest rate swaps classified as financial liabilities at FVPL (see Note 33).

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 rate 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 consolidated statement of income when the loans and receivables 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 as at the balance sheet date and noncurrent assets if maturity is more than a year from the balance sheet date.

Loans and receivables include cash and cash equivalents, receivables, notes receivable, due from related parties and refundable deposits (included in "Other noncurrent assets" account in the consolidated balance sheet) (see Notes 8, 9, 10, 16, 20 and 33).

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

rate method of any difference between the initially recognized amount and the maturity amount. This calculation includes fees paid or received between parties to the contract that are an integral part of the effective interest rate, issuance costs and all other premiums and discounts. Gains and losses are recognized in the consolidated 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 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 15, in view of the pretermination of the HTM investments, the fixed rate retail treasury bonds were reclassified to AFS financial assets in 2010 and continues to be presented as such as at December 31, 2012 and 2011.

d. AFS Financial Assets

AFS financial assets are non-derivative financial assets that are designated as such or do not qualify to be classified in any of the three preceding categories. AFS financial assets include equity and debt securities. Equity investments classified as available-for-sale are those, which are neither classified as held for trading nor designated at FVPL. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

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

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

As at December 31, 2012 and 2011, AFS financial assets consist of investments in fixed rate retail treasury bonds of the ROP and investment in unquoted shares of CMMTC and Pacific Global One Aviation Company, Inc. (PGOACI) (see Note 15).

e. Other Financial Liabilities

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

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

This category includes accounts payable and other current liabilities, due to related parties, dividends payable, long-term debt and financial guarantee obligation (see Notes 17, 19, 20 and 33).

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 rate method.

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

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

Financial Guarantee Contracts. Financial guarantee contracts issued by the Company are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognized initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the balance sheet date and the amount recognized less cumulative amortization.

Offsetting Financial Instruments
Financial assets and financial liabilities are offset and the net amount is reported in the consolidated balance sheet, if and only if, there is 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.

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

Fair Value of Financial Instruments
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 appropriate 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.

Impairment of Financial Asset
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 when 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, 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 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 consolidated 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 consolidated 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 consolidated statement of income.

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

b. Assets Carried at Cost

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

c. 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 consolidated statement of income) is removed from other comprehensive income and recognized in the consolidated statement of income. Impairment losses on equity investments are not reversed through the consolidated statement of income; increases in their fair value after impairment are recognized directly in 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 consolidated statement of income.

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

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, 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 amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, shall be recognized in the consolidated statement of income.

Derivatives and Hedge Accounting

Freestanding Derivatives. The Company uses derivative financial instruments, such as currency forward 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 a 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 consolidated 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 consolidated statement of income in the same period or periods during which the hedged forecasted transaction or recognized asset or liability affect the consolidated 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 consolidated 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 consolidated 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 consolidated 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 and effective hedging instruments 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.

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 are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense is recognized under the "Cost of services" account in the consolidated 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 depreciated by then, will be handed over to the Grantor with no consideration.

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 consolidated 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 consolidated statement of income.

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

Intangible Assets (Software Costs)
The Company's intangible assets pertain to various computer software used in administration and operations. Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in profit and loss in the period in which the expenditure is incurred.

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

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

Impairment of Investment in an Associate, Property and Equipment, Intangible Assets, Service Concession Asset, Goodwill (included in "Other noncurrent assets") and Other Noncurrent Assets
The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. 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, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other available fair value indicators. Impairment losses of continuing operations are recognized in the consolidated statement of income in those expense categories consistent with the function of the impaired asset.

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

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

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 consolidated statement of income, net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense.

Deposit for Future Subscription

Deposit for future subscription represents deposits received by the Company from its stockholder for the proposed increase in authorized capital stock. Deposit for future subscription is stated at cost.

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.

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

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

Other reserves comprise the contribution from MPIC in relation to its executive stock option plan granted to MPTC employees accounted for as equity-settled share-based payment transactions and the 20% of Long-term Incentive Plan (LTIP) which grants cash incentives to eligible key executives of the Company which are shouldered by MPIC and treated as additional equity of MPIC.

Non-controlling interests represent the equity interests in MNTC and MSIHI not held by the Parent Company.

Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the 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, discounts and rebates. The Company assesses its revenue arrangements 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, is 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 consolidated balance sheet.

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

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

Guarantee fees and income from utility facilities, toll service facilities (TSF) and advertising, included in "Other income" account in the consolidated 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 rate method.

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

Other income is recognized when there is an incidental economic benefits, other than the usual business operations, that will flow to the Company through an increase in asset or reduction in liability and that can be measured reliably. This includes refunds from lenders, reversal of accrued expenses 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, construction costs and interest expense and other finance costs are recognized in the consolidated 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 consolidated statement of income on a straight-line basis over the term of the lease.

Foreign Currency-denominated Transactions and Translations
The Parent Company and its subsidiaries determine their own functional currency and items included in the consolidated financial statements are measured using that functional currency. The Parent Company and its subsidiaries have 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 ruling at the balance sheet date. All differences are taken to the consolidated statement of income with the exception of differences on foreign currency borrowings that are regarded as adjustments to interest cost, and are capitalized as part of the cost of the service concession 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 Benefits

Defined Contribution Plan. Retirement benefits of the employees of the Parent Company and MPTDC are provided through a defined contribution scheme. The Parent Company and MPTDC operates a retirement plan which is a contributory plan wherein the Parent Company and MPTDC undertakes to contribute a predetermined amount to the individual account of each employee and the employee gets whatever is standing to his credit upon separation from the Company. The retirement plan is managed and administered by a Retirement Committee and a trustee bank had been appointed to hold and invest the assets of the retirement fund in accordance with the provisions of the retirement plan. The Parent Company and MPTDC record expenses for their contribution to the defined contribution plan when the employee renders service to the Company, essentially coinciding with their cash contributions to the retirement plan.

Defined Benefit Plan. MNTC 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 unrecognized actuarial gains and losses 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.

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

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

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 tax 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, carryforward benefits of unused tax credits and unused tax losses, to the extent that it is probable that taxable income will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilized. 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 income 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. Unrecognized deferred tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable income will allow the deferred tax assets to be recovered.

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

Current and deferred tax assets and liabilities relating to items recognized directly in equity are recognized in equity and not in the consolidated 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 taxes relate to the same taxable entity and the same taxation authority.

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

- 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.

- 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 consolidated balance sheet.

Earnings Per Share
Basic earnings per share is computed by dividing net income for the year by the weighted average number of common shares issued and outstanding during the year, after giving retroactive effect to any stock dividend or stock splits, if any, declared during the year.

Dilutive earnings per share is computed by dividing net income for the year by the weighted average of common shares issued and outstanding during the year plus the weighted average number of common shares that would be issued for outstanding common stock equivalent. The Company does not have dilutive common stock equivalents.

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

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

4. 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, 2012:

- PFRS 7, "Financial instruments: Disclosures" – Offsetting Financial Assets and Financial Liabilities (Amendments) (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 amendments affect disclosures only and have no impact on the Company's financial position or performance.

- PFRS 9, "Financial Instruments" (effective for annual periods beginning on or after January 1, 2015) — PFRS 9, as issued, reflects the first phase on the replacement of PAS 39 and applies to the classification and measurement of financial assets and liabilities as defined in PAS 39, "Financial Instruments: Recognition and Measurement". Work on impairment of financial instruments and hedge accounting is still ongoing, with a view to replacing PAS 39 in its entirety. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold

the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at fair value through profit or loss. All equity financial assets are measured at fair value either through other comprehensive income (OCI) or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward into PFRS 9, including the embedded derivative separation rules and the criteria for using the FVO. 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 the classification and measurement of financial liabilities. The Company will quantify the effect of this standard 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 Standing Interpretations Committee Interpretation (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. The Company does not expect this new standard to have an impact on its financial position or 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 using proportionate consolidation. Instead, jointly controlled entities that meet the definition of a joint venture must be accounted for using the equity method. The Company does not have joint arrangements and, therefore, does not expect this new standard to have an impact on its 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 consolidated financial statements upon adoption of the standard. The adoption of PFRS 12 will affect disclosures only and have no impact on the Company's financial position or performance.

- 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. This standard should be applied prospectively as of the beginning of the annual period in which it is initially applied. Its disclosure requirements need not be

applied in comparative information provided for periods before initial application of PFRS 13. The Company does not anticipate that the adoption of this standard will have a significant impact on its 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 to PAS 1 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 amendments will be applied retrospectively and will result to the modification of the presentation of items of OCI.

- PAS 19, "Employee Benefits" (Revised) (effective for annual periods beginning on or after January 1, 2013) — Amendments to PAS 19 range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and rewording. The revised standard also requires new disclosures such as, among others, a sensitivity analysis for each significant actuarial assumption, information on asset-liability matching strategies, duration of the defined benefit obligation, and disaggregation of plan assets by nature and risk.

  The Company reviewed its existing employee benefits and determined that the amended standard has significant impact on its accounting for retirement benefits. The Company obtained the services of an external actuary to compute the impact to the financial statements upon adoption of the standard. The effects are detailed below:

	As at 31 December 2012	As at 1 January 2012
Increase (decrease) in:		
Consolidated balance sheet		
Pension asset	(₱3,137,538)	₱–
Accrued retirement costs	–	37,286,305
Deferred tax liability - net	(941,261)	(11,185,892)
Other comprehensive income	14,596,946	–
Retained earnings	(7,038,104)	(17,513,377)
Non-controlling interests	(722,575)	(8,587,036)

	2012	2011
Consolidated statement of income		
Provision for retirement benefits	(₱3,071,598)	(₱1,899,013)
Income tax effects	921,480	569,704
Net income:		
Attributable to the owners of the Parent Company	1,442,729	891,967
Attributable to non-controlling interests	707,389	437,342

	2012	2011
Consolidated statement of comprehensive income		
Remeasurement of pension asset	₱31,077,169	₱–
Remeasurement of accrued retirement costs	–	(19,230,454)
Income tax effects	(9,323,151)	5,769,136
Other comprehensive income:		
Attributable to the owners of the Parent Company	14,596,946	(9,032,544)
Attributable to non-controlling interests	7,157,072	(4,428,774)

- 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 and PFRS 12, what remains of PAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The Company expects that this amendment will have no significant impact on the consolidated financial statements.

- 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 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 or performance.

- PAS 32, "Financial Instruments: Presentation" – Offsetting Financial Assets and Financial liabilities (Amendments) (retrospectively applied for annual periods beginning on or after January 1, 2014) — These amendments 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. The amendments affect presentation only and have no impact on the Company's financial position or performance.

- Philippine Interpretation IFRIC 15, "Agreements for the Construction of Real Estate" — This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The SEC and the Financial Reporting Standards Council have deferred the effectivity of this interpretation until the final Revenue standard is issued by the International Accounting Standards Board and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed. Adoption of the interpretation when it becomes effective will not have any impact on the consolidated financial statements of the Company.

- 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 (stripping) costs incurred in surface mining activity, during the production phase of the mine. The interpretation addresses the accounting for the benefit from the stripping activity. This new interpretation is not relevant to the Company.

Improvements to PFRSs. The Annual Improvements to PFRSs (2009-2011 cycle) contain non-urgent but necessary amendments to PFRSs. The amendments are effective for annual periods beginning on or after January 1, 2013 and are applied retrospectively. Earlier application is permitted.

- PFRS 1, "First-time Adoption of PFRS – Borrowing Costs" — The amendment clarifies that, upon adoption of PFRS, an entity that capitalized borrowing costs in accordance with its previous generally accepted accounting principles, may carry forward, without any adjustment, the amount previously capitalized in its opening statement of financial position at the date of transition. Subsequent to the adoption of PFRS, borrowing costs are recognized in accordance with PAS 23, "Borrowing Costs". The amendment does not apply to the Company as it is not a first-time adopter of PFRS.

- PAS 1, "Presentation of Financial Statements" – Clarification of the requirements for comparative information — The amendments clarify the requirements for comparative information that are disclosed voluntarily and those that are mandatory due to retrospective

application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional comparative period does not need to contain a complete set of financial statements. On the other hand, supporting notes for the third balance sheet (mandatory when there is a retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements) are not required. The amendments affect disclosures only and have no impact on the Company's financial position or performance.

- PAS 16, "Property, Plant and Equipment - Classification of Servicing Equipment" — The amendment clarifies that spare parts, stand-by equipment and servicing equipment should be recognized as property, plant and equipment when they meet the definition of property, plant and equipment and should be recognized as inventory if otherwise. The amendment will not have any significant impact on the Company's financial position or performance.

- PAS 32, "Financial Instruments: Presentation - Tax Effect of Distributions to Holders of Equity Instruments" — The amendment clarifies that income taxes relating to distributions to equity holders and to transaction costs of an equity transaction are accounted for in accordance with PAS 12, "Income Taxes". The Company expects that this amendment will not have any impact on its financial position or performance.

- PAS 34, "Interim Financial Reporting - Interim Financial Reporting and Segment Information for Total Assets and Liabilities" — The amendment clarifies that the total assets and liabilities for a particular reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker and there has been a material change from the amount disclosed in the entity's previous annual financial statements for that reportable segment. The amendment affects disclosures only and has no impact on the Company's financial position or performance.

5. Significant Accounting Judgments, Estimates and Assumptions

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

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

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

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 the 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 costs of providing 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, acting by and through the TRB, PNCC and MNTC 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. 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. 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 ₱15,179.6 million and ₱15,552.1 million as at December 31, 2012 and 2011, respectively (see Note 12).

The Company also recognizes construction revenues and costs in accordance with PAS 11. It measures contract revenue at the fair value of the consideration received or receivable. Given that MNTC has subcontracted the construction to outside contractors, the construction revenue recognized is equal to the construction costs. Construction revenue and costs recognized in the consolidated statements of income amounted to ₱224.8 million, ₱99.1 million and ₱1,253.1 million for the years ended December 31, 2012, 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 as the obligation arises which is a consequence of the use of the toll roads and therefore it is proportional to the number of vehicles using the roads and increasing in measurable annual increments. Provision for heavy maintenance amounted to ₱336.7 million and ₱370.4 million as at December 31, 2012 and 2011, respectively (see Note 18).

Operating Lease Commitments - Company as Lessee. MPTC entered into a five-year lease agreement from November 1, 2010 to October 31, 2015 covering certain office units and parking spaces. MNTC also entered into lease agreements covering an office space and a storage room which are renewable annually. The Company has determined that the significant risks and rewards are retained by the lessor and accounts for the leases as operating lease.

Rental expense amounted to ₱1.9 million, ₱2.4 million and ₱1.4 million for the years ended December 31, 2012, 2011 and 2010, respectively (see Note 23).

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 15).

Fair Value of Financial Assets not Quoted in an Active Market. The Company classifies financial assets by evaluating, among others, whether the asset is quoted or not in an active market. Included in the evaluation on whether a financial asset is quoted in an active market is the determination on whether quoted prices are readily and regularly available, and whether those prices represent actual and regularly occurring market transactions on an arm's length basis.

The fair values and carrying values of AFS financial assets not quoted in an active market amounted to ₱328.2 million as at December 31, 2012 and 2011 (see Note 15).

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 financial 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 consolidated statement of income or changes in equity.

Fair values of financial assets and liabilities are presented in Note 33.

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, which is designed to identify potential charges to the allowance, is performed on a continuous basis throughout the year.

There were no provisions under collective assessment in 2012, 2011 and 2010.

Receivables (net of allowance for doubtful accounts of ₱5.3 million as at December 31, 2012 and 2011) amounted to ₱167.1 million and ₱102.2 million as at December 31, 2012 and 2011, respectively (see Note 9).

Due from related parties (current and noncurrent) amounted to ₱408.2 million and ₱625.4 million as at December 31, 2012 and 2011, respectively (see Note 20).

Notes receivable amounted to ₱6,577.6 million as at December 31, 2012 (see Note 10).

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 35, MNTC, 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 MNTC. On the other hand, the TRB continued to direct the tollway companies (including MNTC) 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, MNTC 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, MNTC continued in 2010 the practice of not recognizing any VAT liability. However, MNTC continued to recognize input VAT but given the uncertainty as to whether input VAT will be allowed to be offset against future output VAT, MNTC 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 23).

On July 19, 2011, the SC upheld the legality of RMC No. 63-2010 issued by the BIR on July 13, 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 19, 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, MNTC started imposing VAT on toll fees from motorists and correspondingly started recognizing VAT liability on October 1, 2011. As at December 31, 2012 and 2011, total output VAT liability of MNTC amounted to ₱86.9 million and ₱76.6 million, respectively. With respect to input VAT, MNTC 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 12, 13 and 16). 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 28). Starting October 1, 2011, as allowed under RMC No. 39-2011, MNTC 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, 2012 and 2011, the unapplied input VAT of MNTC amounted to ₱32.4 million and ₱42.1 million, respectively.

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 consolidated financial statements.

There was no write-down of inventories recognized in the consolidated financial statements for the years ended December 31, 2012, 2011 and 2010. Inventories amounted to ₱45.3 million and ₱55.3 million as at December 31, 2012 and 2011, respectively.

Estimated Useful Lives. The useful life of each of the Company's item of service concession asset, property and equipment and intangible assets are 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 service concession asset, property and equipment and intangible assets would decrease the recorded depreciation expense and amortization.

There were no changes in the estimated useful lives of service concession asset, property and equipment and intangible assets in 2012, 2011 and 2010. The carrying values of nonfinancial assets subject to depreciation and amortization as at December 31, 2012 and 2011 are as follows:

	2012	2011
Service concession asset (see Note 12)	**₱15,179,563,780**	₱15,552,074,333
Property and equipment (see Note 13)	**119,734,372**	123,654,717
Intangible assets (see Note 14)	**13,918,628**	12,709,316

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. In addition, the Company evaluates other factors, including normal volatility in share price for quoted equities and future cash flows and the discount factors for unquoted equities.

The carrying values of AFS financial assets amounted to ₱968.6 million and ₱906.0 million as at December 31, 2012 and 2011, respectively (see Note 15). No impairment loss was recognized in 2012, 2011 and 2010.

Impairment of Nonfinancial Assets. Impairment review for nonfinancial assets (investment in an associate, service concession asset, property and equipment, intangible assets and other noncurrent assets) is performed when certain impairment indicators are present. Determining the fair value of assets requires the estimation of cash flows expected to be generated from the continued and ultimate disposition of such assets.

The carrying values of nonfinancial assets reviewed for indicators of impairment follows:

	2012	2011
Service concession asset (see Note 12)	**₱15,179,563,780**	₱15,552,074,333
Investment in an associate (see Note 11)	**175,130,966**	147,231,019
Property and equipment (see Note 13)	**119,734,372**	123,654,717
Intangible assets (see Note 14)	**13,918,628**	12,709,316
Other noncurrent assets (see Note 16)	**144,739,795**	49,898,831

No impairment loss was recognized in the consolidated financial statements for the years ended December 31, 2012, 2011 and 2010. There is no impairment testing performed for the years ended December 31, 2012, 2011 and 2010 as there were no indicators of impairment.

Impairment of Goodwill. Goodwill is subject to annual impairment test. The Company determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Company to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

No impairment of goodwill was recognized in 2012, 2011 and 2010. The carrying amount of goodwill (included under "Other noncurrent assets" account) amounted to ₱13.6 million as at December 31, 2012 and 2011 (see Note 16).

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

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

Deferred tax assets amounted to ₱155.2 million and ₱153.4 million as at December 31, 2012 and 2011, respectively (see Note 29).

Certain deferred tax assets were not recognized since management believes that it is more likely than not that these will not be realized in the future. Unrecognized deferred tax assets on deductible temporary differences amounted to ₱63.4 million and ₱35.1 million as at December 31, 2012 and 2011, respectively (see Note 29).

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 24.

Total cost arising from share-based payments recognized by the Company, included in "Salaries and employee benefits" account under General and administrative expenses, amounted to ₱3.1 million in 2012, ₱7.0 million in 2011 and ₱1.9 million in 2010 (see Notes 20 and 24).

Retirement Benefits. The cost of defined benefit retirement plan and the present value of retirement obligation is determined based on actuarial valuations. The actuarial valuations involve making various assumptions about discount rates, expected return on assets, future salary increases, mortality rates, and future pension increases. Due to the complexity of the valuation, the underlying assumptions and long-term nature of the plan, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each balance sheet date. Further details about the assumptions used are given in Note 25.

Pension asset under the defined benefit plan amounted to ₱20.0 million as at December 31, 2012. Accrued retirement costs under the defined benefit plan amounted to ₱10.6 million as at December 31, 2011. Cumulative unrecognized actuarial loss amounted to ₱2.9 million, ₱36.6 million and ₱20.0 million in 2012, 2011 and 2010, respectively (see Note 25).

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

Carrying value of the LTIP, recognized under "Other reserves" in the equity section of the consolidated balance sheet, amounted to ₱23.1 million and ₱15.1 million as at December 31, 2012 and 2011, respectively (see Note 25). LTIP payable as at December 31, 2012 and 2011 amounted to ₱131.2 million and ₱60.5 million, respectively (see Note 25).

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 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 ₱501.1 million and ₱439.0 million as at December 31, 2012 and 2011, respectively (see Note 18).

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 consolidated financial statements (see Note 35).

6. **Business Combination**

On July 20, 2010, MPTC entered into a Share Purchase Agreement (SPA) with a third party for the acquisition of 148,000 common shares in MSIHI (representing 37% of the outstanding capital stock of MSIHI) for a purchase price of ₱51.0 million. An amendment to the SPA was made on August 30, 2010, reflecting the allocation of the purchase price as follows:

- ₱14.8 million as consideration for the MSIHI shares; and
- ₱36.2 million as consideration for the assignment to MPTC of the third party's deposit for future stock subscription in MSIHI.

On August 30, 2010, the parties signed the Deed of Absolute Sale of Shares and the Deed of Assignment of the deposit for future stock subscription. Gain on bargain purchase from the acquisition amounted to ₱57.3 million and was included as income in the determination of the Company's share of MSIHI's profit or loss in August 2011.

On December 30, 2010, MPTC acquired from another third party an additional 20% interest in MSIHI. Through a Deed of Absolute Sale of Shares, MPTC agreed to buy the 80,000 MSIHI shares from the said third party for ₱8.0 million. In addition, through a Deed of Assignment, the said third party also assigned to MPTC its deposit for stock subscription for ₱19.6 million.

The acquisition of additional 20% interest was accounted for as a business combination achieved in stages under PFRS 3. Previously held equity interest acquired in August 2010 was remeasured to fair value in December 2010. As at December 30, 2010, MPTC had acquired 57% of the outstanding capital stock of MSIHI. The Company elected to measure the non-controlling interest in the acquiree at the proportionate share of its interest in the acquiree's identifiable net assets.

In 2010, the Company recorded its share in the identifiable assets of MSIHI, which comprise mainly of AFS financial assets, on the basis of provisional values which is allowed by PFRS 3. In 2011, the Company finalized the purchase price allocation and the purchase price consideration has been allocated to the assets and liabilities on the basis of fair values at the date of acquisition as follows:

	Fair Values Recognized on Acquisition
Cash in bank	₱26,890
AFS financial asset (see Note 15)	315,746,526
	315,773,416
Accounts payable and accrued expenses	702,783
Due to a related party	1,445,519
Payable to stockholders	3,428,176
Deferred tax liability	17,474,352
	23,050,830
Net assets	292,722,586
Non-controlling interests (43% of net assets fair value)	(125,870,712)
Total net assets acquired	166,851,874
Gain on bargain purchase (Note 28)	(30,951,517)
Consideration transferred	₱135,900,357

Total consideration transferred consists of the following:

Total cash paid on acquisition	₱27,593,000
Fair value of previously held interest	108,307,357
	₱135,900,357

The purchase price consideration was initially allocated to the identifiable assets and liabilities of MSIHI on the basis of provisional values in which a provisional goodwill of ₱1.4 million was recognized. The purchase price completion resulted in a gain on bargain purchase of ₱31.0 million which was presented as "Other income" in the 2011 consolidated statement of income and which gain arose from the increase in value of MSIHI's AFS financial assets (see Note 28). MSIHI's AFS financial assets relate to its investments in CMMTC who is into Skyway operation and CMMTC is projected to generate more cash flows from its periodic toll rate adjustments, expansion projects and repayment of long-term debts. The goodwill of ₱1.4 million that was provisionally recognized was also reversed in 2011. There is also an increase in the deferred tax liability of ₱17.5 million and an increase in non-controlling interest from the previously recognized amount of ₱58.2 million to ₱125.9 million. The effect of the adjustments is not material and as such, the 2010 consolidated financial statements were no longer restated for the aforementioned adjustments.

Net cash outflow on acquisition is as follows:

Total cash paid on acquisition	₱78,640,938
Cash acquired with the subsidiary	26,890
Net cash outflow	₱78,614,048

Transaction costs of ₱0.1 million have been expensed and are included in "General and administrative expenses" in the consolidated statement of income for the year ended December 31, 2010.

From the date of acquisition to December 31, 2010, MSIHI contributed a loss of ₱0.1 million to the consolidated net income of the Company. If the combination had taken place at the beginning of the year, revenue would still be the same since MSIHI has no revenue in 2010 while the consolidated net income of the Company would have decreased by ₱0.2 million.

7. Operating Segment Information

The Company has only one operating segment which is the tollways business. The Company's results of operations are reviewed by the chief operating decision maker to make decisions and to assess Company performance, and for which discrete financial information is available.

The Company's performance is evaluated based on net income for the year; earnings before interest, taxes and depreciation and amortization (EBITDA); EBITDA margin; core income; and core income margin. Net income for the year is measured consistent with the consolidated net income in the consolidated financial statements.

EBITDA is measured as net income excluding amortization of service concession asset and intangible assets, depreciation of property and equipment, provision for heavy maintenance, asset impairment on noncurrent assets, interest expense and other finance costs, interest income, equity in net earnings of an associate, net foreign exchange gain (loss), gain (loss) on derivative financial

instruments, provision for (benefit from) income tax and other nonrecurring income and expenses. Nonrecurring items represent income and expenses that, through occurrence or size, are not considered usual operating items. EBITDA margin pertains to EBITDA divided by net toll revenues.

Core income for the year is measured as net income attributable to equity holders of MPTC, excluding adjustments on equity in net earnings of an associate, foreign exchange (gain) loss - net, gain (loss) on derivative financial instruments, gain (loss) on prepayment or extinguishment of debt, asset impairment on noncurrent assets, net of tax effects of aforementioned adjustments and other nonrecurring income and expenses, as defined under the Company's policy.

Core income margin pertains to core income divided by net toll revenues. Net income margin pertains to net income attributable to equity holders of MPTC divided by net toll revenues.

The revenues, net income, assets, liabilities, and other information of the Company's operations as at and for the years ended December 31, 2012, 2011 and 2010 are as follows:

	2012	2011	2010
Net toll revenues	**₱6,784,126,258**	₱6,464,946,010	₱5,857,950,486
Other income	**152,299,302**	95,663,940	175,520,862
Total revenues	**6,936,425,560**	6,560,609,950	6,033,471,348
Operating and maintenance costs	**(2,062,571,229)**	(2,022,314,753)	(1,909,490,501)
Operating expenses	**(666,907,126)**	(580,587,335)	(584,506,050)
Equity in net earnings of an associate	**228,459,455**	185,626,761	152,209,826
EBITDA	**4,435,406,660**	4,143,334,623	3,691,684,623
Financing costs	**(551,106,663)**	(679,351,213)	(813,276,331)
Core income before depreciation, amortization and provisions	**3,884,299,997**	3,463,983,410	2,878,408,292
Depreciation, amortization and provisions*	**(1,616,921,434)**	(1,327,773,296)	(765,775,394)
Core income before non-controlling interests	**2,267,378,563**	2,136,210,114	2,112,632,898
Non-controlling interest	**(695,764,594)**	(657,375,770)	(647,821,093)
Core income	**1,571,613,969**	1,478,834,344	1,464,811,805
Nonrecurring items	**(101,437,554)**	(221,481,031)	(468,320,776)
Net income attributable to equity holders of MPTC	**₱1,470,176,415**	₱1,257,353,313	₱996,491,029
EBITDA margin for the year	**65%**	64%	63%
Core income margin for the year	**23%**	23%	25%
Net income margin for the year	**22%**	19%	17%
Total assets	**₱27,589,315,752**	₱19,479,102,595	₱19,329,132,012
Total liabilities	**19,152,633,064**	11,279,307,260	11,227,779,967
Total equity	**8,436,682,688**	8,199,795,335	8,101,352,045
Other disclosures:			
Investment in an associate	**₱175,130,966**	₱147,231,019	₱140,711,492
Capital expenditure (consists of additions to service concession asset, property and equipment and intangible assets)	**264,096,769**	145,960,592	1,288,921,898

** Includes provision for current and deferred taxes.*

The following table shows the reconciliation of EBITDA to net income for the years ended December 31, 2012, 2011 and 2010.

	2012	2011	2010
EBITDA	**₱4,435,406,660**	₱4,143,334,623	₱3,691,684,623
Interest expense and other finance costs (see Note 27)	**(694,947,852)**	(1,276,922,425)	(1,110,673,453)
Amortization of service concession asset (see Notes 12 and 22)	**(597,358,217)**	(592,987,123)	(559,180,335)
Interest income (see Note 26)	**135,723,273**	161,261,687	109,499,696
Provision for heavy maintenance (see Note 22)	**(107,142,857)**	(109,116,393)	(54,911,915)
Depreciation of property and equipment (see Notes 13 and 23)	**(27,768,690)**	(28,308,266)	(24,123,289)
Amortization of intangible assets (see Notes 14 and 23)	**(7,547,442)**	(6,902,591)	(5,506,350)
Nonrecurring items:			
Provisions (see Notes 18 and 23)	**(108,313,713)**	(38,799,285)	–
Mark-to-market loss on derivatives - net (see Notes 28 and 33)	**(41,622,409)**	(94,636,391)	(227,517,489)
Provision for potential losses on claim for refund (see Note 23)	**(11,060,341)**	(8,640,240)	–
Foreign exchange gain (loss) - net	**1,312,885**	(10,753,384)	111,910,835
Reversal of allowance for potential losses on input VAT (see Notes 5 and 28)	**–**	288,052,966	–
Reclassification of input VAT*	**–**	(132,226,188)	–
Gain on bargain purchase of MSIHI shares (see Notes 6 and 28)	**–**	88,210,936	–
Refunds from lenders (see Note 28)	**–**	24,183,224	–
Share in nonrecurring items of an associate		3,105,507	10,458,394
Provision for potential losses on input VAT (see Notes 5 and 23)	**–**	–	(334,069,949)
Other nonrecurring items	**(8,541,575)**	(60,595,022)	(102,390,747)
Income before income tax	**2,968,139,722**	2,348,261,635	1,505,180,021
Provision for income tax (see Note 29):			
Current	**809,707,221**	557,622,075	51,837,904
Deferred	**43,741,385**	11,673,716	26,642,331
	853,448,606	569,295,791	78,480,235
Net income for the year	**₱2,114,691,116**	₱1,778,965,844	₱1,426,699,786

** In 2011, as a result of the implementation of RMC No. 39-2011 as discussed in Note 5, MNTC reclassed certain input VAT incurred in January 1 to September 30, 2011 to related expense accounts.*

The following table shows the reconciliation of the consolidated core income to the consolidated net income for the years ended December 31, 2012, 2011 and 2010.

	2012	2011	2010
Core income for the year	**₱1,571,613,969**	₱1,478,834,344	₱1,464,811,805
Provisions (see Notes 18 and 23)	**(108,313,713)**	(38,799,285)	–
Share of non-controlling interests in nonrecurring items	**51,249,893**	135,763,239	217,612,339
Mark-to-market loss on derivatives - net (see Notes 28 and 33)	**(41,622,409)**	(94,636,391)	(227,517,489)
Provision for potential losses on claim for refund (see Note 23)	**(11,060,341)**	(8,640,240)	–
Foreign exchange gain (loss) - net	**1,312,885**	(10,753,384)	111,910,835
Loan prepayment fees (see Note 27)	**–**	(329,943,301)	–
Reversal of allowance for potential losses on input VAT (see Notes 5 and 28)	**–**	288,052,966	–
Reclassification of input VAT*	**–**	(132,226,188)	–

(Forward)

	2012	2011	2010
Accelerated amortization of debt issue costs (see Note 27)	**₱–**	(₱97,419,279)	(₱144,324,159)
Gain on bargain purchase of MSIHI shares (see Notes 6 and 28)	–	88,210,936	–
Refunds from lenders (see Note 28)	–	24,183,224	–
Share in nonrecurring items of an associate		3,105,507	10,458,394
Provision for potential losses on input VAT (see Notes 5 and 23)	–	–	(334,069,949)
Other nonrecurring items	**6,996,131**	(48,378,835)	(102,390,747)
Net income attributable to equity holders of MPTC	**1,470,176,415**	1,257,353,313	996,491,029
Net income attributable to non-controlling interests	**644,514,701**	521,612,531	430,208,757
Net income for the year	**₱2,114,691,116**	₱1,778,965,844	₱1,426,699,786

** In 2011, as a result of the implementation of RMC No. 39-2011 as discussed in Note 5, MNTC reclassed certain input VAT incurred in January 1 to September 30, 2011 to related expense accounts.*

8. Cash and Cash Equivalents

This account consists of:

	2012	2011
Cash on hand and in banks	**₱494,180,377**	₱124,803,273
Short-term deposits	**2,840,439,529**	1,528,736,644
	₱3,334,619,906	₱1,653,539,917

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 (see Note 26).

9. Receivables

This account consists of:

	2012	2011
Trade receivables (see Note 20)	**₱127,708,069**	₱89,345,710
Advances to officers and employees (see Note 20)	**7,874,405**	7,773,618
Interest receivables	**6,546,919**	3,513,967
Other receivables	**30,207,384**	6,838,554
	172,336,777	107,471,849
Less allowance for doubtful accounts	**5,259,500**	5,259,500
	₱167,077,277	₱102,212,349

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

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

Interest receivables are collectible within three months.

Other receivables are non-interest bearing and are collectible within a year. As at December 31, 2012, other receivables include those receivables from motorists who caused accidental damage to NLE property from day-to-day operations.

There were no movements in the allowance for individually assessed impaired trade receivables as at December 31, 2012 and 2011.

10. Notes Receivable

On December 26, 2012, the Parent Company and Cavitex Holdings Inc. (CHI) entered into a Convertible Note Agreement whereby CHI issued on December 27, 2012 a Convertible Note ("Note") to the Parent Company with a principal amount or face value of ₱6,771.6 million consisting of 67,716,000 units valued at ₱100 per unit. The terms of the Note are as follows:

- Maturity of the Note is June 27, 2013;
- The Note shall not earn and shall not be subject to interest; provided however, that should CHI fail to issue the CHI Preferred Shares on the maturity date or upon the occurrence of any event of default, CHI shall pay the Parent Company 9.5% interest on the outstanding amount of the Note until the issuance of the CHI Preferred Shares or the full payment in cash of the principal amount (subject to the sole option of the Parent Company as to the manner of payment);
- Each Note unit entitles the Parent Company to the right to convert into CHI Preferred Shares which is exercisable on maturity date at ₱100 per CHI Preferred Share;
- CHI has the option to prepay the Note prior to maturity date through the issuance of CHI Preferred Shares; and
- Upon conversion to CHI Preferred Shares, CHI shall also cause Cavitex Infrastructure Corporation (CIC, a wholly owned subsidiary of CHI) to grant the Parent Company the option to exchange the CHI Preferred Shares to new common shares of CIC. The Parent Company may exercise this option at any time after securing the approval of the TRB of CIC's capital increase and subscription by MPTC to the new common shares of CIC and up to June 29, 2017. As at February 26, 2013, this option has not yet been exercised by the Parent Company.

The Note was classified as loan and receivables under noncurrent assets since this is convertible to a noncurrent asset (that is, investment in CHI preferred shares, an equity instrument) and that MPTC cannot demand cash payment until there is an event of default. The carrying value of the Note amounted to ₱6,557.6 million as at December 31, 2012.

The Note has embedded derivatives which are discussed in Note 33.

11. Investment in an Associate

Details of the Company's investment in TMC, a 46.0% owned associate, are as follows:

	2012	2011
Acquisition cost	**₱17,480,000**	₱17,480,000
Accumulated equity in net earnings:		
Balance at beginning of year	**129,751,019**	123,231,492
Equity in net earnings for the year	**228,459,455**	188,732,268
Dividends received	**(200,559,508)**	(182,212,741)
Balance at end of year	**157,650,966**	129,751,019
	₱175,130,966	₱147,231,019

As further discussed in Note 20, TMC is primarily engaged in the operations and maintenance of tollways, tollways facilities, interchanges and related works. TMC is the operator of Phase I, including Segment 7 and portion of Phase II which is Segment 8.1, of the Project of MNTC under an O&M.

Also, TMC is a party to a joint venture that entered into an agreement with BCDA for the interim operation and maintenance of the SCTEx, a 94-km toll road (see Note 31).

Condensed financial information of TMC follows:

	As at December 31	
	2012	2011
Total assets	**₱985,761,627**	₱1,030,698,328
Total liabilities	**608,646,657**	706,671,123

	Years Ended December 31		
	2012	2011	2010
Revenues	**₱1,882,470,782**	₱1,852,250,735	₱1,744,767,539
Expenses	**1,389,779,563**	1,438,003,424	1,391,140,974
Net income	**492,691,219**	414,247,311	353,626,565

TMC's BOD approved the declaration of cash dividends aggregating to ₱436.0 million and ₱396.1 million in 2012 and 2011, respectively.

On February 20, 2013, TMC's BOD approved the declaration of cash dividends amounting to ₱256.1 million.

12. Service Concession Asset

The movements in the service concession asset follow:

	2012	2011
Cost:		
Balance at beginning of year	**₱19,809,164,908**	₱19,481,963,315
Additions	**224,847,664**	99,077,443
Reclassification (see Note 5)	**–**	228,124,150
Balance at end of year	**₱20,034,012,572**	₱19,809,164,908
Accumulated amortization:		
Balance at beginning of year	**₱4,257,090,575**	₱3,664,103,452
Amortization (see Note 22)	**597,358,217**	592,987,123
Balance at end of year	**₱4,854,448,792**	₱4,257,090,575
Carrying value:		
At December 31	**₱15,179,563,780**	₱15,552,074,333
At January 1	15,552,074,333	15,817,859,863

Additions during 2012 pertain to the costs of the supply, installation, test and commissioning of fixed and operating equipment for the Plaridel Bypass Interchange and Bocaue and Angeles Interchange Toll Facilities, part of Phase I of the NLE. The Plaridel Bypass Interchange has started commercial

operations in March 2012, whereas, the Bocaue and Angeles Interchange has started commercial operations in July 2012. Additions also include the pre-construction costs of Segments 8.2, 9 and 10 of Phase II of the Project.

Additions during 2011 pertain mainly to pre-construction costs of Segments 8.2, 9 and 10 of Phase II of the Project.

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 years ended December 31, 2012 and 2011.

13. 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, 2011	₱71,788,684	₱63,300,792	₱74,362,948	₱209,452,424
Additions	4,301,331	22,183,015	13,163,121	39,647,467
Reclassifications (Note 5)	7,200,251	1,326,214	954,427	9,480,892
Disposals	–	(9,319,183)	(1,311,875)	(10,631,058)
At December 31, 2011	83,290,266	77,490,838	87,168,621	247,949,725
Additions	12,530,431	8,341,964	9,619,956	30,492,351
Disposals	–	(9,096,919)	(6,215,940)	(15,312,859)
At December 31, 2012	**₱95,820,697**	**₱76,735,883**	**₱90,572,637**	**₱263,129,217**
Accumulated depreciation:				
At January 1, 2011	₱14,543,808	₱32,113,414	₱58,658,139	₱105,315,361
Depreciation (see Note 23)	5,649,720	12,742,884	9,915,662	28,308,266
Disposals	–	(8,016,800)	(1,311,819)	(9,328,619)
At December 31, 2011	20,193,528	36,839,498	67,261,982	124,295,008
Depreciation (see Note 23)	6,036,181	13,263,474	8,469,035	27,768,690
Disposals	–	(7,629,588)	(1,039,265)	(8,668,853)
At December 31, 2012	**₱26,229,709**	**₱42,473,384**	**₱74,691,752**	**₱143,394,845**
Net book value:				
At December 31, 2012	**₱69,590,988**	**₱34,262,499**	**₱15,880,885**	**₱119,734,372**
At December 31, 2011	63,096,738	40,651,340	19,906,639	123,654,717
At January 1, 2011	57,244,876	31,187,378	15,704,809	104,137,063

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

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

Computer software with carrying value of ₱12.7 million as at December 31, 2011 previously classified under “Property and equipment” account was reclassified to “Intangible assets” account to conform with current year presentation. The reclassification is only within noncurrent assets and is not material to the consolidated financial statements and therefore, opening balance sheet of 2011 is no longer presented (see Note 14).

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 depreciated over the remaining useful lives of the property and equipment using the straight line method. The depreciation of the capitalized input VAT amounted to ₱1.9 million and ₱2.3 million for the years ended December 31, 2012 and 2011, respectively.

Proceeds from the sale of property and equipment amounted to ₱6.5 million in 2012, ₱1.8 million in 2011 and ₱5.0 million in 2010. Loss on disposals of property and equipment amounted to ₱0.2 million in 2012. Gain on disposals of property and equipment amounted to ₱0.5 million in 2011 and ₱1.8 million in 2010.

The gross carrying amounts of fully depreciated property and equipment that are still in use amounted to ₱76.7 million and ₱62.6 million as at December 31, 2012 and 2011, respectively.

14. Intangible Assets

Intangible assets pertain to computer software relating to the Company’s accounting, reporting and asset management systems with estimated useful life of 5 years. The movements in this account follow:

	2012	2011
Cost:		
Balance at beginning of year	**₱62,395,018**	₱55,159,336
Additions	**8,756,754**	7,235,682
Balance at end of year	**₱71,151,772**	₱62,395,018
Accumulated amortization:		
Balance at beginning of year	**₱49,685,702**	₱42,783,111
Amortization (see Note 23)	**7,547,442**	6,902,591
Balance at end of year	**₱57,233,144**	₱49,685,702
Carrying value:		
At December 31	**₱13,918,628**	₱12,709,316
At January 1	12,709,316	12,376,225

As also discussed in Note 13, computer software with carrying value of ₱12.7 million as at December 31, 2011 previously classified under “Property and equipment” account was reclassified to “Intangible assets” account to conform with current year presentation.

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

This account consists of:

	2012	2011
Current -		
Investment in quoted bonds	**₱53,003,500**	₱–
Noncurrent:		
Investment in unquoted equity shares:		
CMMTC (see Note 6)	**315,746,526**	315,746,526
PGOACI	**12,500,000**	12,500,000
Investment in quoted bonds	**587,312,500**	577,721,750
	915,559,026	905,968,276
	₱968,562,526	₱905,968,276

CMMTC
Investment in CMMTC represents 2.0% interest in unquoted shares of stocks of CMMTC (see Note 6).

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

Investment in Bonds
This consists 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 (see Note 26) and with the following maturities:

	December 31, 2012		December 31, 2011	
Maturity Date	**Fair Value**	**Principal Amount**	Fair Value	Principal Amount
July 31, 2013	**₱53,003,500**	**₱50,600,000**	₱55,596,750	₱50,600,000
August 19, 2015	**319,875,000**	**300,000,000**	313,125,000	300,000,000
March 3, 2016	**214,250,000**	**200,000,000**	209,000,000	200,000,000
October 24, 2037	**53,187,500**	**50,000,000**	–	–
	₱640,316,000	**₱600,600,000**	₱577,721,750	₱550,600,000

Investments in bonds were previously classified as HTM investments and carried at amortized cost. In August 2010, prior to the 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. 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 to AFS financial assets.

In March 2011 and October 2012, MNTC acquired additional ₱200.0 million and ₱50.0 million of treasury bonds with interest rate of 6.0% and 6.1% maturing on March 3, 2016 and October 24, 2037, respectively.

Proceeds from the maturity of bonds on July 31, 2011 amounted to ₱50.0 million. There were no disposals of investments in bonds in 2012.

The fair value of the investment in bonds is based on quoted market price of the ROP government bonds as at December 31, 2012, 2011 and 2010. The movements in the net unrealized gain on fair value change in AFS financial assets under "Other comprehensive income reserve" account for the years ended December 31, 2012, 2011 and 2010 follow:

	2012	2011	2010
Balance at beginning of year	**₱27,121,750**	₱23,493,000	₱–
Changes in fair value	**12,594,250**	3,628,750	23,493,000
Balance at end of year	**39,716,000**	27,121,750	23,493,000
Tax effects of items taken directly in equity	**(11,914,800)**	(8,136,525)	(7,047,900)
	₱27,801,200	₱18,985,225	₱16,445,100
Attributable to:			
Equity holders of the Parent	**₱18,654,606**	₱12,739,087	₱11,034,662
Non-controlling interests	**9,146,594**	6,246,138	5,410,438
	₱27,801,200	₱18,985,225	₱16,445,100

16. Other Noncurrent Assets

This account consists of:

	2012	2011
Goodwill	**₱13,565,061**	₱13,565,061
Refundable deposits and other noncurrent assets	**147,867,095**	54,232,681
	₱161,432,156	₱67,797,742

Goodwill is the difference between the cost of business combination and the fair values of assets and liabilities. This includes goodwill of ₱13.6 million arising from the reverse acquisition in 2007 when FPHC and BHC transferred all their shares in MPTDC (then FPIDC, regarded as the accounting acquirer) in exchange for shares of MPTC.

17. Accounts Payable and Other Current Liabilities

This account consists of:

	2012	2011
Trade payables (see Note 20)	**₱593,459,165**	₱303,300,725
Payable to CHI (see Note 10)	**574,560,000**	–
Accrued expenses (see Note 20)	**537,515,638**	590,765,908
Output value-added tax (see Note 5)	**94,776,106**	77,456,599
Withholding taxes payable	**76,218,437**	37,876,295
Retention payable	**37,876,466**	29,112,003
Interest payable	**19,876,421**	32,472,965
Others	**13,533,893**	18,459,711
	₱1,947,816,126	₱1,089,444,206

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

Under the terms and conditions of the Tax Indemnity Letter in relation to the Note as discussed in Note 10, CHI shall deliver to MPTC a standby letter of credit (LC) with a face value amounting to ₱574.6 million. As at December 31, 2012, the standby LC has not yet been delivered to MPTC. CHI, therefore, instructed MPTC to withhold an amount equal to the face value of the standby LC from the proceeds of the Note until CHI has delivered the standby LC to MPTC. The standby LC has been delivered to MPTC on January 31, 2013 and therefore, MPTC released such amount to CHI on February 1, 2013.

Accrued expenses consist of:

	2012	2011
Pretermination costs on interest rate swap (see Note 19)	**₱171,500,000**	₱–
Operator's fees (see Notes 20 and 22)	**161,254,933**	73,261,323
Salaries and employee benefits (see Note 25)	**48,467,254**	37,444,908
PNCC fees (see Notes 20 and 22)	**40,831,188**	417,553,845
Repairs and maintenance	**31,114,920**	13,823,669
Professional fees	**30,529,877**	31,572,780
Transaction costs on notes receivable (see Note 10)	**27,639,184**	–
Construction costs	**19,693,654**	831,690
Outside services	**5,910,004**	1,861,343
Others	**574,624**	14,416,350
	₱537,515,638	₱590,765,908

Interest payable is settled within six months.

18. Provisions

The movements in this account follows:

	Heavy Maintenance	Others	Total
At January 1, 2011	₱396,692,240	₱29,841,421	₱426,533,661
Additions (see Notes 22 and 23)	120,000,000	38,799,285	158,799,285
Payments	(146,297,614)	–	(146,297,614)
At December 31, 2011	370,394,626	68,640,706	439,035,332
Additions (see Notes 22 and 23)	120,000,000	108,313,713	228,313,713
Payments	(153,651,302)	(12,554,560)	(166,205,862)
At December 31, 2012	**₱336,743,324**	**₱164,399,859**	**₱501,143,183**
At December 31, 2012:			
Current	**₱154,037,407**	**₱94,672,619**	**₱248,710,026**
Noncurrent	**182,705,917**	**69,727,240**	**252,433,157**
	₱336,743,324	**₱164,399,859**	**₱501,143,183**

	Heavy Maintenance	Others	Total
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

As discussed in Note 5, provision for heavy maintenance pertains to the present value of the estimated contractual obligations of MNTC 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 consist of estimated liabilities for losses on claims by a third party. The information usually required by PAS 37 is not disclosed as it may prejudice the Company's negotiation with the third party.

19. **Long-term Debt**

This account consists of borrowings of MNTC:

	2012	2011
Peso-denominated Notes and Loans:		
Series A Notes	**₱6,148,128,542**	₱6,210,230,849
Philippine National Bank (PNB) Loan	**1,890,000,000**	1,995,000,000
Term Loan Facility	**1,000,000,000**	1,000,000,000
	9,038,128,542	9,205,230,849
Less unamortized debt issue costs	**132,160,218**	154,613,409
	8,905,968,324	9,050,617,440
Less current portion of long-term debt - net of unamortized debt issue costs of ₱22,803,271 in 2012 and ₱21,927,648 in 2011	**144,299,038**	145,174,660
	₱8,761,669,286	₱8,905,442,780

The unamortized debt issue costs incurred in connection with the availment of long-term debt amounting to ₱132.2 million and ₱154.6 million as at December 31, 2012 and 2011, respectively, were deducted against the long-term debt. The movements in debt issue costs are as follows:

	2012	2011
Balance at beginning of year	**₱154,613,409**	₱139,470,924
Amortization during the year (see Note 27)	**(22,453,191)**	(134,890,348)
Debt issue costs incurred during the year	–	150,032,833
Balance at end of year	**₱132,160,218**	₱154,613,409

Series A Notes
On December 21, 2010, MNTC 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 April 15, 2011, MNTC 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 Fixed Rate Corporate Notes (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% per annum. 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 November 29, 2011, MNTC issued a notice of prepayment to the remaining 2006-issued FXCN holders. 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 27).

PNB Loan
On March 16, 2009, MNTC 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. 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 the six-month Philippine Dealing System Treasury Fixing (PDST-F) rate plus a spread of 0.50%.

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, MNTC 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, release the security and align the loan covenants with that of the Series A Notes.

On December 28, 2012, MNTC issued a notice for early termination of the interest rate swap transaction with PNB effective December 15, 2012. The early termination payment amounted to ₱175.0 million (see Notes 17 and 33).

Term Loan Facilities
On December 12, 2011, MNTC 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.

Others
On April 27, 2009, MNTC obtained a standby letter of credit (SBLC) facility of up to ₱100.0 million from Security Bank to secure MNTC’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. Upon TRB's final acceptance of Segment 8.1, as certified by its independent engineer, MNTC cancelled the SBLC effective April 11, 2011.

As at December 31, 2012 and 2011, MNTC is in compliance with the required financial ratios and other loan covenants. MNTC's long-term debts are unsecured as at December 31, 2012 and 2011.

20. **Related Party Transactions**

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

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

Name	Relationship		Management Income (see Note 28)	Guarantee Income (see Note 28)	Interest Income (see Note 26)	Income from Utility Facilities (see Note 28)	Income from advertising (see Note 28)	Operator's Fee (see Note 22)	PNCC Fee (see Note 22)	Repairs and Maintenance (see Note 22)	Outside Services (see Note 23)	Management Fees (see Note 23)	Rentals (see Note 23)
TMC	Associate	**2012**	**₱59,541**	**₱23,446**	**₱10,873**	**₱–**	**₱–**	**₱1,492,527**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**
		2011	84,700	23,152	10,892	–	–	1,566,118	–	–	–	–	–
		2010	56,000	23,256	10,899	–	–	1,339,567	–	–	–	–	–
PNCC	Non-controlling Stockholder	**2012**	**–**	**–**	**–**	**–**	**–**	**–**	**39,986**	**–**	**–**	**–**	**–**
		2011	–	–	–	–	–	–	385,245	–	–	–	–
		2010	–	–	–	–	–	–	348,358	–	–	–	–
EPPI	Affiliate	**2012**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**14,924**	**–**	**–**	**–**
		2011	–	–	–	–	–	–	–	26,153	–	–	–
		2010	–	–	–	–	–	–	–	24,280	–	–	–
Easytrip Services Corporation (ESC)	Affiliate	**2012**	–	–	–	–	**273**	**–**	**–**	**–**	**31,532**	**–**	**–**
		2011	–	–	–	–	–	–	–	–	32,835	–	–
		2010	–	–	–	–	–	–	–	–	24,072	–	–
SMART Comunications, Inc. (SMART)	Affiliate	**2012**	**–**	**–**	**–**	**300**	**38,224**	**–**	**–**	**–**	**–**	**–**	**–**
		2011	–	–	–	300	27,427	–	–	–	–	–	–
		2010	–	–	–	326	–	–	–	–	–	21,130	–
PLDT	Affiliate	**2012**	**–**	**–**	**–**	**1,626**	**223**	**–**	**–**	**–**	**–**	**–**	**1,845**
		2011	–	–	–	1,515	1,069	–	–	–	–	–	1,880
		2010	–	–	–	63,422	–	–	–	–	–	–	981
Digital Mobile Philippines, Inc. (Digitel)	Affiliate	**2012**	**–**	**–**	**–**	**–**	**1,148**	**–**	**–**	**–**	**–**	**–**	**–**
		2011	–	–	–	–	–	–	–	–	–	–	–
		2010	–	–	–	–	–	–	–	–	–	–	–
Total		**2012**	**₱59,541**	**₱23,446**	**₱10,873**	**₱1,926**	**₱39,868**	**₱1,492,527**	**₱39,986**	**₱14,924**	**₱31,532**	**₱–**	**₱1,845**
		2011	84,700	23,152	10,892	1,815	28,496	1,566,118	385,245	26,153	32,835	–	1,880
		2010	56,000	23,256	10,899	63,748	–	1,339,567	348,358	24,280	24,072	21,130	981

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

Name	Relationship		Receivables (see Note 9)	Advances to Contractors and Consultants	Accounts payable and other current liabilities[1] (see Note 17)	Due from Related Parties[2]	Due to Related Parties	Dividends Payable[3]	Terms	Conditions
MPIC	Parent Company	**2012**	**₱–**	**₱–**	**₱–**	**₱231,584,545**	**₱2,002,028**	**₱–**	On demand; non-interest bearing	Unsecured; no impairment
		2011	–	–	–	462,638,616	2,033,507	–		
MPC	Under common control with MPIC	**2012**	**–**	**–**	**–**	**–**	**1,565,508**	**–**	On demand; non-interest bearing	Unsecured; no impairment
		2011	–	–	–	–	1,565,508	–		
EPPI	Affiliate	**2012**	**–**	**9,031,041**	**3,860,731**	**–**	**–**	**–**	On demand; non-interest bearing	Unsecured; no impairment
		2011	–	16,095,285	6,055,494	–	–	–		
PNCC	Noncontrolling Stockholder	**2012**	**–**	**–**	**40,831,188**	**–**	**–**	**20,868,000**	(1) On demand; non-interest bearing	Unsecured; no impairment
		2011	–	–	417,553,845	–	–	37,740,000	(3) 15- 45 days; non-interest bearing	Unsecured; no impairment
TMC	Associate	**2012**	**–**	**–**	**325,537,240**	**176,633,938**	**–**	**–**	(1) 30 days; non-interest bearing (2) For those under current assets – on demand; non-interest bearing (2) For those under noncurrent assets – until December 31, 2037; 17% effective interest	Unsecured; no impairment
		2011	–	–	293,149,123	162,734,806	924,343	–		
Egis	Noncontrolling Stockholder	**2012**	**–**	**–**	**–**	**–**	**–**	**116,026,080**	45 days; non-interest bearing	Unsecured
		2011	–	–	–	–	–	–		
Global Fund Holdings, Inc.	Noncontrolling Stockholder	**2012**	**–**	**–**	**–**	**–**	**–**	**34,432,200**	45 days; non-interest bearing	Unsecured
		2011	–	–	–	–	–	–		
Banco de Oro Unibank, Inc. (BDO)	Noncontrolling Stockholder	**2012**	**–**	**–**	**–**	**–**	**–**	**103,296,600**	45 days; non-interest bearing	Unsecured
		2011	–	–	–	–	–	–		
ESC	Affiliate	**2012**	**63,799,316**	**–**	**38,731,663**	**–**	**–**	**–**	On demand; non-interest bearing	Unsecured; no impairment
		2011	52,943,771	–	36,090,208	–	–	–		
PLDT	Affiliate	**2012**	**1,294,078**	**–**	**–**	**–**	**–**	**–**	On demand; non-interest bearing	Unsecured; no impairment
		2011	1,673,970	–	–	–	–	–		

(Forward)

Name	Relationship		Receivables (see Note 9)	Advances to Contractors and Consultants	Accounts payable and other current liabilities[1] (see Note 17)	Due from Related Parties[2]	Due to Related Parties	Dividends Payable[3]	Terms	Conditions
SMART	Affiliate	**2012**	**₱45,346,189**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	On demand; non-interest bearing	Unsecured; no impairment
		2011	12,421,535	–	–	–	–	–		
Digitel	Affiliate	**2012**	**2,611,840**	**–**	**–**	**–**	**–**	**–**	On demand; non-interest bearing	Unsecured; no impairment
		2011	–	–	–	–	–	–		
Others	Affiliate	**2012**	**–**	**–**	**–**	**–**	**3,655,238**	**–**	On demand; non-interest bearing	Unsecured
		2011	–	–	–	–	3,655,238	–		
Total		**2012**	**₱113,051,423**	**₱9,031,041**	**₱408,960,822**	**₱408,218,483**	**₱7,222,774**	**₱274,622,880**		
		2011	67,039,276	16,095,285	752,848,670	625,373,422	8,178,596	37,740,000		
At December 31, 2012:										
Current			**₱113,051,423**	**₱9,031,041**	**₱408,960,822**	**₱343,168,278**	**₱7,222,774**	**₱274,622,880**		
Noncurrent			**–**	**–**	**–**	**65,050,205**	**–**	**–**		
			₱113,051,423	**₱9,031,041**	**₱408,960,822**	**₱408,218,483**	**₱7,222,774**	**₱274,622,880**		
At December 31, 2011:										
Current			₱67,039,276	₱16,095,285	₱752,848,670	₱560,141,362	₱8,178,596	₱37,740,000		
Noncurrent			–	–	–	65,232,060	–	–		
			₱67,039,276	₱16,095,285	₱752,848,670	₱625,373,422	₱8,178,596	₱37,740,000		

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

Transactions with Stockholders

- In 2012 and 2011, MPIC billed MPTC for various operating expenses paid in behalf of MPTC.

- MPIC has assumed the obligation of BHC and FPHC to pay MPTDC (then FPIDC) advances amounting to ₱237.2 million and ₱225.4 million, respectively, pursuant to the SPA executed by BHC and FPHC with MPIC on August 26, 2008, in relation to the sale, assignment and transfer to MPIC of all of BHC's and FPHC's respective rights, title and interest in and to their shares in MPTC. In 2012, MPTDC assigned portion of its receivable from MPIC amounting to ₱231.0 million to MPTC, which the latter applied against its cash dividends payable to MPIC. As at December 31, 2012 and 2011, outstanding receivable from MPIC amounted to ₱231.6 million and ₱462.6 million, respectively.

Transactions with an Associate

- TMC provides services to MNTC as operator to the NLE, Segment 7 and Segment 8.1 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, MNTC 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 service concession period.

  On May 7, 2010, MNTC and TMC agreed to reduce, effective on February 11, 2010, the minimum fixed annual amount from ₱637.1 million to ₱605.4 million for the NLE and from ₱40.6 million to ₱38.8 million for 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 agreed 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 December 10, 2012, pursuant to the O&M and the TRB's approval to open and operate the Plaridel Bypass Interchange as an integral part of Phase I of the Project, MNTC and TMC agreed that the scope of the O&M shall correspondingly cover the Plaridel Bypass Interchange from June 25, 2012 until December 31, 2037. Consequently, MNTC agreed to pay TMC an annual base fee for the the operations and maintenance of the Plaridel Bypass Interchange in the amount of ₱17.5 million effective in 2012. The Plaridel-Bypass Interchange is a 1.5-km stretch connecting Plaridel to NLE.

  The Company also engaged TMC to operate and maintain the Bocaue and Angeles Interchange in which the engagement for the operations and maintenance is still being formalized as at February 26, 2013.

- Two separate agreements on the shareholders' corporate guarantee (collectively, "Corporate Guarantees") were executed by MPTDC (then FPIDC) and Egis Road Operation (collectively known as "Guarantors") with MNTC, whereby each has guaranteed the liability of TMC under the O&M in the following percentages: MPTDC – 66.0% and Egis Road Operation – 34.0%. As a consideration for the guarantee, TMC shall pay MPTDC and Egis Road Operation, annual guarantee fees equal to 2.5% of the gross value of the corporate guarantee. Any guarantee fee not paid within June 30 and December 31 of each year ("the Payment Dates") shall earn interest computed from the relevant Payment Date up to the date of actual payment of guarantee fees. Interest is at 91-day Philippine Treasury Bill Rate plus 2% per annum as defined in the O&M.

  The Company recognized a receivable from TMC equivalent to the financial guarantee obligation recorded as the present value of the guaranteed portion of the liability of TMC under the O&M. The guarantee is effective until December 31, 2037, which is the end of the service concession term. Receivable on financial guarantee from TMC, recorded under "Due from related parties (noncurrent)," and the financial guarantee obligation amounted to ₱65.1 million and ₱65.2 million as at December 31, 2012 and 2011, respectively. Interest income on receivable from TMC and interest expense on financial guarantee obligation amounted to ₱10.9 million in 2012, 2011 and 2010 (see Notes 26 and 27).

- MPTC and MPTDC perform management, operational and financial advisory services for TMC. MPTC and MPTDC are in the process of formalizing their management agreements with TMC as at February 26, 2013. Total management fees amounted to ₱59.5 million in 2012, ₱84.7 million in 2011 and ₱56.0 million in 2010 (see Note 28).

Transactions with Non-controlling Stockholders

- In consideration of the assignment by PNCC of its usufructuary rights, interests and privileges under its franchise, PNCC is entitled to receive a payment equivalent to 6.0% and 2.0% 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, MNTC entered into a letter agreement with PNCC to set out the detailed procedure for the 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, MNTC has been remitting payments directly to PNCC on a semi-annual basis. On December 2, 2010, MNTC 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, MNTC filed a motion for clarification asking the SC to clarify the entity to which MNTC 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, MNTC 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, MNTC 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 MNTC 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 guidelines 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 directive of the TRB dated March 22, 2012, MNTC has remitted to the National Government through the TRB the payments for the PNCC fees accruing since the month of December 2010 and the dividends payable to PNCC after December 2010. In accordance with the TRB directive, 90% of the PNCC fees and dividends payable was

remitted to the TRB while the balance of 10% to PNCC. As at February 26, 2013, the case is still pending with the RTC of Caloocan.

- Dividends declared by MNTC to non-controlling stockholders in 2012, 2011 and 2010 amounted to ₱560.9 million, ₱496.7 million and ₱543.4 million, respectively. In 2012, 2011 and 2010, MNTC paid cash dividends to non-controlling stockholders amounting to ₱324.0 million, ₱640.6 million and ₱505.3 million, respectively. As at December 31, 2012 and 2011, MNTC has unpaid dividends to non-controlling stockholders amounting to ₱274.6 million and ₱37.7 million, respectively.

Transactions with Other Related Parties

- On March 27, 2009, MNTC entered into an agreement with EPPI, a wholly owned subsidiary of Egis, a non-controlling stockholder, for the Fixed Operating Equipment (FOE) Design, Supply and Installation for Segment 8.1 project. The contract on the said date set 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 MNTC to EPPI on March 30, 2009 and the front end design works commenced on April 6, 2009. The installation of the FOE was completed as at June 2010.

- In September 2007, MNTC 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, MNTC 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 (₱14.4 million) in 2012 and €0.3 million (₱16.4 million) in 2011.

- In May 2009, MNTC 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 contractors and consultants" account in the consolidated balance sheet amounted to €0.2 million (₱9.0 million) as at December 31, 2012 and 2011. The installation of the FOE has not yet been started since the SCTEx has not yet been turned over to MNTC as at February 26, 2013 (see Note 31).

- On April 26, 2011, MNTC entered into an agreement with EPPI for the supply, installation, testing and commissioning works of FOE at Phase 1 Bocaue and Angeles Toll Plazas with the objective of addressing the closed system toll revenue leakage from north bound motorists. Total contract price amounted to €0.4 million (₱23.5 million). The installation of the FOE was completed on July 29, 2012.

- On February 7, 2012, the Company issued the Notice to Proceed to EPPI for the supply, installation, test and commissioning of the FOE at the newly constructed Plaridel Bypass interchange, including the interconnection with the NLE existing system. Total contract price amounted to €0.8 million (₱45.2 million), a fixed lump sum price, inclusive of VAT and payable in Philippine peso. The installation of the FOE was completed on March 20, 2012.

- MNTC purchased spare parts inventories from EPPI. Total purchases amounted to ₱21.1 million in 2012, ₱9.9 million in 2011 and ₱15.7 million in 2010.

- On December 5, 2007, MNTC engaged the services of ESC, a wholly owned subsidiary of Egis, to assist MNTC in increasing the usage of the electronic toll collection (ETC) facility along the NLE which ended on April 30, 2010. On November 24, 2010, MNTC and ESC signed the Supplemental Agreement to the Service Agreement extending the services of ESC as ETC service provider for another eight years effective on May 1, 2010 with a five year extension. In accordance with the Supplemental Agreement, 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, which are also to be maintained and escalated every year for labor index and CPI.

- In 2009, MPTC entered into a five-year lease agreement with PLDT, an associate of FPC, from August 13, 2009 to August 14, 2014 covering certain office units and parking spaces for a monthly payment of ₱0.1 million, subject to annual escalation of 5%. The lease agreement may be terminated at the option of the parties. On October 31, 2010 the lease agreement was pre-terminated by the parties.

  On November 1, 2010, a new lease agreement was executed between MPTC and PLDT covering certain office units and parking spaces for a period of five years from November 1, 2010 to October 31, 2015 for a monthly payment of ₱0.1 million, subject to annual escalation of 5%. The lease agreement may be terminated at the option of the parties. As at December 31, 2012 and 2011, there is no outstanding liability to PLDT.

  Future minimum operating lease payments are as follows:

Period Covered	**2012**	2011
Not later than one year	**₱1,936,834**	₱2,704,019
More than one year and not later than five years	**3,798,436**	5,382,366

- SMART, an associate of FPC, billed MPTC for management fees amounting to ₱21.1 million in 2010. The agreement on the billing of management fees was terminated effective on May 31, 2010. There is no outstanding payable to SMART as at December 31, 2012 and 2011.

- In 2010, as part of MNTC's commercial policy on sponsorship of NLE communication programs through co-branding, MNTC and SMART, together with PLDT, entered into joint sponsorship agreement for the "Northern Fiesta Campaign" which is a collaborative tourism promotion of local fiestas and festivals in the North and of safety and traffic discipline along 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 ₱2.9 million (inclusive of VAT) and ₱12.4 million (inclusive of VAT) as at December 31, 2012 and 2011, respectively (see Note 9).

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.

On March 26, 2012, MNTC and SMART agreed on the terms of the grant to SMART of exclusive rights to name the NLE-Mindanao Avenue Cloverleaf as a SMART Connect Interchange and put up outdoor advertising structures near the interchange. The annual package is based on a predetermined timetable of when the official road signs are progressively built. The base price is from ₱175.0 million to ₱228.2 million and may increase depending on the final features and characteristics of the cloverleaf. Outstanding receivable from SMART for the naming rights and outdoor advertising near the interchange amounted to ₱42.4 million (inclusive of VAT) as at December 31, 2012.

- 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, 2012, 2011 and 2010. PLDT also paid ₱52.2 million for one-time exclusivity fee for the year ended December 31, 2010.

  PLDT also paid ₱0.1 million for the annual fee for the Fiber Optic Overlay along Phase II Segment 8.1 for the years ended December 31, 2012, 2011 and 2010. In December 2010, MNTC also billed PLDT ₱9.8 million for one-time access fee for the Fiber Optic Overlay along Phase II Segment 8.1 which was subsequently collected in 2011.

  In relation to the joint sponsorship agreement discussed above, MNTC has outstanding receivable from PLDT for its share in the costs of the promotion amounting to ₱1.1 million (inclusive of VAT) and ₱1.7 million (inclusive of VAT) as at December 31, 2012 and 2011, respectively. MNTC has also outstanding receivable from PLDT relating to Utility Facilities Contract for the Fiber Optic Overlay along the NLE amounting to ₱0.2 million as at December 31, 2012.

- On October 22, 2012, MNTC and Digitel entered into an advertising arrangement related to various advertising mediums which include rental, material production, installation and maintenance at several locations along NLE covering the period from November 2012 to November 2013. Total consideration for the one year arrangement amounted to ₱6.9 million.

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

	2012	2011	2010
Short-term employee benefits	**₱151,574,331**	₱140,710,748	₱111,746,162
Retirement costs (see Note 25)	**17,321,891**	23,616,367	6,237,236
Executive stock option expense (see Note 24)	**3,070,578**	6,985,309	1,949,447
Long-term incentive plan payable (see Note 25)	**78,615,492**	75,655,636	–
	₱250,582,292	₱246,968,060	₱119,932,845

- The Company acts as a surety or co-obligor with certain Company officers for the payment of valid corporate expenses through the use of corporate credit cards at specified approved amounts ranging from ₱0.1 million to ₱0.3 million.

- The Company paid its directors amounting to ₱1.6 million in 2012, and ₱2.6 million in 2011 and 2010 recorded under "General and administrative expenses" account in the consolidated statements of income (see Note 23).

- Total advances to officers and employees amounted to ₱7.9 million and ₱7.8 million as at December 31, 2012 and 2011, respectively (see Note 9).

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

21. **Equity**

Capital Stock

As at December 31, 2012, 2011 and 2010, the capital stock of the Company consists of:

Issued capital stock	₱5,065,074,937
Subscribed capital stock	495,690
Less subscriptions receivable	371,768
	123,922
	₱5,065,198,859

Details of shares of stock of MPTC as at December 31, 2012, 2011 and 2010 follow:

	Number of Shares
Authorized - ₱1 par value	5,400,000,000
Issued and outstanding:	
Issued shares	5,065,074,937
Treasury shares	(87,020,160)
Outstanding shares	4,978,054,777
Subscribed	495,690

a. On July 23, 2008, the BOD of MPTC made a call for the payment of unpaid subscriptions and stockholders were given until August 29, 2008 to fully pay their subscriptions. As at December 31, 2012 and 2011, the subscriptions were not yet paid in full.

b. The Company's shares of stock are pledged in favor of a local bank as security for MPIC's peso-denominated notes of ₱6,750.0 million. As at December 31, 2012 and 2011, the notes are still outstanding.

c. On September 24, 2010, the Parent Company's stockholders and BOD approved the increase in the authorized capital stock from ₱5,400.0 million divided into 5,400,000,000 common shares to ₱10,000.0 million divided into 10,000,000,000 common shares with a par value of ₱1 per share and up to 5,100,000,000 preferred shares with a par value of ₱0.01 per share. The Parent Company has not yet filed the application to the SEC as at February 26, 2013.

d. On February 26, 2013, the BOD of the Parent Company approved the following:

- The increase in the par value of the Parent Company's common shares from ₱1 to ₱100 on a per share basis and correspondingly reduce the number of authorized (including the issued and outstanding) common shares of the Parent Company from 5,400,000,000 common shares to 54,000,000 common shares (the "Reverse Stock Split"); and

- Subject to approval by the SEC of the Reverse Stock Split, increase in the authorized capital stock of the Company from ₱5,400.0 million divided into 54,000,000 common shares each with a par value of ₱100 per share, to up to ₱12,400.0 million divided into: (i) up to 54,000,000 common shares each with a par value of ₱100, and (ii) up to 70,000,000 voting, cumulative, non-convertible, redeemable and non-participating preferred shares each with a par value of ₱100 (the "Capital Increase"), including the corresponding amendment to the Seventh Article of the Amended Articles of Incorporation of the Parent Company reflecting the aforesaid Reverse Stock Split and Capital Increase.

In connection with the application for increase in authorized capital stock, the Parent Company together with MPIC agreed on February 26, 2013 that MPIC will subscribe to new preferred shares of the Parent Company amounting to ₱6,771.6 million. The shares will be issued upon the SEC's approval of the Reverse Stock Split and Capital Increase of the Parent Company, thus the related amount was classified under "Deposits for shares subscription" account in the consolidated balance sheet.

Equity Adjustment on Reverse Acquisition
Equity adjustment on reverse acquisition resulted from the transaction involving the transfer of FPHC and BHC of all their shares in MPTDC (then FPIDC, regarded as the accounting acquirer) in exchange for the shares of MPTC (then FPII, regarded as the legal acquirer and accounting acquiree), which was accounted for as a reverse acquisition in the consolidated financial statements of MPTC in 2007.

Cash Dividends
On February 24 and August 8, 2012, MPTC's BOD declared cash dividends of ₱0.17 per share or total amount of ₱846.0 million and ₱0.10 per share or total amount of ₱498.0 million to all stockholders of record as at March 12 and August 21, 2012, respectively. As at December 31, 2012, the unpaid cash dividends amounted to ₱2.2 million.

On February 26, 2013, MPTC's BOD declared cash dividends of ₱0.14 per share or total amount of ₱701.9 million to all stockholders of record as at March 12, 2013 payable on or before April 10, 2013.

On February 23 and August 3, 2011, MPTC's BOD declared cash dividends of ₱0.15 per share or a total amount of ₱755.0 million and ₱0.10 per share or a total amount of ₱500.0 million to all stockholders of record as at March 11 and August 19, 2011, respectively. As at December 31, 2011, the unpaid cash dividends amounted to ₱2.2 million.

On February 17 and August 24, 2010, MPTC's BOD declared cash dividends of ₱0.15 per share or a total amount of ₱746.7 million and ₱0.09 or a total amount of ₱445.0 million to all stockholders of record as at March 5 and September 9, 2010, respectively. As at December 31, 2010, the cash dividends have been fully paid.

Scrip Dividends
Under Section 8.04.02 of the ARSA with among others Leighton International Limited (LIL), MPTC, through MPTDC, has the right to receive from LIL 50.0% of the difference of LIL's selling price for the sale of its 16.5% interest in MNTC and US$19.4 million, provided that any payment of LIL to MPTDC shall not exceed US$4.4 million. Such MNTC shares held by LIL were previously purchased from MPTDC.

On November 12, 2009, LIL sold the shares to a third party and thereby paid the amount of US$4.4 million (₱203.9 million) to MPTDC which the latter recognized as additional gain from the previous sale of MNTC shares to LIL and was included as part of the "Other income" account in the 2009 consolidated statement of income. In view of this, the Company recognized the scrip dividends declared in 2008 payable to all stockholders of record as at October 30, 2008 giving the stockholders the right to receive a proportionate share in the amounts that maybe received by MPTC, through MPTDC, from LIL pursuant to the ARSA. The scrip dividends declared by MPTC amounted to US$3.9 million (₱181.5 million), net of capital gains tax. As at December 31, 2012 and 2011, unpaid scrip dividends amounted to ₱0.3 million and is included under the "Dividends payable" account.

Retained Earnings Not Available for Dividend Distribution
The Company's retained earnings includes undistributed earnings of subsidiaries and an associate amounting to ₱1,631.7 million and ₱1,607.1 million as at December 31, 2012 and 2011, respectively, which are not currently available for dividend distribution.

Other Reserves
As at December 31, 2012, 2011 and 2010, other reserves of the Company consists of:

	2012	2011	2010
Long-term incentive plan reserves (see Note 25)	**₱23,100,000**	₱15,139,742	₱–
Executive stock option plan reserves (see Note 24)	**12,005,334**	8,934,756	1,947,447
	₱35,105,334	₱24,074,498	₱1,947,447

Track Record of Registration of Securities
The following summarizes the information on the Parent Company's registration of securities under the Securities Regulation Code:

Date of SEC Approval	Date of Issuance (Repurchase)	Authorized Shares	Number of Shares Issued (Repurchased)	Issue/ Offer Price
February 24, 1970		335,000,000	15,000,000	₱1.00
September 17, 2007		5,065,000,000	–	1.00
	December 2007	–	79,504,310	1.00
	January 26, 2008	–	4,970,570,627	1.00
	October 16, 2008	–	(87,020,160)	2.22
		5,400,000,000	4,978,054,777	

a. On May 11, 2007, the then Parent Company's stockholders approved the increase in the authorized capital stock from ₱335.0 million divided into 335,000,000 shares with a par value of ₱1.00 per share to ₱5,400.0 million divided into 5,400,000,000 shares with the same par value. On September 17, 2007, the SEC approved the increase in MPTC's (then FPII's)

authorized capital stock, thereby, approving FPHC's subscription to 2,534,991,020 shares and BHC's subscription to 2,435,579,607. The shares were treated as subscription, pending issuance of Certificate Authorizing Registration (CAR) by the BIR on such date. The CAR was subsequently issued on January 26, 2008. Accordingly, the 4,970,570,627 shares were issued to FPHC and BHC.

b. In December 2007, 79,504,310 shares out of 80,000,000 subscribed shares have been fully paid.

c. On October 16, 2008, the then Parent Company's BOD authorized the repurchase of 87,020,160 shares from Lopez, Inc. at the price of ₱2.22 per share or a total amount of ₱193.6 million. Consequently, a Deed of Absolute Sale was executed and an application for a special block sale was filed with the PSE on October 20, 2008. On October 22, 2008, the PSE approved the block sale.

d. The total number of shareholders of the Parent Company is 256 and 253 as at December 31, 2012 and 2011, respectively.

22. Cost of Services

This account consists of:

	2012	2011	2010
Toll operation and maintenance costs	**₱2,169,706,413**	₱2,261,491,237	₱2,023,834,358
Amortization of service concession asset (see Note 12)	**597,358,217**	592,987,123	559,180,335
Cost of inventories	**7,673**	18,633	568,060
	₱2,767,072,303	₱2,854,496,993	₱2,583,582,753

Toll operation and maintenance costs consist of:

	2012	2011	2010
Operator's fee (see Note 20)	**₱1,492,527,064**	₱1,566,118,059	₱1,339,566,588
PNCC fee (see Note 20)	**399,859,153**	385,244,775	348,358,026
Provision for heavy maintenance (see Note 18)	**107,142,857**	109,116,393	54,911,915
Repairs and maintenance (see Note 20)	**105,502,279**	127,680,969	202,939,397
Insurance	**42,971,970**	48,957,913	43,511,555
Toll collection and medical services	**20,223,090**	21,297,634	21,331,200
Others	**1,480,000**	3,075,494	13,215,677
	₱2,169,706,413	₱2,261,491,237	₱2,023,834,358

23. **General and Administrative Expenses**

This account consists of:

	2012	2011	2010
Salaries and employee benefits (see Notes 20, 24 and 25)	**₱379,945,754**	₱388,778,586	₱243,448,382
Provisions (see Note 18)	**108,313,713**	38,799,285	21,551,247
Advertising and marketing expenses	**77,632,941**	67,974,605	50,493,216
Professional fees	**59,642,522**	73,648,571	72,813,068
Taxes and licenses	**53,452,501**	71,798,121	64,249,225
Outside services (see Note 20)	**44,885,534**	50,628,014	38,981,888
Depreciation of property and equipment (see Note 13)	**27,768,690**	28,308,266	24,123,289
Representation and travel	**24,257,829**	31,316,240	33,477,382
Provision for potential losses on claim for refund	**11,060,341**	8,640,240	–
Communication, light and water	**8,680,633**	10,549,215	9,996,294
Amortization of intangible assets (see Note 14)	**7,547,442**	6,902,591	5,506,350
Repairs and maintenance	**5,625,073**	9,487,122	6,075,911
Training and development costs	**5,374,619**	4,370,998	2,600,075
Donations and contributions	**4,867,606**	722,667	22,111
Office supplies	**4,146,309**	3,748,465	4,708,858
Rentals (see Note 20)	**1,919,842**	2,397,583	1,357,533
Directors' fees (see Note 20)	**1,649,589**	2,565,242	2,596,584
Collection charges	**127,758**	5,445,734	6,716,137
Provision for potential losses on input VAT (see Note 5)	–	–	334,069,949
Management fees (see Note 20)	–	–	21,129,665
Miscellaneous	**7,184,628**	5,779,290	46,679,219
	₱834,083,324	₱811,860,835	₱990,596,383

24. **Share-based Payment**

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 year ended December 31, 2012 and 2011 follows:

	2012		2011	
	Number of shares	Exercise price	Number of shares	Exercise price
Outstanding at January 1	**11,000,000**	**₱2.73**	12,200,000	₱2.73
Exercised during the year	**2,870,000**	**2.73**	1,200,000	2.73
Outstanding at December 31	**8,130,000**	**₱2.73**	11,000,000	₱2.73
Exercisable at December 31	**3,860,000**	**₱2.73**	2,460,000	₱2.73

The weighted average remaining contractual life for the share options outstanding as at December 31, 2012 and 2011 is 2.5 years and 3.5 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.*

Stock options expense, recognized by the Company in "Salaries and employee benefits" account, under "General and administrative expenses" in the consolidated statement of income, amounted to ₱3.1 million in 2012, ₱7.0 million in 2011 and ₱1.9 million in 2010 (see Notes 20 and 23).

Carrying value of the ESOP, recognized under "Other reserves" in the consolidated statement of changes in equity, amounted to ₱12.0 million, ₱8.9 million and ₱1.9 million as at December 31, 2012, 2011 and 2010, respectively.

25. **Employee Benefits**

LTIP

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

On April 27, 2012, the Parent Company's BOD approved the implementation of LTIP of the Company which became effective on January 1, 2012. The Company's LTIP is aimed at providing a competitive level of financial incentives for eligible employees to encourage them to achieve performance targets consistent with the Company's long-term business plans; recognizing and rewarding the contribution of eligible employees to the overall profitability and performance of the Company; and attracting and retaining talented employees to ensure the sustained growth and success of the Company. The payment under the 2012 to 2014 LTIP was intended to be made at the end of the 2012 to 2014 Performance Cycle (without interim payments) and contingent on the achievement of the Company's cumulative consolidated core income target for the 2012 to 2014 Performance Cycle.

Total amount of LTIP under these Plans is fixed upon achievement of the target Core Income and is not affected by changes in future salaries of the employees covered. The liabilities of the 2010 to 2012 LTIP and 2012 to 2014 LTIP were determined using the projected unit credit method. The long term employee benefit liability comprises the present value of the defined benefit obligation (using discount rate based on government bonds) at the end of the reporting period.

The total cost of the LTIP recognized by the Company in 2012 and 2011 included in "Salaries and employee benefits" account under "General and administrative expenses" in the consolidated statement of income amounted to ₱78.6 million and ₱75.7 million, respectively (see Notes 20 and 23).

Carrying value of the LTIP payable recognized under "Other reserves" in the consolidated statement of changes in equity amounted to ₱23.1 million and ₱15.1 million as at December 31, 2012 and 2011, respectively, representing MPIC's share in the LTIP cost of the Company as per 2010 to 2012 LTIP Plan. The balance of ₱131.2 million and ₱60.5 million was presented as LTIP payable in the current and noncurrent liability section of the consolidated balance sheets as at December 31, 2012 and 2011, respectively.

Defined Contribution Retirement Plan

Retirement benefits of the employees of the Parent Company and MPTDC are provided through a defined contribution scheme as approved by the BOD of the Company and MPTDC on June 21, 2011. The Parent Company and MPTDC operate a retirement plan which is a contributory plan wherein the Company undertakes to contribute a predetermined amount to the individual account of each employee and employees gets whatever is standing to his credit upon separation from the Company. The plan is managed and administered by a Retirement Committee and a trustee bank had been appointed to hold and invest the assets of the retirement fund in accordance with the provisions of the Plan.

The Parent Company's and MPTDC's contributions to the plan are made based on the employee's monthly basic salary which is at 10.0%. Additionally, an employee has an option to make a personal contribution to the fund, at an amount not exceeding 40.0% of his monthly salary. The Parent Company and MPTDC then provide an additional contribution to the fund which aims to match the employee's contribution but only up to a maximum of 5.0% of the employee's monthly salary. Although the plan has a defined contribution format, the Company and MPTDC regularly monitors compliance with R.A. 7641, otherwise known as "The Retirement Pay Law." As at December 31, 2012 and 2011, the Parent Company and MPTDC are in compliance with the requirements of R.A. 7641.

The Parent Company and MPTDC recognize expenses for their contribution to the defined contribution plans when the employee renders service to the Parent Company and MPTDC, essentially coinciding with their cash contributions to the plans. For the years ended December 31, 2012 and 2011, the Parent Company and MPTDC recorded total retirement costs under this scheme amounting to ₱8.0 million and ₱14.6 million, respectively, which is included in "Salaries and employee benefits" account under General and administrative expenses (see Note 23). The Parent Company and MPTDC also initially set up a fund to a trustee bank in the amount of ₱8.4 million and ₱2.7 million, respectively.

Accrued retirement costs under this scheme included in "Accrued expenses" account under "Accounts payable and other current liabilities" amounted to ₱0.8 million and ₱2.2 million as at December 31, 2012 and 2011, respectively (see Note 17).

Defined Benefit Retirement Plan
MNTC 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 costs, included in "Salaries and employee benefits" under "General and administrative expenses" account in the consolidated statement of income and "Pension asset" or "Accrued retirement costs" account in the consolidated balance sheet, which are based on the latest actuarial valuation.

	2012	2011	2010
Components of provision for retirement costs:			
Current service cost	**₱15,479,076**	₱13,055,802	₱5,680,909
Interest cost	**6,947,480**	6,512,846	3,790,217
Expected return on plan assets	**(3,098,902)**	(1,890,146)	(1,778,791)
Net actuarial loss (gain) recognized during the year	**1,414,706**	657,333	(308,775)
Past service cost - non-vested benefits	**463,814**	231,907	–
Past service cost - vested benefits	**–**	18,588,469	–
	₱21,206,174	₱37,156,211	₱7,383,560
Accrued retirement costs (Pension asset):			
Balance at beginning of year	**₱10,646,909**	₱873,614	₱9,612,991
Provision for retirement costs for the year	**21,206,174**	37,156,211	7,383,560
Contribution during the year	**(51,877,649)**	(27,382,916)	(16,122,937)
	(₱20,024,566)	₱10,646,909	₱873,614

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

	2012	2011	2010
Balance at beginning of year	**₱125,405,769**	₱68,082,135	₱35,455,729
Current service cost	**15,479,076**	13,055,802	5,680,909
Interest cost	**6,947,480**	6,512,846	3,790,217
Actuarial loss (gain)	**(28,310,263)**	21,510,124	31,681,869
Benefits paid	**(14,741,123)**	(3,271,234)	(8,526,589)
Past service cost - vested benefits	**–**	18,588,469	–
Past service cost - non-vested benefits	**–**	927,627	–
Balance at end of year	**₱104,780,939**	₱125,405,769	₱68,082,135

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

	2012	2011	2010
Balance at beginning of year	**₱77,472,555**	₱47,253,657	₱35,575,826
Contribution during the year	**51,877,649**	27,382,916	16,122,937
Benefits paid	**(14,741,123)**	(3,271,234)	(8,526,589)
Actuarial gain	**3,959,984**	4,217,070	2,302,692
Expected return on plan assets	**3,098,902**	1,890,146	1,778,791
Balance at end of year	**₱121,667,967**	₱77,472,555	₱47,253,657

The actual return on plan assets amounted to ₱7.1 million in 2012, ₱6.1 million in 2011 and ₱4.1 million in 2010.

The Company does not expect to contribute to its defined benefit retirement plan in 2013.

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

	2012	2011	2010
Investments in:			
Government securities	**67.27%**	76.08%	71.46%
Debt securities	**15.39%**	6.45%	–
Equity securities	**5.10%**	8.13%	13.27%
Cash and cash equivalents	**7.21%**	4.06%	7.14%
Loans/notes receivable	**4.29%**	4.72%	7.85%
Receivables and others	**0.74%**	0.56%	0.28%
	100.00%	100.00%	100.00%

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

The reconciliation of the PVRO to the accrued retirement costs/pension asset recognized in the consolidated balance sheets follows:

	2012	2011	2010
PVRO	**₱104,780,939**	₱125,405,769	₱68,082,135
FVPA	**(121,667,967)**	(77,472,555)	(47,253,657)
Underfunded (overfunded) PVRO	**(16,887,028)**	47,933,214	20,828,478
Cumulative unrecognized actuarial loss	**(2,905,632)**	(36,590,585)	(19,954,864)
Unrecognized past service cost - non-vested benefits	**(231,906)**	(695,720)	–
Accrued retirement costs (Pension asset)	**(₱20,024,566)**	₱10,646,909	₱873,614

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

	2012	2011	2010
Cumulative unrecognized actuarial gain (loss) at beginning of year	**(₱36,590,585)**	(₱19,954,864)	₱9,733,088
Actuarial gain (loss) for the year on:			
PVRO	**28,310,263**	(21,510,124)	(31,681,869)
FVPA	**3,959,984**	4,217,070	2,302,692
	(4,320,338)	(37,247,918)	(19,646,089)
Less actuarial gain (loss) recognized for the year	**(1,414,706)**	(657,333)	308,775
Cumulative unrecognized actuarial loss at end of year	**(₱2,905,632)**	(₱36,590,585)	(₱19,954,864)

	2012	2011	2010
Cumulative unrecognized actuarial gain (loss) at beginning of year	**(₱36,590,585)**	(₱19,954,864)	₱9,733,088
Limit of corridor	**(12,540,577)**	(6,808,214)	(3,557,583)
Actuarial gain (loss) outside corridor to be amortized	**(24,050,008)**	(13,146,650)	6,175,505
Divided by expected average remaining service years of eligible employees	**17**	20	20
Amortization of actuarial gain (loss) to be recognized for the year	**(₱1,414,706)**	(₱657,333)	₱308,775

The principal assumptions used to determine accrued retirement costs as at December 31, 2012, 2011 and 2010 are as follows:

	2012	2011	2010
Discount rate	**4.58%**	5.54%	8.10%
Rate of increase in compensation	**7.00%**	12.00%	12.00%
Expected rate of return	**4.00%**	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.

The underfunded (overfunded) status and experience adjustments for the current and previous four years are as follows:

	2012	2011	2010	2009	2008
PVRO	**₱104,780,939**	₱125,405,769	₱68,082,135	₱35,455,729	₱14,822,369
FVPA	**(121,667,967)**	(77,472,555)	(47,253,657)	(35,575,826)	(24,068,574)
Underfunded (Overfunded) PVRO	**(16,887,028)**	47,933,214	20,828,478	(120,097)	(9,246,205)
Experience adjustments on retirement obligation - loss (gain)	**4,370,872**	(111,365)	6,097,300	700,476	(470,161)
Experience adjustments on plan assets - gain	**(3,959,984)**	(4,217,070)	(2,302,692)	(5,584,086)	(1,121,903)

The following table presents the carrying amounts and fair values of the plan assets of MNTC:

	2012	2011	2010
Investments in:			
Government securities	**₱81,849,549**	₱58,937,376	₱33,767,424
Debt securities	**18,720,266**	5,000,000	–
Equity instruments	**6,210,000**	6,300,000	6,270,000
Loans/notes receivable	**5,220,402**	3,656,197	3,710,518
Cash and cash equivalents	**8,770,923**	3,146,414	3,372,895
Receivables and others	**896,827**	432,568	132,820
	₱121,667,967	₱77,472,555	₱47,253,657

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

As at December 31, 2012, the plan assets consist of the following:

- Investments in government securities consist primarily of fixed-rate treasury notes and retail treasury bonds that bear interest ranging from 3.89% to 9.42% per annum and have maturities from 2013 to 2037.
- Investments in corporate debt instruments consist of quoted, unsecured, long-term corporate bonds and subordinated notes, which bear interest ranging from 5.45% to 6.27% per annum and have maturities from 2017 to 2022.
- Cash and cash equivalents include regular savings and time deposits, which bear interest ranging from 3.00% to 4.10% per annum.
- Loans and notes receivables consist of unsecured FXCNs of PLDT, a related party, amounting to ₱2.4 million and unsecured subordinated note of an unaffiliated company amounting to ₱2.6 million as at December 31, 2012. The PLDT FXCNs and the subordinated note bear interest of 6.57% and 6.73% per annum, respectively. Both notes are due in 2016. Interest income on these loans and notes receivable amounted to ₱0.1 million in 2012.
- Investments in equity securities include investment in perpetual preferred shares of FPHC amounting to ₱6.2 million as at December 31, 2012. Gain arising from these investments amounted to ₱0.2 million for the year ended December 31, 2012. The carrying amounts of investments in equity securities also approximate their fair values since they are marked-to-market.
- Other financial assets held by the plan are primarily accrued interest income from cash and cash equivalents and investments in debt securities.

26. **Interest Income**

Sources of interest income follow:

	2012	2011	2010
Cash and cash equivalents (see Note 8)	**₱89,386,797**	₱115,148,599	₱71,602,940
Investment in bonds (see Note 15):			
AFS financial assets	**34,944,625**	34,658,167	9,625,315
HTM investments	–	–	15,290,641
Receivable on financial guarantee* (see Note 20)	**10,873,145**	10,891,887	10,899,450

(Forward)

	2012	2011	2010
Investment in treasury bills – HTM investments	**₱–**	₱–	₱799,731
Others	**518,706**	563,034	1,281,619
	₱135,723,273	₱161,261,687	₱109,499,696

**Recorded in "Due from related parties" account under noncurrent assets.*

27. Interest Expense and Other Finance Costs

Details of interest expense and other finance costs follow:

	2012	2011	2010
Interest expense on:			
Bank loans (see Notes 19 and 33)	**₱659,466,103**	₱794,415,849	₱884,813,687
Financial guarantee obligation (see Note 20)	**10,873,145**	10,891,887	10,899,450
Other finance costs:			
Amortization of debt issue costs (see Note 19)	**22,453,191**	134,890,348	205,569,383
Bank charges	**1,198,719**	1,178,363	888,660
Lenders' fees	**956,694**	5,602,677	8,502,273
Loan prepayment fees (see Note 19)	**–**	329,943,301	–
	₱694,947,852	₱1,276,922,425	₱1,110,673,453

28. Other Income and Other Expense

Details of other income follow:

	2012	2011	2010
Management fee (see Note 20)	**₱59,540,687**	₱84,700,231	₱56,000,000
Income from advertising (see Note 20)	**45,002,103**	32,697,931	–
Guarantee fees (see Note 20)	**23,445,579**	23,152,451	23,255,606
Income from toll service facilities	**17,277,992**	20,220,627	23,839,704
Mark-to-market gain (see Note 33)	**3,222,025**	–	–
Income from utility facilities (see Note 20)	**1,926,304**	1,814,636	63,747,748
Reversal of allowance for potential losses on input value-added tax (see Note 5)	**–**	288,052,966	–
Gain on bargain purchase (see Note 6)	**–**	30,951,517	–
Refunds from lenders	**–**	24,183,224	–
Reversal of accrued expenses	**–**	11,000,000	–
Others	**9,221,930**	7,916,625	8,133,904
	₱159,636,620	₱524,690,208	₱174,976,962

Details of other expense follow:

	2012	2011	2010
Mark-to-market loss on derivatives (see Note 33)	**₱44,844,434**	₱94,636,391	₱227,517,489
Loss on sale of assets	**176,481**	–	–
	₱45,020,915	₱94,636,391	₱227,517,489

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

29. Income Taxes

The provision for current income tax consists of:

	2012	2011	2010
Regular corporate income tax (RCIT)	**₱781,694,037**	₱526,617,703	₱31,725,648
Final tax on interest income	**24,843,932**	29,885,117	19,429,155
MCIT	**3,169,252**	1,119,255	683,101
	₱809,707,221	₱557,622,075	₱51,837,904

RCIT in 2010 is imposed on those taxable incomes of MNTC not covered by income tax holiday (ITH). MNTC's ITH expired on December 31, 2010 and RCIT is imposed on all taxable income in 2012 and 2011 (see Note 34).

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

	2012	2011
Deferred Tax Liabilities		
Difference in amortization of service concession asset	**₱491,496,941**	₱447,928,145
Fair value changes on AFS financial assets	**29,389,152**	25,610,877
Unamortized realized foreign exchange losses capitalized	**22,264,658**	23,155,245
Pension asset	**6,007,370**	–
Unrealized foreign exchange gains – net	–	49,603
	549,158,121	496,743,870
Deferred Tax Assets		
Provision for heavy maintenance	**90,728,555**	99,742,297
Provisions and accruals	**35,228,832**	–
Unamortized past service cost	**12,522,956**	4,100,123
Long-term incentive plan payable	**9,724,260**	–
Fair value changes on derivatives deferred in equity	**6,965,853**	10,118,451
Fair value changes on derivatives charged to consolidated statement of income	–	28,928,219
Accrued retirement costs	–	3,194,073
Unearned toll revenue	–	3,175,377
Provision for potential losses on claim for refund	–	2,592,072
Allowance for doubtful accounts	–	1,577,850
	155,170,456	153,428,462
Deferred tax liabilities - net	**₱393,987,665**	₱343,315,408

For tax purposes, MNTC used the units of production method of amortization for service concession asset as approved by the BIR.

MPTC, MPTDC and MSIHI have the following temporary differences, NOLCO and MCIT for which no deferred tax assets have been recognized since management believes that it is more likely than not that these will not be realized in the future:

	2012	2011
NOLCO	**₱85,960,557**	₱48,245,408
Accrued expenses	**108,756,927**	60,515,894
MCIT	**4,971,608**	2,479,952
Unrealized foreign exchange loss	**134,723**	12,793
	₱199,823,815	₱111,254,047

As at December 31, 2012, MPTC, MPTDC and MSIHI have MCIT that can be applied as tax credit against future income tax due under RCIT and NOLCO that can be claimed as deduction from future taxable income as follows:

Year Paid/Incurred	Expiration Date	MCIT	NOLCO
2010	December 31, 2013	₱683,101	₱199,665
2011	December 31, 2014	1,119,255	8,943,198
2012	December 31, 2015	3,169,252	76,817,694
		₱4,971,608	₱85,960,557

The movements in NOLCO are as follows:

	2012	2011
Balance at beginning of year	**₱48,245,408**	₱23,958,935
Additions	**76,817,694**	24,502,816
Applications	**(38,884,247)**	–
Expirations	**(218,298)**	(216,343)
Balance at end of year	**₱85,960,557**	₱48,245,408

The movements in MCIT are as follows:

	2012	2011
Balance at beginning of year	**₱2,479,952**	₱2,239,446
Additions	**3,169,252**	1,119,255
Expirations	**(677,596)**	(878,749)
Balance at end of year	**₱4,971,608**	₱2,479,952

The reconciliation of provision for income tax computed at the statutory income tax rate to provision for income tax as shown in the consolidated statements of income as follows:

	2012	2011	2010
Income before income tax	**₱2,968,139,722**	₱2,348,261,635	₱1,505,180,021
Income tax computed at statutory tax rate of 30%	**₱890,441,917**	₱704,478,491	₱451,554,006
Add (deduct) tax effects of:			
Equity in net earnings of an associate	**(68,537,837)**	(73,797,506)	(48,800,466)
Interest income subjected to final tax	**(37,299,427)**	(44,947,518)	(29,195,588)
Nondeductible expenses and others	**16,738,472**	32,407,640	47,865,677
Provision for potential losses on claim for refund	**3,318,102**	–	–
Write-off of deferred tax assets	**4,169,922**	–	13,769,057
Reversal of allowance for potential losses on input VAT (see Note 5)	**–**	(86,415,890)	–
Nontaxable gain arising from business combination (see Note 6)	**–**	(9,285,455)	–
Amortization (reversal) of capitalized input VAT	**–**	(6,505,391)	6,505,392
Reversal of accrued expenses	**–**	(3,300,000)	–
Provision for potential losses on input VAT	**–**	–	100,220,985
Net income under ITH (see Note 34)	**–**	–	(486,251,786)
Final tax on interest income	**24,843,932**	29,885,117	19,429,155
Change in unrecognized deferred tax assets	**16,604,273**	25,657,048	6,834,631
MCIT	**3,169,252**	1,119,255	683,101
Change in unrecognized deferred tax covered within ITH period	**–**	–	(4,133,929)
	₱853,448,606	₱569,295,791	₱78,480,235

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

	2012	2011	2010
Balance at beginning of year	**₱343,315,408**	₱322,154,388	₱285,080,565
Provision for income tax during the year recognized in the consolidated statements of income	**43,741,385**	11,673,716	26,642,331
Income tax effect during the year recognized in the consolidated statements of comprehensive income	**6,930,872**	9,487,304	10,431,492
Balance at end of year	**₱393,987,665**	₱343,315,408	₱322,154,388

30. Basic/Diluted Earnings Per Share (EPS)

The basic/diluted EPS amount was computed as follows:

	2012	2011	2010
Net income attributable to equity holders of the Parent	**₱1,470,176,415**	₱1,257,353,313	₱996,491,029
Divide by weighted average shares outstanding	**4,978,550,467**	4,978,550,467	4,978,550,467
Basic/Diluted EPS	**₱0.30**	₱0.25	₱0.20

The Company does not have dilutive common stock equivalents, thus, the basic and dilutive EPS are the same.

31. Significant Contracts and Commitments

Subic-Clark-Tarlac Expressway (SCTEx) Agreement

In 2010, MNTC 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 MNTC 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 MNTC 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 MNTC 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 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, 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.

On December 14, 2012, MNTC and BCDA agreed to extend the long-stop date for the effectivity of the BOA until March 31, 2013.

As at February 26, 2013, 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 MNTC and has not been accounted for accordingly in the consolidated financial statements.

Management Letter-Agreement

In relation to the Convertible Note Agreement executed by and between the Parent Company and CHI (see Note 10), the Parent Company, CHI and CIC executed a Management Letter-Agreement on December 27, 2012 for the management of CIC by MPTC. Also on the same date, MPTC, CHI and CIC executed an Addendum to the Management Letter-Agreement to clarify their intention in respect of the terms and conditions of the Management Letter-Agreement. The management of CIC by MPTC will commence on January 2, 2013 and until the issuance of the new common shares of CIC in favor of MPTC as a result of the conversion into or exchange of the CHI Preferred Shares for the said new common shares of CIC ("Management Period").

CIC shall pay all the direct expenses incurred by MPTC and its representatives in the performance of management functions and activities at CIC. In addition, MPTC shall receive all the financial benefits from CIC's operations. However, all losses incurred by CIC shall also be borne by MPTC.

CIC holds the concession for the operation and maintenance of the Manila-Cavite Toll Expressway ("Cavitex"). The Cavitex is a 14 km-long tollroad built in two segments running from Cavite to Laguna and currently has 90,000 vehicle entries a day. The concession for this road extends to 2033 for the originally built road and to 2046 for a subsequent extension.

By virtue of the Management Letter-Agreement, MPTC acquired control over CIC effective January 2, 2013. The allocation of the total cost of acquisition to identifiable assets, liabilities and contingent liabilities using provisional fair values as at January 2, 2013 is shown below:

	Provisional Values Recognized on Acquisition
Assets	
Cash and cash equivalents	₱488,171,689
Receivables	337,250,000
Other current assets	2,250,000
Investment in preferred shares	6,295,172,184
Property and equipment	10,087,899
Concession asset	8,635,349,551
Advances to contractors	182,000,000
Deferred tax assets - net	230,684,897
Other noncurrent assets	805,634,093
	16,986,600,313
Liabilities	
Accrued expenses and other current liabilities	₱181,946,049
Due to a related party	460,935,951
Long-term debt	12,972,666,738

(Forward)

	Provisional Values Recognized on Acquisition
Provision for heavy maintenance	₱208,377,405
Contingent liability	1,100,076,247
Other noncurrent liabilities	69,991,419
	14,993,993,809
Total identifiable net assets at fair value	1,992,606,504
Provisional goodwill arising on acquisition	4,778,993,496
Consideration transferred	₱6,771,600,000

Total consideration transferred consists mainly of cash paid on acquisition.

The fair value and gross amount of the receivables amounted to ₱337.3 million. None of the receivables have been impaired and it is expected that the full contractual amounts can be collected.

A contingent liability at a fair value of ₱1,100.1 million was recognized at the acquisition date resulting from probable claim from a third party. An indemnification asset amounting to ₱513.4 million was recognized in relation to such probable claim. No further disclosures regarding contingent liability arising from the probable claim is being made by the Company at this time since the Company believes that such disclosures might be expected to be seriously prejudicial to the position of the Company.

The purchase price consideration was initially allocated to the identifiable assets and liabilities of CIC on the basis of provisional values. As permitted by PFRS 3, MPTC will recognize any adjustment to the provisional values as an adjustment to goodwill upon determining the final fair values of identifiable assets and liabilities within 12 months from the acquisition date.

Net cash outflow on acquisition is as follows:

Total cash paid on acquisition	₱6,771,600,000
Cash acquired with the subsidiary	488,171,689
Net cash outflow	₱6,283,428,311

No transaction costs were incurred for the business combination.

MPTC acquired control over CIC starting January 2, 2013 and therefore, CIC has not contributed any revenue and profit or loss for the year ended December 31, 2012. If the combination had taken place at January 1, 2012, consolidated revenue would have increased by ₱1,237.8 million and consolidated net income would have decreased by ₱1,176.1 million.

32. **Financial Risk Management Objectives and Policies and Capital Management**

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 has notes receivable and 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 from 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 33). 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, on March 11, 2011, the Company entered again into an interest rate swap transaction for its floating-rate PNB Loan. On December 28, 2012, MNTC issued a notice for early termination of this interest rate swap transaction with PNB effective December 15, 2012 (see Note 19).

Aside from the risks discussed above, the Company is also exposed to credit risk and liquidity risk. These risks 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 its outstanding loans into fixed-rate debt, effectively locking in the interest rate on its loan obligations and reducing exposure to interest rate fluctuations.

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 (see Note 33).

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 21.0% of which is in floating interest rate, exposure is now limited to changes in six-month PDST-F. 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. In December 2012, MNTC decided to unwind the interest rate swap transaction in order to take advantage of record-low interest rates.

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, 2012**	December 31, 2011	Floating Interest Rate	Fixed Interest Rate
PNB Loan	**₱–**	₱1,995,000,000	PDST-F + 0.50% Margin	5.88%

The Company has also fixed rate bonds classified as AFS financial assets and cash and cash equivalents.

The following tables set out the principal amount, by maturity, of the Company's interest-bearing financial assets and liabilities:

		December 31, 2012				
	Interest Rate	Within the Year ('000)	2–3 Years ('000)	4–5 Years ('000)	More than 5 Years ('000)	Total ('000)
Cash and cash equivalents	0.05% - 3.88%	**₱3,262,191**	**₱–**	**₱–**	**₱–**	**₱3,262,191**
AFS financial assets	5.88% - 9.00%	**50,600**	**300,000**	**200,000**	**50,000**	**600,600**
		₱3,312,791	**₱300,000**	**₱200,000**	**₱50,000**	**₱3,862,791**
Fixed-rate loans:						
Series A-5	6.535%	**₱10,000**	**₱20,000**	**₱960,000**	**₱–**	**₱990,000**
Series A-7	7.270%	**42,102**	**84,205**	**84,205**	**3,957,617**	**4,168,129**
Series A-10	7.704%	**10,000**	**20,000**	**20,000**	**940,000**	**990,000**
Term-loan facility	7.10%	**–**	**–**	**–**	**1,000,000**	**1,000,000**
Floating-rate loan:						
PNB Loan	PDST-F + 0.50% Margin	**105,000**	**1,785,000**	**–**	**–**	**1,890,000**
		₱167,102	**₱1,909,205**	**₱1,064,205**	**₱5,897,617**	**₱9,038,129**

		December 31, 2011				
	Interest Rate	Within the Year ('000)	2–3 Years ('000)	4–5 Years ('000)	More than 5 Years ('000)	Total ('000)
Cash and cash equivalents	0.05% - 4.88%	₱1,601,536	₱–	₱–	₱–	₱1,601,536
AFS financial assets	5.88% - 9.00%	–	50,600	500,000	–	550,600
		₱1,601,536	₱50,600	₱500,000	₱–	₱2,152,136
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
Floating-rate loan:						
PNB Loan	PDST-F + 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

Interest on financial instruments classified as floating rate is repriced semi-annually on each interest payment date. Interest on financial instruments classified as fixed rate is fixed until the maturity of the instrument. The other financial instruments of the Company that are not included in the above table are noninterest-bearing and are therefore not subject to cash flow interest rate risk.

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

	Increase/Decrease in Basis Points	Effect on Income Before Income Tax
2012	**+50**	**(₱9,450,000)**
	-50	**9,450,000**
2011	+50	–
	-50	–

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

	Increase/Decrease in Basis Points	Effect on Income Before Income Tax
2011	+50	₱29,170,563
	-50	(20,496,654)

There were no outstanding interest rate swap transactions as at December 31, 2012.

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, 2012 and 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 19). The minimal exposure to foreign currency risk relates to the Company's foreign currency denominated cash and cash equivalents and accounts payables as at December 31, 2012 and 2011.

Prior to 2011, the Company's foreign currency risk arises mainly from its exposure to U.S. dollar-denominated long-term loans. Exposure to foreign currency risk was significantly reduced when the Company refinanced its outstanding U.S. dollar loans with peso loans. The exposure was further reduced when the Company entered into derivative transactions. 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.

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 July 2008. 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.

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.

The sensitivity of income to changes in foreign exchange rates is not significant because the Company holds minimal amounts of foreign currency denominated assets and liabilities.

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 2012 and 2011, the cut-off date for the determination of the ADA variance is on January 30, 2012 and 2011, respectively, following the 30-day policy. As at January 30, 2011, the declined ADA reload transactions amounted only to ₱0.03 million. In 2012, the Company transferred all obligations on Credit Card ADA transactions to ESC.

With respect to credit risk arising from other financial assets, which comprise cash and cash equivalents, due from related parties, notes receivable 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 any collateral for its financial assets.

The table below shows the maximum exposure to credit risk for the Company's financial assets, without taking account of any collateral, credit enhancements and other credit risk mitigation techniques:

	2012	2011
Cash and cash equivalents[(a)]	**₱3,262,190,611**	₱1,601,536,099
Receivables:		
Trade receivables	**122,448,569**	84,086,210
Interest receivables	**6,546,919**	3,513,967
Other receivables	**30,207,384**	6,838,554
Derivative assets	**224,894,466**	–
Notes receivable	**6,577,566,742**	–
Investment in bonds[(b)]	**640,316,000**	577,721,750
Due from related parties	**408,218,483**	625,373,422
Refundable deposits and other financial assets[(c)]	**3,127,300**	4,333,850
Total credit risk exposure	**₱11,275,516,474**	₱2,903,403,852

[(a)] *Excluding cash on hand.*
[(b)] *Included under AFS financial assets.*
[(c)] *Included under Other noncurrent assets.*

Cash and cash equivalents are placed with reputable local and international banks which meet the standards of the Company's Board.

Receivables are the trade receivables related to Credit Card ADA transactions as described earlier and receivables from ESC when Easytrip tag-motorists ply in NLE and those non-toll revenues in the form of advertising services particularly from SMART. The Company's due from related parties are mainly from MPIC and TMC. ESC, SMART, MPIC and TMC are considered as low-risk counterparties as these are well-established companies. Moreover. the Company has payment obligations to MPIC and TMC which far exceed the aggregate amount of receivables and dues from MPIC and TMC. Receivables also arise from motorists who cause accidental damage to NLEx property from day-to-day operations. Property damage claims are initially processed by TMC and are eventually turned over to MNTC.

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.

The Company's notes receivable is from CHI. This notes receivable is convertible into CHI preferred shares (see Note 10). CHI has 100% ownership interest in CIC which holds the concession for the operation and maintenance of the Cavitex (see Note 31).

As at December 31, 2012 and 2011, 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, 2012 and 2011.

	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
2012	**₱112,496,697**	**₱1,614,018**	**₱801,466**	**₱703,951**	**₱1,044,962**	**₱5,787,475**	**₱9,951,872**	**₱122,448,569**
2011	63,742,079	–	1,649,252	1,205,370	2,971,381	14,518,128	20,344,131	84,086,210

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, 2012			
	Neither Past Due nor Impaired - High-grade	**Past Due**	**Impaired**	**Total**
Cash and cash equivalents[a]	**₱3,262,190,611**	**₱–**	**₱–**	**₱3,262,190,611**
Receivables:				
Trade receivables	**112,496,697**	**9,951,872**	**5,259,500**	**127,708,069**
Interest receivables	**6,546,919**	**–**	–	**6,546,919**
Other receivables	**30,207,384**	**–**	–	**30,207,384**
Due from related parties	**408,218,483**	**–**	–	**408,218,483**
Derivative assets	**224,894,466**	**–**	–	**224,894,466**
Notes receivable	**6,577,566,742**	**–**	–	**6,577,566,742**
Investment in bonds[b]	**640,316,000**	**–**	–	**640,316,000**
Refundable deposits and other financial assets[c]	**3,127,300**	**–**	–	**3,127,300**
	₱11,265,564,602	**₱9,951,872**	**₱5,259,500**	**₱11,280,775,974**

[a] *Excluding cash on hand.*
[b] *Included under AFS financial assets.*
[c] *Included under Other noncurrent assets.*

	December 31, 2011			
	Neither Past Due nor Impaired - High-grade	Past Due	Impaired	Total
Cash and cash equivalents[a]	₱1,601,536,099	₱–	₱–	₱1,601,536,099
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	6,838,554	–	–	6,838,554

(Forward)

	December 31, 2011			
	Neither Past Due nor Impaired - High-grade	Past Due	Impaired	Total
Due from related parties	₱625,373,422	₱–	₱–	₱625,373,422
Investment in bonds[(b)]	577,721,750	–	–	577,721,750
Refundable deposits and other financial assets[(c)]	4,333,850	–	–	4,333,850
	₱2,883,059,721	₱20,344,131	₱5,259,500	₱2,908,663,352

[(a)] *Excluding cash on hand.*
[(b)] *Included under AFS financial assets.*
[(c)] *Included under Other noncurrent assets.*

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 ₱1,450.0 million and ₱1,300.0 million as at December 31, 2012 and 2011, respectively, and cash and cash equivalents amounting to ₱3,334.6 million and ₱1,653.5 million as at December 31, 2012 and 2011, 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, 2012 and 2011 based on undiscounted payments:

	December 31, 2012				
	Within the Year	**2–3 Years**	**4–5 Years**	**More than 5 Years**	**Total**
Financial Assets					
Cash and cash equivalents	**₱3,334,619,906**	**₱–**	**₱–**	**₱–**	**₱3,334,619,906**
Receivables[(a)]	**164,462,372**	**–**	**–**	**–**	**164,462,372**
Due from related parties	**354,223,278**	**22,110,000**	**22,110,000**	**221,100,000**	**619,543,278**
AFS financial assets[(b)]	**89,598,443**	**381,653,819**	**223,501,910**	**443,577,255**	**1,138,331,427**
	₱3,942,903,999	**₱403,763,819**	**₱245,611,910**	**₱664,677,255**	**₱5,256,956,983**
Financial Liabilities					
Accounts payable and other current liabilities[(c)]	**₱1,776,563,241**	**₱–**	**₱–**	**₱–**	**₱1,776,563,241**
Due to related parties	**7,222,774**	**–**	**–**	**–**	**7,222,774**
Dividends payable	**277,108,310**	**–**	**–**	**–**	**277,108,310**
Long-term debt[(d)]	**719,492,169**	**2,978,267,354**	**1,974,156,967**	**6,718,632,350**	**12,390,548,840**
Financial guarantee obligation	**11,055,000**	**22,110,000**	**22,110,000**	**221,100,000**	**276,375,000**
	₱2,791,441,494	**₱3,000,377,354**	**₱1,996,266,967**	**₱6,939,732,350**	**₱14,727,818,165**

[(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, 2011				
	Within the Year	2–3 Years	4–5 Years	More than 5 Years	Total
Financial Assets					
Cash and cash equivalents	₱1,653,539,917	₱–	₱–	₱–	₱1,653,539,917
Receivables[(a)]	99,698,231	–	–	–	99,698,231
Due from related parties	571,196,362	22,110,000	22,110,000	232,155,000	847,571,362
AFS financial assets[(b)]	–	62,807,250	635,281,250	328,246,526	1,026,335,026
	₱2,324,434,510	₱84,917,250	₱657,391,250	₱560,401,526	₱3,627,144,536
Financial Liabilities					
Accounts payable and other current liabilities[(c)]	₱982,125,075	₱–	₱–	₱–	₱982,125,075
Due to related parties	8,178,596	–	–	–	8,178,596
Dividends payable	40,225,431	–	–	–	40,225,431
Long-term debt[(d)]	710,271,301	2,234,363,797	2,960,033,115	7,212,813,426	13,117,481,639
Financial guarantee obligation	11,055,000	22,110,000	22,110,000	232,155,000	287,430,000
	1,751,855,403	2,256,473,797	2,982,143,115	7,444,968,426	14,435,440,741
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
	₱1,818,667,606	₱2,330,032,019	₱2,975,486,496	₱7,444,968,426	₱14,569,154,547

(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 Board of Investments (BOI). 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 59:41 and 60:40 as at December 31, 2012 and 2011, respectively, indicating that the Company has the capacity to incur additional long-term debt to build up its capital.

	2012	2011
Long-term debt	**₱8,905,968,324**	₱9,050,617,440
Total equity attributable to equity holders of parent	**6,066,943,716**	5,918,959,823
Total capital	**₱14,972,912,040**	₱14,969,577,263
Debt to equity ratio	**59:41**	60:40

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

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.

33. 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, 2012 and 2011 follows:

	2012		2011	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Financial Assets				
FVPL -				
Derivative assets	**₱224,894,466**	**₱224,894,466**	₱–	₱–
Loans and receivables:				
Cash and cash equivalents	**3,334,619,906**	**3,334,619,906**	1,653,539,917	1,653,539,917
Receivables:				
Trade	**122,448,569**	**122,448,569**	84,086,210	84,086,210
Interest receivables	**6,546,919**	**6,546,919**	3,513,967	3,513,967
Other receivables	**30,207,384**	**30,207,384**	6,838,554	6,838,554
Notes receivable	**6,577,566,742**	**6,577,566,742**	–	–
Due from related parties	**408,218,483**	**494,018,397**	625,373,422	681,432,405
Refundable deposits and other financial assets[(a)]	**3,127,300**	**3,127,300**	4,333,850	4,330,357
	10,482,735,303	**10,568,535,217**	2,377,685,920	2,433,741,410
AFS financial assets:				
Investment in bonds	**640,316,000**	**640,316,000**	577,721,750	577,721,750
Investment in unquoted shares	**328,246,526**	**328,246,526**	328,246,526	328,246,526
	968,562,526	**968,562,526**	905,968,276	905,968,276
	₱11,676,192,295	**₱11,761,992,209**	₱3,283,654,196	₱3,339,709,686
Financial Liabilities				
FVPL -				
Derivative liabilities	**₱–**	**₱–**	₱130,155,566	₱130,155,566
Other financial liabilities:				
Accounts payable and other current liabilities[(b)]	**1,776,563,241**	**1,776,563,241**	982,125,075	982,125,075
Due to related parties	**7,222,774**	**7,222,774**	8,178,596	8,178,596
Dividends payable	**277,108,310**	**277,108,310**	40,225,431	40,225,431
Long-term debt	**8,905,968,324**	**9,817,379,206**	9,050,617,440	9,616,868,839
Financial guarantee obligation	**65,050,205**	**150,850,119**	65,232,060	121,291,043
	11,031,912,854	**12,029,123,650**	10,146,378,602	10,768,688,984
	₱11,031,912,854	**₱12,029,123,650**	₱10,276,534,168	₱10,898,844,550

[(a)] *Included under Other noncurrent assets.*
[(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, 2012, the long equity call and short put options on the Note issued by CHI were valued using standard option pricing models (i.e., closed-form and binomial approach). The valuation techniques consider the probability of CHI and CIC's share price, which is valued based on discounted cash flows, to move up or down depending on the volatility, risk-free rate and exercise price.

As at December 31, 2011, the fair value of the interest rate swap transaction is determined as the net present value of estimated future cash flows using Philippine risk free rates ranging from 1.9% to 8.2%.

Cash and Cash Equivalents, Receivables, Due from Related Parties (Current), Notes Receivable, 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
The fair value of investment in bonds classified as AFS financial assets is based on the quoted market price of the financial instruments as at December 31, 2012 and 2011.

Unquoted AFS financial asset where the fair value is not reasonably determinable were carried and presented at cost.

Due from Related Parties (Noncurrent), Refundable Deposits and Other Financial Assets and Financial Guarantee Obligation
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 0.7% to 6.4% in 2012 and 1.8% to 10.2% in 2011.

Long-term Debt
For both fixed rate and floating rate (repriceable every six months) peso-denominated notes and loans, estimated fair value is based on the discounted value of future cash flows using the prevailing peso interest rates. The prevailing peso interest rates ranged from 1.2% to 6.1% in 2012 and 2.2% to 7.1% in 2011.

Fair Value Hierarchy
As at December 31, 2012 and 2011, the Company held the following financial instruments measured at fair value:

	December 31, 2012	**Level 1**	**Level 2**	**Level 3**
Financial Assets				
Financial assets at FVPL -				
Derivative assets at FVPL	**₱224,894,466**	**₱–**	**₱–**	**₱224,894,466**
AFS financial assets -				
Investment in bonds	**640,316,000**	**640,316,000**	**–**	**–**
	₱865,210,466	**₱640,316,000**	**₱–**	**₱224,894,466**

	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	₱–

During the years ended December 31, 2012 and 2011, there were no transfers between Level 1 and Level 2 fair value measurements and no transfers into and out of Level 3 fair value measurements.

The financial instrument classified under Level 3 pertains to the derivative asset arising from the options embedded in the Note (host instrument) acquired by the Parent Company from CHI (see Note 10). The derivative asset was valued using standard option pricing models (i.e., closed-form and binomial approach). These valuation techniques require stock prices of CHI and CIC, and also stock price volatilities which are not directly available from the market, and for which non-market-observable proxies were used. These were used as inputs to the fair value calculation of the options which were assessed by the Company as having significant impact to its fair values.

The movements in the fair value of the derivative asset for the year ended December 31, 2012 are summarized below:

Initial value of the options	₱221,672,441
Net change in fair value	3,222,025
Derivative asset at end of year	₱224,894,466

The fair value change during the year was recognized as “Mark-to-market gain” under “Other income” account in the 2012 consolidated statement of income.

The fair value of the call and put options are highly sensitive to stock price volatility as follows:

	Increase/Decrease in Volatility	Effect on Income Before Income Tax
2012	+10%	₱11,251,939
	-10%	(2,546,260)

Derivative Instruments

In 2011, the Company entered into interest rate swap transaction to hedge its interest rate exposures on the following loan:

		Outstanding Balance as at	
Loan Facility	Interest Rate	**December 31, 2012**	December 31, 2011
PNB Loan	PDST-F + 0.50% Margin	**₱–**	₱1,995,000,000

The following table provides the related fair values of the Company's derivative financial instruments outstanding as at December 31, 2012 and 2011:

	December 31, 2012		December 31, 2011	
	Asset	**Liability**	Asset	Liability
Interest rate swaps to hedge				
PNB Loan	**₱–**	**₱–**	₱–	(₱130,155,566)
Options arising from the Note	**224,894,466**	**–**	–	–
	₱224,894,466	**₱–**	₱–	(₱130,155,566)

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 Philippine Reference Rates (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 year ended December 31, 2010, the fair value changes of the interest rate swap and cross currency swap (both hedging the COFACE loan) amounted to ₱46.7 million loss.

As discussed in Note 28, MNTC 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, 2012 and 2011.

Options Arising from the Note
As discussed in Note 10, the Parent Company acquired the Note issued by CHI which the Parent Company classified as loans and receivables. The Note contains multiple embedded derivatives which compose of long equity call option and short put option which were accounted for as compound derivatives. Such compound derivatives were bifurcated by the Parent Company from the Note (host instrument) on the acquisition date. The long equity call option pertains to the right of the Parent Company to convert the Note to CHI preferred shares, exercisable on June 27, 2013 (maturity of the Note) at the conversion price of ₱100 per convertible note unit. The short put option pertains to the right of CHI (issuer) to prepay the Note prior to maturity date, at the conversion price of ₱100 per convertible note unit, through the issuance of the CHI preferred

shares subject to the fulfillment of the conditions for conversion as provided in the Convertible Note Agreement. Subject to applicable regulatory approvals and the terms and conditions of the Convertible Note Agreement, the CHI preferred shares are, under certain circumstances, also convertible into CHI or CIC common shares. The positive fair value of the options at inception amounted to ₱221.7 million.

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 28, 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 28, 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 US 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 28, 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. 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 28, 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. 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 28, 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, however, 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 de-designated by MNTC. 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 expenses" account in the consolidated 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. As at December 31, 2012 and 2011, the unamortized amount deferred in equity amounted to ₱23.2 million (gross of ₱7.0 million tax) after amortization of ₱10.5 million and ₱33.7 million (gross of ₱10.1 million tax) after amortization of ₱5.3 million, respectively. The negative fair value change of the swap from April 1, 2011 to December 31, 2011 amounted to ₱91.2 million while the negative fair value change in 2012 amounted to ₱44.8 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 mentioned in Note 19, this swap was pre-terminated on December 28, 2012.

As at December 31, 2012 and 2011, 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, 2012, 2011 and 2010 follow:

	2012	2011	2010
Balance at beginning of year	**(₱33,728,171)**	(₱3,475,927)	(₱14,754,566)
Changes in fair value of cash flow hedges	–	(59,250,968)	(230,782,209)
	(33,728,171)	(62,726,895)	(245,536,775)
Transferred to consolidated statements of income:			
Interest expense*	**10,508,656**	25,522,797	91,808,514
Mark-to-market loss	**–**	3,475,927	158,275,562
Foreign exchange loss (gain)	**–**	–	(8,023,228)
	10,508,656	28,998,724	242,060,848
	(23,219,515)	(33,728,171)	(3,475,927)
Tax effects of items taken directly to equity	**6,965,854**	10,118,451	1,042,778
Balance at end of year	**(₱16,253,661)**	(₱23,609,720)	(₱2,433,149)
Attributable To			
Equity holders of the Parent	**(₱10,906,206)**	(₱15,842,122)	(₱1,632,643)
Non-controlling interests	**(5,347,455)**	(7,767,598)	(800,506)
	(₱16,253,661)	(₱23,609,720)	(₱2,433,149)

* *Included in "Interest expense on bank loans" under "Interest expense and other finance costs" account (see Note 27).*

No ineffectiveness was recognized in the consolidated statement of income in 2010.

Fair Value Changes on Derivatives. The net changes in the fair values of all derivative instruments for the years ended December 31, 2012, 2011 and 2010 follow:

	2012	2011	2010
Balance at beginning of year	**(₱130,155,566)**	(₱209,010,941)	(₱5,255,601)
Initial value of options	**221,672,441**	–	–
Net changes in fair values of derivatives:			
Designated as accounting hedges	**–**	(59,250,968)	(230,782,209)
Not designated as accounting hedges* (see Note 28)	**(41,622,409)**	(112,777,098)	(83,852,199)
	49,894,466	(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	**175,000,000**	230,627,576	4,682,264
Balance at end of year	**₱224,894,466**	(₱130,155,566)	(₱209,010,941)

* *In 2012, these are recorded in the consolidated statement of income as follows: (a) ₱44,844,434 as mark-to-market loss under "Other expense" account and (b) ₱3,222,025 as mark-to-market gain under "Other income" account. In 2011, these are recorded in the consolidated 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 consolidated 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.*

34. 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, MNTC 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 MNTC's request for an extension of the ITH reckoning date from December 1999 to first quarter of 2004. Thus, MNTC's ITH will end at the end of the first quarter of 2010. ITH incentive amounted to ₱486.3 million in 2010 (see Note 29).

On July 29, 2009, upon the request of MNTC and after filing the necessary application, the BOI has granted an extension of MNTC'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
- MNTC shall undertake Corporate Social Responsibility activities which shall be completed on the actual availment of the bonus year.

35. **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 MNTC (and all Philippine toll expressway companies) to defer the imposition of VAT on toll fees. Due to the possibility that MNTC may eventually be subjected to VAT, MNTC, 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, MNTC also requested for confirmation from the BIR that MNTC 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 26, 2013.

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

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 TRO 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 13, 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 National Internal Revenue Code (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, MNTC started imposing VAT on toll fees from motorists and correspondingly started recognizing VAT liability on October 1, 2011. MNTC 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, MNTC continues to receive the following VAT assessments:

- Formal Letter of Demand from the BIR on March 16, 2009 requesting MNTC 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 MNTC for deficiency VAT plus penalties amounting to ₱557.6 million for taxable year 2007.

- Notice of Informal Conference from the BIR dated October 5, 2009, assessing MNTC 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 MNTC, ROP, acting by and through the TRB, and PNCC, provides MNTC with legal recourse in order to protect its lawful interests in case there is a change in existing laws which makes the performance by MNTC 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, MNTC has 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. MNTC, 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 Regional Trial Court (RTC) of Malolos, Bulacan claiming, among other things, that its predecessor, PNCC has never been subjected to LBT and as such MNTC continued the customary practice of obtaining the business permits solely from the local government unit where its principal office is located (and later Caloocan City).

On November 19, 2009, TRB informed MNTC that TRB's BOD has approved MNTC'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 MNTC 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 MNTC'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, MNTC 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 MNTC's application for the issuance of a TRO and/or writ of preliminary injunction. On March 15, 2010, MNTC 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 MNTC'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, MNTC filed a motion for reconsideration but the motion was denied by the Court of Appeals on December 3, 2010.

On July 25, 2011, MNTC received a copy of the decision of the RTC of Malolos, Bulacan dated July 7, 2011. The RTC of Malolos dismissed MNTC's complaint for lack of merit and upheld the imposition of taxes and further ordered MNTC to settle the taxes upon finality of the decision. MNTC filed its motion for reconsideration on August 9, 2011, which was denied by the RTC of Malolos, Bulacan 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 MNTC. The CTA, in a decision dated December 3, 2012, partially granted MNTC's petition for review. The CTA modified the RTC of Malolos, Bulacan's decision dated July 7, 2011 and order dated October 6, 2011. The CTA cancelled and set aside for lack of basis the notice of assessment dated 2008 issued against MNTC for ₱67.4 million LBT for the years 2005 to 2007. However, the CTA ordered MNTC to pay the municipality of Guiguinto the ₱2.3 million mayor's permit and other regulatory fees assessment for the years 2004 to 2008, inclusive of surcharges and penalties.

Meanwhile, on July 22, 2010, MNTC 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 MNTC by the Municipal Treasurer of Guiguinto, Province of Bulacan in February 2010. On May 20, 2011, MNTC 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 each toll booth of MNTC shall be recorded thereat and that the LBT payable to a LGU shall be solely based on 100% of the gross receipts of the toll booths located in the said LGU and that the foregoing LBT allocation shall be applied prospectively. On September 23, 2010, MNTC requested for a partial reconsideration and reiterated that MNTC's gross receipts may be allocated among all LGUs where the toll roads traverse. On March 4, 2011, BLGF reaffirmed its original position that MNTC shall be classified as a contractor for purposes of local taxation and that LBT should be paid only to LGUs that host the toll plazas, thus, no LBT should be due to municipalities with no established toll plazas.

In 2012, MNTC paid LBT to various LGUs following the above BLGF ruling.

Real Property Tax
In 2008, MNTC 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. MNTC 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.

In 2004, MPTDC has received real property tax assessments covering Segment 7 located in the province of Bataan for the period from 1997 to June 2005 amounting to ₱98.5 million for alleged delinquency property tax. MPTDC appealed before the LBAA of Bataan and prayed for the cancellation of the assessment. In the said appeal, MPTDC invoked that the property is owned by the ROP, hence, exempt from real property tax. The case is still pending before the LBAA of Bataan.

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 consolidated financial statements. With regards to the RPT, management and its legal counsel believes that the STOA also provides MNTC with legal recourse in order to protect its lawful interests in case there is a change in existing laws which makes the performance by MNTC of its obligations materially more expensive.

c. Others

MNTC is a co-respondent [together with TRB, PNCC, other tollways 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 MNTC 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, MNTC 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 filed by of the petitioners in Marcos, et al. v. TRB et al., 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.

MNTC 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.