Manila North Tollways Corporation
(A Subsidiary of Metro Pacific Tollways Development Corporation)

Financial Statements
December 31, 2013 and 2012 and as at January 1, 2012
and Years Ended December 31, 2013, 2012 and 2011

and

Independent Auditors' Report

SGV
Building a better
working world

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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
Manila North Tollways Corporation

Report on the Financial Statements

We have audited the accompanying financial statements of Manila North Tollways Corporation (a subsidiary of Metro Pacific Tollways Development Corporation), which comprise the balance sheets as at December 31, 2013 and 2012 and January 1, 2012, and the 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, 2013, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Manila North Tollways Corporation as at December 31, 2013 and 2012 and January 1, 2012, and its financial performance and its cash flows for each of the three years in the period ended December 31, 2013 in accordance with Philippine Financial Reporting Standards.

Report on the Supplementary Information Required Under Revenue Regulations 19-2011 and 15-2010

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 19-2011 and 15-2010 in Notes 29 and 30 to the financial statements, respectively, is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of Manila North Tollways Corporation. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Belinda T. Beng Hui

Belinda T. Beng Hui
Partner
CPA Certificate No. 88823
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Tax Identification No. 153-978-243
BIR Accreditation No. 08-001998-78-2012,
June 19, 2012, valid until June 18, 2015
PTR No. 4225152, January 2, 2014, Makati City

February 3, 2014

MANILA NORTH TOLLWAYS CORPORATION

(A Subsidiary of Metro Pacific Tollways Development Corporation)

BALANCE SHEETS

	December 31, 2013	December 31, 2012 (As Restated – Note 3)	January 1, 2012 (As Restated – Note 3)
ASSETS			
Current Assets			
Cash and cash equivalents (Notes 6 and 27)	**₱1,502,050,102**	₱2,677,998,929	₱1,120,917,161
Receivables (Notes 7, 14 and 27)	**237,670,195**	163,690,915	100,785,557
Inventories - at cost (Note 14)	**50,289,462**	45,259,533	55,260,432
Advances to contractors and consultants (Note 14)	**226,262,269**	17,120,885	21,173,438
Due from related parties (Notes 14 and 27)	**4,836,582**	5,455,875	9,757,757
Input value-added tax (Note 5)	**37,184,554**	32,360,079	42,059,750
Available-for-sale financial assets (Notes 11 and 27)	**1,995,120,215**	53,003,500	–
Other current assets	**98,276,802**	81,236,337	61,227,753
Total Current Assets	**4,151,690,181**	3,076,126,053	1,411,181,848
Noncurrent Assets			
Service concession asset (Note 8)	**14,925,938,094**	15,184,223,470	15,556,734,023
Property and equipment (Note 9)	**117,870,398**	105,970,726	108,827,544
Intangible assets (Note 10)	**9,989,150**	13,918,628	12,709,316
Available-for-sale financial assets (Notes 11 and 27)	**1,521,580,826**	587,312,500	577,721,750
Pension asset (Note 19)	**1,837,846**	16,887,028	–
Other noncurrent assets (Note 27)	**59,396,398**	52,111,524	53,610,941
Total Noncurrent Assets	**16,636,612,712**	15,960,423,876	16,309,603,574
	₱20,788,302,893	₱19,036,549,929	₱17,720,785,422
LIABILITIES AND EQUITY			
Current Liabilities			
Accounts payable and other current liabilities (Notes 12, 14 and 27)	**₱1,411,017,159**	₱1,342,802,981	₱1,060,064,844
Due to related parties (Notes 14 and 27)	**97,549**	–	521,510
Unearned toll revenue	**335,345**	–	10,584,590
Income tax payable	**192,693,154**	151,565,349	31,355,870
Dividends payable (Notes 14, 16 and 27)	**409,012,800**	834,720,000	37,740,000
Provisions (Note 13)	**219,851,514**	248,710,026	249,103,430
Current portion of long-term debt (Notes 15 and 27)	**931,374,123**	144,299,038	145,174,660
Total Current Liabilities	**3,164,381,644**	2,722,097,394	1,534,544,904
Noncurrent Liabilities			
Long-term debt - net of current portion (Notes 15 and 27)	**9,814,648,105**	8,761,669,286	8,905,442,780
Accrued retirement costs (Note 19)	**–**	–	47,933,214
Long-term incentive plan payable (Note 19)	**64,828,400**	32,414,200	–
Provisions (Note 13)	**84,636,727**	252,433,157	189,931,902
Deferred tax liabilities - net (Note 24)	**460,788,929**	375,572,052	314,655,164
Derivative liabilities (Note 27)	**–**	–	130,155,566
Total Noncurrent Liabilities	**10,424,902,161**	9,422,088,695	9,588,118,626

	December 31, 2013	December 31, 2012 (As Restated – Note 3)	January 1, 2012 (As Restated – Note 3)
Equity (Note 16)			
Capital stock	**₱1,776,000,000**	₱1,776,000,000	₱1,776,000,000
Additional paid-in capital	**3,749,711,168**	3,749,711,168	3,749,711,168
Retained earnings	**1,656,984,196**	1,339,235,296	1,084,857,388
Other comprehensive income reserve (Note 16)	**8,124,165**	19,840,239	(18,085,813)
Other reserve (Note 20)	**8,199,559**	7,577,137	5,639,149
Total Equity	**7,199,019,088**	6,892,363,840	6,598,121,892
	₱20,788,302,893	₱19,036,549,929	₱17,720,785,422

See accompanying Notes to Financial Statements.

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

STATEMENTS OF INCOME

	Years Ended December 31		
	2013	2012 (As Restated – Note 3)	2011 (As Restated – Note 3)
OPERATING REVENUES			
Toll fees (net of discounts amounting to ₱59,283,405 in 2013, ₱56,778,507 in 2012 and ₱61,436,477 in 2011)	**₱7,101,436,578**	₱6,784,126,258	₱6,464,946,010
Sales of magnetic cards	**3,527**	5,625	42,071
	7,101,440,105	6,784,131,883	6,464,988,081
COST OF SERVICES (Note 17)	**(2,938,375,736)**	(2,767,072,303)	(2,854,496,993)
GROSS PROFIT	**4,163,064,369**	4,017,059,580	3,610,491,088
CONSTRUCTION REVENUE (Notes 5 and 8)	**341,646,216**	224,847,664	99,077,443
CONSTRUCTION COSTS (Notes 5 and 8)	**(341,646,216)**	(224,847,664)	(99,077,443)
GENERAL AND ADMINISTRATIVE EXPENSES (Note 18)	**(536,636,463)**	(665,741,658)	(608,018,371)
INTEREST EXPENSE AND OTHER FINANCE COSTS (Note 22)	**(618,382,272)**	(684,054,227)	(1,266,011,049)
INTEREST INCOME (Note 21)	**82,563,116**	116,601,837	143,196,501
FOREIGN EXCHANGE GAIN (LOSS) – Net	**8,015,606**	1,447,608	(10,740,591)
OTHER EXPENSE (Note 23)	**–**	(45,020,915)	(94,636,391)
OTHER INCOME (Note 23)	**106,597,850**	68,597,174	370,187,822
INCOME BEFORE INCOME TAX	**3,205,222,206**	2,808,889,399	2,144,469,009
PROVISION FOR INCOME TAX (Note 24)			
Current	**741,163,380**	804,888,626	550,825,446
Deferred	**86,149,926**	44,662,865	12,243,420
	827,313,306	849,551,491	563,068,866
NET INCOME	**₱2,377,908,900**	₱1,959,337,908	₱1,581,400,143

See accompanying Notes to Financial Statements.

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

STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2013	2012 (As Restated – Note 3)	2011 (As Restated – Note 3)
NET INCOME	**₱2,377,908,900**	₱1,959,337,908	₱1,581,400,143
OTHER COMPREHENSIVE INCOME			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Net gain (loss) on cash flow hedges (Note 27)	**10,508,616**	10,508,656	(30,252,244)
Income tax effect (Note 24)	**(3,152,584)**	(3,152,597)	9,075,673
	7,356,032	7,356,059	(21,176,571)
Gain (loss) on available-for-sale financial assets (Note 11)	**(19,537,962)**	12,594,250	3,628,750
Income tax effect (Note 24)	**2,999,700**	(3,778,275)	(1,088,625)
	(16,538,262)	8,815,975	2,540,125
	(9,182,230)	16,172,034	(18,636,446)
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Remeasurement gains (losses) on defined benefit retirement plan (Note 19)	**(3,619,777)**	31,077,169	(19,230,454)
Income tax effect (Note 24)	**1,085,933**	(9,323,151)	5,769,136
	(2,533,844)	21,754,018	(13,461,318)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**(11,716,074)**	37,926,052	(32,097,764)
TOTAL COMPREHENSIVE INCOME	**₱2,366,192,826**	₱1,997,263,960	₱1,549,302,379

See accompanying Notes to Financial Statements.

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

STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011

	Capital Stock - ₱100 Par Value	Additional Paid-in Capital	Retained Earnings	Other Comprehensive Income Reserve	Other Reserve	Total Equity
At January 1, 2013, as previously reported	**₱1,776,000,000**	**₱3,749,711,168**	**₱1,349,724,273**	**₱11,547,539**	**₱7,577,137**	**₱6,894,560,117**
Effect of adoption of Revised PAS 19 (Note 3)	–	–	**(10,488,977)**	**8,292,700**	–	**(2,196,277)**
As at January 1, 2013, as restated	**1,776,000,000**	**3,749,711,168**	**1,339,235,296**	**19,840,239**	**7,577,137**	**6,892,363,840**
Cash dividends (Note 16)	–	–	**(2,060,160,000)**	–	–	**(2,060,160,000)**
Equity contribution - executive stock option plan (Note 20)	–	–	–	–	**622,422**	**622,422**
Net income	–	–	**2,377,908,900**	–	–	**2,377,908,900**
Other comprehensive income (Notes 11, 19 and 27)	–	–	–	**(11,716,074)**	–	**(11,716,074)**
Total comprehensive income for the year	–	–	**2,377,908,900**	**(11,716,074)**	–	**2,366,192,826**
At December 31, 2013	**₱1,776,000,000**	**₱3,749,711,168**	**₱1,656,984,196**	**8,124,165**	**₱8,199,559**	**₱7,199,019,088**
At January 1, 2012, as previously reported	₱1,776,000,000	₱3,749,711,168	₱1,097,496,483	(₱4,624,495)	₱5,639,149	₱6,624,222,305
Effect of adoption of Revised PAS 19 (Note 3)	–	–	(12,639,095)	(13,461,318)	–	(26,100,413)
As at January 1, 2012, as restated	1,776,000,000	3,749,711,168	1,084,857,388	(18,085,813)	5,639,149	6,598,121,892
Cash dividends (Note 16)	–	–	(1,704,960,000)	–	–	(1,704,960,000)
Equity contribution - executive stock option plan (Note 20)	–	–	–	–	1,937,988	1,937,988
Net income, as previously reported	–	–	1,957,187,790	–	–	1,957,187,790
Effect of adoption of Revised PAS 19 (Note 3)	–	–	2,150,118	–	–	2,150,118
Net income, as restated	–	–	1,959,337,908	–	–	1,959,337,908
Other comprehensive income, as previously reported (Notes 11 and 27)	–	–	–	16,172,034	–	16,172,034
Effect of adoption of Revised PAS 19 (Note 3)	–	–	–	21,754,018	–	21,754,018
Other comprehensive income, as restated (Notes 11, 19 and 27)	–	–	–	37,926,052	–	37,926,052
Total comprehensive income for the year, as restated	–	–	1,959,337,908	37,926,052	–	1,997,263,960
At December 31, 2012, as restated	₱1,776,000,000	₱3,749,711,168	₱1,339,235,296	₱19,840,239	₱7,577,137	₱6,892,363,840

	Capital Stock - ₱100 Par Value	Additional Paid-in Capital	Retained Earnings	Other Comprehensive Income Reserve	Other Reserve	Total Equity
At January 1, 2011, as previously reported	₱1,776,000,000	₱3,749,711,168	₱1,027,025,649	₱14,011,951	₱–	₱6,566,748,768
Effect of adoption of Revised PAS 19 (Note 3)	–	–	(13,968,404)	–	–	(13,968,404)
At January 1, 2011, as restated	1,776,000,000	3,749,711,168	1,013,057,245	14,011,951	–	6,552,780,364
Cash dividends (Note 16)	–	–	(1,509,600,000)	–	–	(1,509,600,000)
Equity contribution - executive stock option plan (Note 20)	–	–	–	–	5,639,149	5,639,149
Net income, as previously reported	–	–	1,580,070,834	–	–	1,580,070,834
Effect of adoption of Revised PAS 19 (Note 3)	–	–	1,329,309	–	–	1,329,309
Net income, as restated	–	–	1,581,400,143	–	–	1,581,400,143
Other comprehensive income, as previously reported (Notes 11 and 27)	–	–	–	(18,636,446)	–	(18,636,446)
Effect of adoption of Revised PAS 19 (Note 3)	–	–	–	(13,461,318)	–	(13,461,318)
Other comprehensive income, as restated (Notes 11, 19 and 27)	–	–	–	(32,097,764)	–	(32,097,764)
Total comprehensive income for the year, as restated	–	–	1,581,400,143	(32,097,764)	–	1,549,302,379
At December 31, 2011, as restated	₱1,776,000,000	₱3,749,711,168	₱1,084,857,388	(₱18,085,813)	₱5,639,149	₱6,598,121,892

See accompanying Notes to Financial Statements.

MANILA NORTH TOLLWAYS CORPORATION

(A Subsidiary of Metro Pacific Tollways Development Corporation)

STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2013	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱3,205,222,206**	₱2,808,889,399	₱2,144,469,009
Adjustments to reconcile income before income tax to net cash flows:			
Interest expense and other finance costs (Note 22)	**618,382,272**	684,054,227	1,266,011,049
Amortization of service concession asset (Notes 8 and 17)	**599,931,592**	597,358,217	592,987,123
Interest income (Note 21)	**(82,563,116)**	(116,601,837)	(143,196,501)
Long-term incentive plan expense (Note 19)	**32,414,200**	32,414,200	–
Depreciation of property and equipment (Notes 9 and 18)	**28,881,703**	23,685,415	24,622,344
Mark-to-market loss on derivatives (Note 23)	–	44,844,434	94,636,391
Provision for potential losses on claim for refund (Note 18)	–	11,060,341	8,640,240
Deferred toll revenue realized	–	(10,584,590)	(30,985,896)
Amortization of intangible assets (Notes 10 and 18)	**8,108,060**	7,547,442	6,902,591
Movements in:			
Provisions (Note 13)	**(204,749,158)**	62,107,851	5,001,671
Pension asset/Accrued retirement costs	**11,429,405**	(33,743,073)	7,874,282
Executive stock option plan expense (Note 20)	**622,422**	1,937,988	5,639,149
Gain on disposal of available-for-sale financial assets (Note 11)	**(11,780,746)**	–	–
Loss (gain) on disposals of property and equipment (Notes 9 and 23)	**(907,581)**	176,481	(348,613)
Reversal of allowance for doubtful accounts (Note 23)	**(5,259,500)**	–	–
Reversal of allowance for potential losses on input value-added tax (Notes 5 and 23)	**–**	–	(288,052,966)
Unrealized foreign exchange gain – net	**(1,393,248)**	–	(165,345)
Working capital changes:			
Decrease (increase) in:			
Receivables	**(71,067,777)**	(59,872,406)	(35,973,429)
Inventories	**(5,029,929)**	10,000,899	(17,370,403)
Due from related parties	**619,293**	4,301,882	20,551,502
Advances to contractors and consultants	**(209,141,384)**	4,052,553	(13,112,023)
Input value-added tax (Notes 5 and 8)	**(4,824,475)**	9,699,671	(42,059,750)
Other current assets	**(17,040,465)**	(31,068,925)	2,482,837
Increase (decrease) in:			
Accounts payable and other current liabilities	**239,391,055**	109,826,024	475,928,881
Due to related parties	**97,549**	(521,510)	(9,420,837)
Unearned toll revenue	**335,345**	–	10,584,590
Income tax paid	**(700,035,575)**	(684,679,147)	(537,524,238)
Net cash flows provided by operating activities	**3,431,642,148**	3,474,885,536	3,548,121,658

(Forward)

	Years Ended December 31		
	2013	2012	2011
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received	**₱84,911,113**	₱113,568,885	₱143,490,164
Acquisition of available-for-sale financial assets (Note 11)	**(4,011,901,065)**	(50,000,000)	(200,000,000)
Decrease (increase) in other noncurrent assets	**(7,284,874)**	1,499,417	(12,099,004)
Additions to:			
Service concession asset (Note 8)	**(341,507,662)**	(224,847,664)	(99,077,443)
Property and equipment (Note 9)	**(42,433,181)**	(26,869,924)	(31,265,798)
Intangible assets (Note 10)	**(4,178,582)**	(8,756,754)	(7,235,682)
Proceeds from:			
Sale of available-for-sale financial assets (Note 11)	**1,077,158,808**	–	–
Maturity of investments in bonds (Note 11)	**50,600,000**	–	50,000,000
Sale of property and equipment (Note 9)	**2,559,387**	5,864,846	392,123
Net cash flows used in investing activities	**(3,192,076,056)**	(189,541,194)	(155,795,640)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from loans (Note 15)	**2,000,000,000**	–	7,210,230,849
Payments of:			
Dividends (Note 16)	**(2,485,867,200)**	(907,980,000)	(1,653,544,800)
Interest	**(572,622,868)**	(653,180,267)	(1,117,259,877)
Long-term debt	**(167,102,308)**	(167,102,307)	(7,498,803,399)
Debt issue costs (Note 15)	**(16,315,791)**	–	(150,032,833)
Swap termination costs (Notes 23 and 27)	**(175,000,000)**	–	(209,010,941)
Net cash flows used in financing activities	**(1,416,908,167)**	(1,728,262,574)	(3,418,421,001)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**1,393,248**	–	156,793
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(1,175,948,827)**	1,557,081,768	(25,938,190)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR (Note 6)	**2,677,998,929**	1,120,917,161	1,146,855,351
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 6)	**₱1,502,050,102**	₱2,677,998,929	₱1,120,917,161

See accompanying Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS

1. **Corporate Information**

Manila North Tollways Corporation ("MNTC" or the "Company") was incorporated in the Philippines and registered in the Philippine Securities and Exchange Commission (SEC) on February 4, 1997. The Company's primary purpose is to engage in, and carry on, a construction and contracting business, involving tollways, its facilities, interchanges and related works, including the operation and maintenance thereof, or otherwise engage in any work upon roads, bridges, buildings, and structures of all kinds.

The Company was established for the purpose of implementing the provisions of the Joint Venture Agreement (JVA) between Metro Pacific Tollways Development Corporation (MPTDC), then First Philippine Infrastructure Development Corporation (FPIDC), and the Philippine National Construction Corporation (PNCC) for the rehabilitation of the North Luzon Expressway (NLEX) and the installation of the appropriate collection system therein referred to as the "Manila-North Expressway Project" or the "Project."

The Project consists of three phases as follows:

Phase I	Rehabilitation and expansion of approximately 84 kilometers (km) of the existing NLEX and an 8.5-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 NLEX and the 5.85-km road from McArthur to Letre
Phase III	Construction of the 57-km Subic arm of the NLEX

MPTDC (then FPIDC), the Parent Company, was established by Benpres Holdings Corporation (BHC) and First Philippine Holdings Corporation (FPHC) to contract with the public sector. In May 2007, FPHC and BHC assigned all their shares in MPTDC to Metro Pacific Tollways Corporation (MPTC), then First Philippine Infrastructure, Inc. (FPII) in exchange for the shares of MPTC. Prior to the assignment of shares, MPTDC is 51.0% owned by FPHC. MPTDC and MPTC are Philippine corporations.

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

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

Also pursuant to the MOA, Segment 7 was integrated to and formed part of the JVA executed by PNCC and MPTDC (then FPIDC). Accordingly, MPTDC executed a Deed of Assignment and Conveyance on July 6, 2001, whereby MPTDC assigned, conveyed and transferred in favor of the Company all its rights, interests and privileges over Segment 7. On the same date, the Company and MPTDC entered into an Operation and Maintenance Agreement (S7 O&M) whereby the Company appointed MPTDC as the Operator of the Segment 7 toll road. On February 10, 2005, pursuant to the Operation and Maintenance Agreement (O&M) between the Company and Tollways Management Corporation (TMC), a 46.0% owned associate of MPTDC, TMC took over the operation and maintenance of Segment 7 from MPTDC (see Note 14).

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 NLEX 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 NLEX, had officially commenced tollway operation. In May 2013, Segment 9, a portion of Phase II, which is a 2.4 km-road connecting NLEX to the McArthur Highway, had officially commenced construction and is expected to be completed by July 2014. The estimated cost of construction of Segment 8.1 is ₱1.1 billion. 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 3, 2014.

On November 13, 2008, FPHC and BHC sold, assigned and transferred all their respective rights, title and interest in and to the issued and outstanding capital stock of MPTC (then FPII) to Metro Pacific Investments Corporation (MPIC) resulting to MPIC having 99.8% equity ownership in MPTC.

MPIC is a publicly listed Philippine corporation and is 55.8% owned by Metro Pacific Holdings, Inc. (MPHI). MPHI is a Philippine corporation whose stockholders are Enterprise Investment Holdings, Inc. (EIH) (60.0%), Intalink B.V. (26.7%) and First Pacific International Limited (13.3%). First Pacific Company Limited (FPC), a company incorporated in Bermuda and listed in Hong Kong, through its subsidiaries, holds 40.0% equity interest in EIH and an investment financing, which under Hong Kong Generally Accepted Accounting Principles require FPC to account for the results and assets and liabilities of EIH and its subsidiaries as FPC group companies in Hong Kong.

The registered office address of the Company is NLEX Compound, Balintawak, Caloocan City. The financial statements as at December 31, 2013 and 2012 and January 1, 2012 and for each of the three years in the period ended December 31, 2013 were authorized for issuance by the Company's Board of Directors (BOD) on February 3, 2014, as reviewed and recommended for approval by the Audit Committee.

2. The Supplemental Toll Operation Agreement for the Manila-North 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 was granted the franchise for the construction, operation and maintenance of toll facilities in the NLEX, South Luzon Expressway (SLEX) and Metro Manila Expressway. PNCC executed a 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 NLEX in favor of MNTC, including the design, funding and rehabilitation of the NLEX, 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 Memorandum of Agreement 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 NLEX, was approved by the then President of the ROP. On October 10, 1995, the Department of Justice issued Opinion No. 102, Series of 1995, noting the authority of the TRB to grant authority to operate a toll facility and to issue the necessary Toll Operation Certificate (TOC). On November 24, 1995, in a letter by the then Secretary of Justice to the then Secretary of Public Works and Highways, the Secretary of Justice reiterated and affirmed the authority of the TRB to grant authority to operate a toll facility and to issue the necessary TOC in favor of PNCC and its joint venture partner for the proper and orderly construction, operation and maintenance of the NLEX as a toll road during the 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 NLEX in order to allow the continuation of the Concession. As further discussed in Note 14, the Company pays a certain amount to PNCC.

Also, under the STOA, the Company 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 in 2011. TRB has not billed for any project overhead expenses in 2013 and 2012.

Upon expiry of the 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 the Company's proposal to extend the concession period for Phase I and Segment 8.1 of the Project until December 31, 2037, subject to certain conditions.

From 2007 to 2010, the Company obtained TRB's approval for certain amendments to the STOA for the Project 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 - June 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 financial statements have been prepared on a historical cost basis, except for the derivative financial instruments and available-for-sale (AFS) financial assets which are measured at fair value. The financial statements are presented in Philippine peso, which is the Company's functional and presentation currency.

The financial statements provide comparative information in respect of the previous period. In addition, the Company presents an additional balance sheet at the beginning of the earliest period presented when there is a retrospective application of an accounting policy, a retrospective restatement, or a reclassification of items in the financial statements. An additional balance sheet as at January 1, 2012 is presented in these financial statements due to retrospective application of certain accounting policies.

Statement of Compliance

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

Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of certain standards and amendments that require restatement of previous financial statements. These include PAS 19, "Employee Benefits" (Revised 2011), and amendments to PAS 1, "Presentation of Financial Statements".

Several other amendments apply for the first time in 2013. However, they do not impact the financial statements of the Company.

The nature and the impact of the new standards and amendments are described below:

- PFRS 7, "Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities" (Amendments) — 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 have no impact on the Company's financial position or performance.

- PFRS 10, "Consolidated Financial Statements"

  The Company adopted PFRS 10 in the current year. PFRS 10 replaced the portion of PAS 27, "Consolidated and Separate Financial Statements", that addressed the accounting for consolidated financial statements. It also included the issues raised in SIC 12, "Consolidation - Special Purpose Entities". PFRS 10 established a single control model that applied to all entities including special purpose entities. The changes introduced by PFRS 10 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 adoption of this standard did not have an impact on the Company's financial statements.

- PFRS 11, "Joint Arrangements"

  PFRS 11 replaced PAS 31, "Interests in Joint Ventures", and SIC 13, "Jointly Controlled Entities - Non-Monetary Contributions by Venturers". PFRS 11 removed 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 adoption of this standard did not an impact on the Company's financial statements.

- PFRS 12, "Disclosure of Interests in Other Entities"

  PFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The requirements in PFRS 12 are more comprehensive than the previously existing disclosure requirements for subsidiaries (for example, where a subsidiary is controlled with less than a majority of voting rights). The adoption of this standard did not an impact on the Company's financial statements.

- PFRS 13, "Fair Value Measurement"

  PFRS 13 establishes a single source of guidance under PFRSs 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. PFRS 13 defines fair value as an exit price. PFRS 13 also requires additional disclosures.

  As a result of the guidance in PFRS 13, the Company re-assessed its policies for measuring fair values, in particular, its valuation inputs such as non-performance risk for fair value measurement of liabilities. The Company has assessed that the application of PFRS 13 has not materially impacted the fair value measurements of the Company. Additional disclosures, where required, are provided in the individual notes relating to the assets and liabilities whose fair values were determined. Fair value hierarchy is provided in Note 27.

- PAS 1, "Presentation of Financial Statements - Presentation of Items of Other Comprehensive Income or OCI" (Amendments)

  The amendments to PAS 1 introduced a grouping of items presented in OCI. Items that will be reclassified (or "recycled") to profit or loss at a future point in time (for example, upon derecognition or settlement) will be presented separately from items that will never be recycled. The amendments affect presentation only and have no impact on the Company's financial position or performance.

- PAS 19, "Employee Benefits" (Revised)

  On 1 January 2013, the Company adopted the Revised PAS 19 Employee Benefits.

  For defined benefit plans, the Revised PAS 19 requires all actuarial gains and losses to be recognized in OCI and unvested past service costs previously recognized over the average vesting period to be recognized immediately in profit or loss when incurred.

  Prior to adoption of the Revised PAS 19, the Company recognized actuarial gains and losses as income or expense when the net cumulative unrecognized gains and losses for each individual plan at the end of the previous period exceeded 10% of the higher of the defined benefit obligation and the fair value of the plan assets and recognized unvested past service costs as an expense on a straight-line basis over the average vesting period until the benefits become vested. Upon adoption of the Revised PAS 19, the Company changed its accounting policy to recognize all actuarial gains and losses in OCI and all past service costs in profit or loss in the period they occur.

  The Revised PAS 19 replaced the interest cost and expected return on plan assets with the concept of net interest on defined benefit liability or asset which is calculated by multiplying the net balance sheet defined benefit liability or asset by the discount rate used to measure the employee benefit obligation, each as at the beginning of the annual period.

  The Revised PAS 19 also amended the definition of short-term employee benefits and requires employee benefits to be classified as short-term based on expected timing of settlement rather than the employee's entitlement to the benefits. In addition, the Revised PAS 19 modifies the timing of recognition for termination benefits. The modification requires the termination benefits to be recognized at the earlier of when the offer cannot be withdrawn or when the related restructuring costs are recognized.

  Changes to definition of short-term employee benefits and timing of recognition for termination benefits do not have any impact to the Company's financial position and financial performance.

The changes in accounting policies have been applied retrospectively. The effects of adoption on the financial statements are as follows:

	As at December 31			As at January 1
	2013	2012	2011	2011
Increase (decrease) in balance sheets:				
Pension asset	(₱5,819,735)	(₱3,137,538)	₱–	₱–
Accrued retirement costs	–	–	37,286,305	19,954,864
Deferred tax liability – net	(1,745,920)	(941,261)	(11,185,892)	(5,986,460)
Other comprehensive income reserve	5,758,856	8,292,700	(13,461,318)	–
Retained earnings	(9,832,671)	(10,488,977)	(12,639,095)	(13,968,404)

	2013	2012	2011
Increase (decrease) in statements of income:			
Provision for retirement benefits	(₱937,580)	(₱3,071,598)	(₱1,899,013)
Income tax effects	281,274	921,480	569,704
Net income	656,306	2,150,118	1,329,309

	2013	2012	2011
Increase (decrease) in statements of comprehensive income:			
Remeasurement of pension asset	(₱3,619,777)	₱31,077,169	(₱19,230,454)
Income tax effects	(1,085,933)	9,323,151	(5,769,136)
Other comprehensive income	(2,533,844)	21,754,018	(13,461,318)

The adoption did not have impact on statements of cash flows.

- PAS 27, “Separate Financial Statements”

  As a consequence of the new PFRS 10, “Consolidated Financial Statements” and PFRS 12, “Disclosure of Interests in Other Entities”, what remains of PAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. . The adoption of the amended PAS 27 did not have an impact on the financial statements of the Company.

- PAS 28, “Investments in Associates and Joint Ventures”

  As a consequence of the issuance of the new PFRS 11, “Joint Arrangements”, and PFRS 12, “Disclosure of Interests in Other Entities”, 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. The adoption of the amended PAS 28 did not have an impact on the financial statements of the Company.

- Philippine Interpretation IFRIC 20, “Stripping Costs in the Production Phase of a Surface Mine”

  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.

- PFRS 1, "First-time Adoption of International Financial Reporting Standards – Government Loans" (Amendments)

  The amendments to PFRS 1 require first-time adopters to apply the requirements of PAS 20, "Accounting for Government Grants and Disclosure of Government Assistance", prospectively to government loans existing at the date of transition to PFRS. However, entities may choose to apply the requirements of PAS 39, "Financial Instruments: Recognition and Measurement", and PAS 20 to government loans retrospectively if the information needed to do so had been obtained at the time of initially accounting for those loans. These amendments are not relevant to the Company.

Annual Improvements to PFRSs (2009-2011 cycle). The Annual Improvements to PFRSs (2009-2011 cycle) contain non-urgent but necessary amendments to PFRSs. The Company adopted these amendments for the current year.

- 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 balance sheet 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"

  These 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 does not have any significant impact on the Company's financial position or performance.

- PAS 32, "Financial Instruments: Presentation - Tax effect of distribution 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 amendment does not have any significant impact on the Company's 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 has no impact on the Company's financial position or performance.

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

Financial Assets and Liabilities

Initial Recognition and Measurement. The Company recognizes a financial asset or a financial liability when it becomes a party to the contractual provisions of the instrument. Financial assets are classified as financial assets at fair value through profit or loss (FVPL), loans and receivables, held-to-maturity (HTM) investments, AFS financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial assets at initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year-end.

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

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

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

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

a. Financial Assets and Liabilities at FVPL

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

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

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

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognizing gains or losses on them on a different basis;
- the assets or liabilities are part of financial assets or financial liabilities, or both financial assets and liabilities, which are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

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

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

As at December 31, 2013 and 2012, there are no financial assets and liabilities at FVPL. As at January 1, 2012, the Company has outstanding interest rate swaps classified as financial assets and liabilities at FVPL (see Note 27).

b. Loans and Receivables

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

Loans and receivables include cash and cash equivalents, receivables (excluding advances to officers and employees), due from related parties, and refundable deposits (included in "Other noncurrent assets" account in the balance sheet) (see Notes 6, 7, 14 and 27).

c. HTM Investments

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

The Company has no HTM investments as at December 31, 2013 and 2012 and January 1, 2012.

d. AFS Financial Assets

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

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

As at December 31, 2013 and 2012 and January 1, 2012, the Company's AFS financial assets consist of investments in fixed rate retail treasury bonds of the ROP, fixed rate treasury notes of the national government, fixed rate corporate notes of Manila Electric Company (Meralco) and unit investment trust funds (see Note 11).

e. Loans and Borrowings

All loans and borrowings are initially recognized at fair value of the consideration received less directly attributable transaction costs (referred to herein as "debt issue costs"). After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method.

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

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

This category includes accounts payable and other current liabilities, due to related parties, dividends payable and long-term debt (see Notes 12, 14, 15 and 27).

Offsetting Financial Instruments
Financial assets and financial liabilities are offset and the net amount is reported in the balance sheet, if and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

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

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

a. Assets Carried at Amortized Cost

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

If there is objective evidence that an impairment loss on loans and receivables and HTM investments carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the statement of income. Interest income continues to be accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income in the statement of income. The assets together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Company. If a write-off is later recovered, any amount formerly charged is credited to the statement of income.

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

b. AFS Financial Assets

In the case of equity investments classified as AFS financial assets, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in the statement of income) is removed from OCI and recognized in the statement of income. Impairment losses on equity investments are not reversed through the statement of income; increases in their fair value after impairment are recognized directly in OCI.

In the case of debt instruments classified as AFS financial assets, impairment is assessed based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the statement of income.

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

Derecognition of Financial Assets and Liabilities
A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- the rights to receive cash flows from the asset have expired;

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

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

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

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

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

Derivatives and Hedge Accounting

Freestanding Derivatives. The Company uses derivative financial instruments, such as 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 highly effective cash flow hedge are included in equity under "Other comprehensive income reserve" account, net of related deferred tax. The ineffective portion is immediately recognized in the statement of income.

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

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

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

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

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

a. the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract;

b. a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and

c. the hybrid (combined) instrument is not measured at fair value with changes in fair value recognized in profit or loss.

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

The Company assesses whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract.

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

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

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

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

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

Fair value measurement
The Company measures derivatives at fair value at each balance sheet date and, for the purposes of impairment testing, uses fair value less costs of disposal to determine the recoverable amount of some of its non-financial assets. Also, fair values of financial instruments measured at amortized cost are disclosed in Note 27.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability
- In the absence of a principal market, in the most advantageous market for the asset or liability
- The principal or the most advantageous market must be accessible by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The fair value for financial instruments traded in active markets at the reporting date is based on their quoted price or binding dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. Securities defined in these accounts as ‘listed’ are traded in an active market. Where the Company has financial assets and financial liabilities with offsetting positions in market risks or counterparty credit risk, it has elected to use the measurement exception to measure the fair value of its net risk exposure by applying the bid or ask price to the net open position as appropriate. For all other financial instruments not traded in an active market, the fair value is determined by using valuation techniques deemed to be appropriate in the circumstances. Valuation techniques include the market approach (i.e., using recent arm's length market transactions adjusted as necessary and reference to the current market value of another instrument that is substantially the same) and the income approach (i.e. discounted cash flow analysis and option pricing models making as much use of available an supportable market data as possible).

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described, as follows, based on the lowest-level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities

- Level 2 — Valuation techniques for which the lowest-level input that is significant to the fair value measurement is directly or indirectly observable

- Level 3 — Valuation techniques for which the lowest-level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by reassessing categorization (based on the lowest-level input that is significant to the fair value measurement as a whole) at balance sheet date.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities based on the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

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 prior to May 2013. 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.

From the start of May 2013, the Company changed its accounting policy for determining the costs of its inventory to weighted average method. The Company takes the view that this policy provides reliable and more relevant information. The policy has been applied prospectively from April 2013 because it was not practicable to estimate the effects of applying the policy either retrospectively, or prospectively from any earlier date.

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 is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense is recognized under the "Cost of services" account in the statement of income.

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

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

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

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

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

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

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

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 Nonfinancial Assets
The Company assesses at each balance sheet date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other available fair value indicators. Impairment losses are recognized in the statement of income in those expense categories consistent with the function of the impaired asset.

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

Provisions

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

Equity

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

Retained earnings represent the accumulated earnings net of dividends declared.

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

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

Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the amount of the revenue can be measured reliably, regardless of when the payment is made. Revenue is measured at fair value of the consideration received or receivable, taking into account contractually defined terms of payment, excluding value-added tax (VAT), discounts and rebates. The Company assesses its revenue arrangement against specific criteria in order to determine if it is acting as principal or agent. The Company has concluded that it is acting as principal in all of its revenue arrangements.

The following specific criteria must also be met before revenue is recognized:

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

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

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

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

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

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

Cost and Expenses Recognition
Cost and expenses are decreases in economic benefits during the accounting period in the form of outflows or decrease of assets or incurrence of liabilities that result in decrease in equity, other than those relating to distributions to equity participants. Cost of services, general and administrative expenses and interest expense and other finance costs are recognized in the statement of income in the period these are incurred.

Operating Lease
The determination of whether an arrangement is, or contains a lease, is based on the substance of the arrangement at inception date of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

A reassessment is made after inception of the lease only if one of the following applies:

a. there is a change in contractual terms, other than a renewal or extension of the arrangement;
b. a renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;
c. there is a change in the determination of whether fulfillment is dependent on a specified asset; or
d. there is a substantial change to the asset.

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

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

Foreign Currency-denominated Transactions and Translations
The Company determines its own functional currency and items included in the financial statements are measured using that functional currency. The Company has determined its functional currency to be the Philippine peso. Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency closing exchange rate at balance sheet date. All differences are taken to the statement of income with the

exception of differences on foreign currency borrowings that are regarded as adjustments to interest cost, and are capitalized as part of the cost of the service concession asset during the construction period.

Borrowing Costs

Borrowing costs are capitalized as part of service concession asset if they are directly attributable to the acquisition and construction of the Project. Capitalization of borrowing costs commences when the activities to prepare for the construction of the Project are in progress and expenditures and borrowing costs are being incurred, until the assets are ready for their intended use. If the resulting carrying amount of the asset exceeds its recoverable amount, an impairment loss is recorded.

Borrowing costs include interest charges, amortization of debt issue costs and other costs incurred in connection with the borrowing of funds, including exchange differences arising from foreign currency borrowings used to finance the Project, to the extent that they are regarded as adjustments to interest cost.

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

Defined Benefit Plan

The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets, adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method.

Defined benefit costs comprise the following:

- Service cost
- Net interest on the net defined benefit liability or asset
- Remeasurements of net defined benefit liability or asset

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in profit or loss.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in OCI in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Company, nor can they be paid directly to the Company. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations). If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The Company's right to be reimbursed of some or all of the expenditure required to settle a defined benefit obligation is recognized as a separate asset at fair value when and only when reimbursement is virtually certain.

Employee Leave Entitlement
Employee entitlements to annual leave are recognized as a liability when they are accrued to the employees. The undiscounted liability for leave expected to be settled wholly before twelve months after the end of the annual reporting period is recognized for services rendered by employees up to the end of the reporting period.

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
MPTC has long-term incentive plan (LTIP) which grants cash incentives to eligible key executives of MPTC and its subsidiaries, including the Company. 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 balance sheet date.

Income Taxes

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

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

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

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

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

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

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

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

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

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

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

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

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

4. Future Changes in Accounting Policies

The Company has not applied the following PFRS, Philippine Interpretations and amendments to existing standards which are not yet effective as at December 31, 2013:

- PAS 36, "Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets" (Amendments)

  These amendments remove the unintended consequences of PFRS 13 on the disclosures required under PAS 36. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units (CGUs) for which impairment loss has been recognized or reversed during the period. These amendments are effective retrospectively for annual periods beginning on or after January 1, 2014 with earlier application permitted, provided PFRS 13 is also applied. The amendments affect disclosures only and have no impact on the Company's financial position or performance.

- Amendments to PFRS 10, PFRS 12 and PAS 27 - Investment Entities

  These amendments are effective for annual periods beginning on or after January 1, 2014. They provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under PFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. It is not expected that this amendment would be relevant to the Company.

- Philippine Interpretation IFRIC 21, "Levies (IFRIC 21)"

  IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. IFRIC 21 is effective for annual periods beginning on or after January 1, 2014. The Company does not expect that IFRIC 21 will have material financial impact in future financial statements.

- PAS 39, "Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting" (Amendments)

  These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments are effective for annual periods beginning on or after January 1, 2014. The Company has not novated its derivatives during the current period. However, these amendments would be considered for future novations.

- PAS 32, "Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities" (Amendments)

  The 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. The amendments to PAS 32 are to be retrospectively applied for annual periods beginning on or after January 1, 2014.

- PAS 19, "Employee Benefits – Defined Benefit Plans: Employee Contributions" (Amendments)

  The amendments apply to contributions from employees or third parties to defined benefit plans. Contributions that are set out in the formal terms of the plan shall be accounted for as reductions to current service costs if they are linked to service or as part of the remeasurements of the net defined benefit asset or liability if they are not linked to service. Contributions that are discretionary shall be accounted for as reductions of current service cost upon payment of these contributions to the plans. The amendments to PAS 19 are to be retrospectively applied for annual periods beginning on or after July 1, 2014. Currently, the Company's employees or third parties do not contribute to the Company's defined benefit plans, thus, the Company does not expect that these amendments will have an impact on its financial position or performance.

Annual Improvements to PFRSs (2010-2012 cycle). The Annual Improvements to PFRSs (2010-2012 cycle) contain non-urgent but necessary amendments to the following standards:

- PFRS 2, "Share-based Payment – Definition of Vesting Condition"

  The amendment revised the definitions of vesting condition and market condition and added the definitions of performance condition and service condition to clarify various issues. This amendment shall be prospectively applied to share-based payment transactions for which the grant date is on or after July 1, 2014. The Company does not expect that this amendment will have significant impact on its financial position or performance.

- PFRS 3, "Business Combinations – Accounting for Contingent Consideration in a Business Combination"

  The amendment clarifies that a contingent consideration that meets the definition of a financial instrument should be classified as a financial liability or as equity in accordance with PAS 32. Contingent consideration that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of PAS 39. The amendment shall be prospectively applied to business combinations for which the acquisition date is on or after July 1, 2014. The Company shall consider this amendment for future business combinations.

- PFRS 8, "Operating Segments – Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets"

  The amendments require entities to disclose the judgment made by management in aggregating two or more operating segments. This disclosure should include a brief description of the operating segments that have been aggregated in this way and the economic indicators that have been assessed in determining that the aggregated operating segments share similar economic characteristics. The amendments also clarify that an entity shall provide reconciliations of the total of the reportable segments' assets to the entity's assets if such amounts are regularly provided to the chief operating decision maker. These amendments are effective for annual periods beginning on or after July 1, 2014 and are applied retrospectively. The amendments will affect disclosures only and will have no impact on the Company's financial position or performance.

- PFRS 13, "Fair Value Measurement – Short-term Receivables and Payables"

  The amendment clarifies that short-term receivables and payables with no stated interest rates can be held at invoice amounts when the effect of discounting is immaterial.

- PAS 16, "Property, Plant and Equipment – Revaluation Method – Proportionate Restatement of Accumulated Depreciation"

  The amendment clarifies that, upon revaluation of an item of property, plant and equipment, the carrying amount of the asset shall be adjusted to the revalued amount, and the asset shall be treated in one of the following ways:

  a. The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated depreciation at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account any accumulated impairment losses.

  b. The accumulated depreciation is eliminated against the gross carrying amount of the asset.

  The amendment is effective for annual periods beginning on or after July 1, 2014. The amendment shall apply to all revaluations recognized in annual periods beginning on or after the date of initial application of this amendment and in the immediately preceding annual period. The amendment will have no impact on the Company's financial position or performance.

- PAS 24, "Related Party Disclosures – Key Management Personnel"

  The amendments clarify that an entity is a related party of the reporting entity if the said entity, or any member of a group for which it is a part of, provides key management personnel services to the reporting entity or to the parent company of the reporting entity. The amendments also clarify that a reporting entity that obtains management personnel services from another entity (also referred to as management entity) is not required to disclose the compensation paid or payable by the management entity to its employees or directors. The reporting entity is required to disclose the amounts incurred for the key management personnel services provided by a separate management entity. The amendments are effective for annual periods beginning on or after July 1, 2014 and are applied retrospectively. The amendments affect disclosures only and will have no impact on the Company's financial position or performance.

- PAS 38, "Intangible Assets – Revaluation Method – Proportionate Restatement of Accumulated Amortization"

  The amendments clarify that, upon revaluation of an intangible asset, the carrying amount of the asset shall be adjusted to the revalued amount, and the asset shall be treated in one of the following ways:

  a. The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated amortization at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account any accumulated impairment losses.

  b. The accumulated amortization is eliminated against the gross carrying amount of the asset.

  The amendments also clarify that the amount of the adjustment of the accumulated amortization should form part of the increase or decrease in the carrying amount accounted for in accordance with the standard.

  The amendments are effective for annual periods beginning on or after July 1, 2014. The amendments shall apply to all revaluations recognized in annual periods beginning on or after the date of initial application of this amendment and in the immediately preceding annual period. The amendments will have no impact on the Company's financial position or performance.

Annual Improvements to PFRSs (2011-2013 cycle). The Annual Improvements to PFRSs (2011-2013 cycle) contain non-urgent but necessary amendments to the following standards:

- PFRS 1, "First-time Adoption of Philippine Financial Reporting Standards – Meaning of Effective PFRSs"

  The amendment clarifies that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but that permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first PFRS financial statements. This amendment is not applicable to the Company as it is not a first-time adopter of PFRS.

- PFRS 3, "Business Combinations – Scope Exceptions for Joint Arrangements"

  The amendment clarifies that PFRS 3 does not apply to the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself. The amendment is effective for annual periods beginning on or after July 1 2014 and is applied prospectively. This amendment will have no impact on the Company's financial position or performance.

- PFRS 13, "Fair Value Measurement – Portfolio Exception"

  The amendment clarifies that the portfolio exception in PFRS 13 can be applied to financial assets, financial liabilities and other contracts. The amendment is effective for annual periods beginning on or after July 1 2014 and is applied prospectively. The amendment will have no significant impact on the Company's financial position or performance.

- PAS 40, "Investment Property"

  The amendment clarifies the interrelationship between PFRS 3 and PAS 40 when classifying property as investment property or owner-occupied property. The amendment stated that judgment is needed when determining whether the acquisition of investment property is the acquisition of an asset or a group of assets or a business combination within the scope of PFRS 3. This judgment is based on the guidance of PFRS 3. This amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively. The amendment will have no impact on the Company's financial position or performance.

- PFRS 9, "Financial Instruments"

  PFRS 9, as issued, reflects the first and third phases of the project to replace PAS 39 and applies to the classification and measurement of financial assets and liabilities and hedge accounting, respectively. Work on the second phase, which relate to impairment of financial instruments, and the limited amendments to the classification and measurement model is still ongoing, with a view to replace 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 liabilities designated as at FVPL using the fair value option, 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 relating to the entity's own 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 to PFRS 9, including the embedded derivative bifurcation 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.

  On hedge accounting, PFRS 9 replaces the rules-based hedge accounting model of PAS 39 with a more principles-based approach. Changes include replacing the rules-based hedge effectiveness test with an objectives-based test that focuses on the economic relationship between the hedged item and the hedging instrument, and the effect of credit risk on that economic relationship; allowing risk components to be designated as the hedged item, not only for financial items, but also for non-financial items, provided that the risk component is separately identifiable and reliably measurable; and allowing the time value of an option, the forward element of a forward contract and any foreign currency basis spread to be excluded from the designation of a financial instrument as the hedging instrument and accounted for as costs of hedging. PFRS 9 also requires more extensive disclosures for hedge accounting.

  PFRS 9 currently has no mandatory effective date. PFRS 9 may be applied before the completion of the limited amendments to the classification and measurement model and impairment methodology. The Company will not adopt the standard before the completion of the limited amendments and the second phase of the project.

- 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 (FRSC) have deferred the effectivity of this interpretation until the final Revenue standard is issued by the International Accounting Standards Board (IASB) and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed. Adoption of the interpretation when it becomes effective will not have any impact on the financial statements of the Company.

5. Significant Accounting Judgments, Estimates and Assumptions

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

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

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

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

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

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

The Company has made a judgment that the STOA for the Manila-North Expressway qualifies under the intangible asset model, wherein the service concession asset is recognized as an intangible asset in accordance with PAS 38, "Intangibles." This intangible asset is amortized using the straight-line method over the life of the concession agreement as management believes that straight-line best reflect the pattern of consumption of the concession asset. The carrying value of service concession asset amounted to ₱14,925.9 million, ₱15,184.2 million and ₱15,556.7 million as at December 31, 2013 and 2012 and January 1, 2012, respectively (see Note 8).

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 statements of income amounted to ₱341.6 million, ₱224.8 million and ₱99.1 million for the years ended December 31, 2013, 2012 and 2011, respectively.

The Company also recognizes its contractual obligations to restore the toll roads to a specified level of serviceability starting January 1, 2008 following the final turnover of the Phase I of the Project from the contractor in October 2007. The Company recognizes a provision following PAS 37, as the obligation arises which is a consequence of the use of the toll roads and therefore it is proportional to the number of vehicles using the toll roads and increasing in measurable annual increments. Provision for heavy maintenance amounted to ₱205.9 million, ₱336.7 million and ₱370.4 million as at December 31, 2013 and 2012 and January 1, 2012, respectively (see Note 13).

Estimates and Assumptions

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

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

Fair values of financial assets and liabilities are presented in Note 27.

Allowance for Doubtful Accounts. Allowance for doubtful accounts is maintained at a level considered adequate to provide for potentially uncollectible receivables. The level of allowance is based on past collection experience and other factors that may affect collectibility. An evaluation of the receivables using specific method, designed to identify potential charges to the allowance, is performed on a continuous basis throughout the year. There were no provisions under collective assessment in 2013, 2012 and 2011.

Receivables, amounted to ₱237.7 million, ₱163.7 million and ₱100.8 million as at December 31, 2013 and 2012 and January 1, 2012, respectively (see Note 7). Allowance for doubtful accounts amounted to ₱5.5 million as at December 31, 2013 and ₱5.3 million as at December 31, 2012 and January 1, 2012,

Due from related parties amounted to ₱4.8 million, ₱5.5 million and ₱9.8 million as at December 31, 2013 and 2012 and January 1, 2012, respectively (see Note 14).

Impairment of AFS Financial Assets. For debt instruments classified as AFS financial assets, the Company considers loss events that has an impact on the estimated future cash flows of the financial asset, among others, the issuer is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization. Other observable data may 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.

No impairment loss was recognized in 2013, 2012 and 2011. The carrying value of AFS financial assets amounted to ₱3,516.7 million, ₱640.3 million and ₱577.7 million as at December 31, 2013 and 2012 and January 1, 2012, respectively (see Note 11).

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 NLEX.

As further discussed in Note 28, the Company, together with other tollway operators, continued to discuss the issue of VAT with the concerned government agencies from 2005 to 2011. The BIR continuously upheld its position that the tollway operators are subject to VAT and issued several Revenue Memorandum Circulars (RMCs) for the imposition of the VAT. The BIR also continuously issued VAT assessments to the Company. On the other hand, the TRB continued to direct the tollway companies (including the Company) to defer the imposition of the VAT.

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

On July 19, 2011, the SC upheld the legality of RMC No. 63-2010 issued by the BIR on July 19, 2010, in line with Section 108 of the National Internal Revenue Code (NIRC) 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, the Company started imposing VAT on toll fees from motorists and correspondingly started recognizing VAT liability on October 1, 2011. As at December 31, 2013 and 2012 and January 1, 2012, total output VAT liability amounted to ₱89.4 million, ₱86.9 million and

₱76.6 million, respectively (see Note 12). With respect to input VAT, the Company reversed the accumulated input VAT as at December 31, 2010 amounting to ₱1,438.7 million of which, ₱1,150.6 million relates to input VAT on operating expenses and were written off against the related allowance in 2011. The remaining ₱288.1 million input VAT was capitalized to service concession asset as this relates to the construction of service concession asset, property and equipment and other current and noncurrent assets (see Notes 8 and 9). Management believes that had the input VAT not been previously recognized, the input VAT should have formed part of the cost of the assets. The related allowance of ₱288.1 million on input VAT was reversed to income upon capitalization of the input VAT to service concession asset, property and equipment and other current and noncurrent assets in 2011 (see Note 23). Starting October 1, 2011, as allowed under RMC No. 39-2011, the Company recognized input VAT from its purchases of goods and services, portion of which had been applied against output VAT set up as discussed above. As at December 31, 2013 and 2012 and January 1, 2012, the unapplied input VAT amounted to ₱37.2 million, ₱32.4 million and ₱42.1 million, respectively.

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

There was no write-down of inventories recognized in the financial statements for the years ended December 31, 2013, 2012 and 2011. Inventories amounted to ₱50.3 million, ₱45.3 million and ₱55.3 million as at December 31, 2013 and 2012 and January 1, 2012, respectively.

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

There were no changes in the estimated useful lives of service concession asset, property and equipment and intangible assets in 2013, 2012 and 2011. The carrying values of the Company's nonfinancial assets as at December 31, 2013 and 2012 and January 1, 2012 are as follows:

	December 31, 2013	December 31, 2012	January 1, 2012
Service concession asset (see Note 8)	**₱14,925,938,094**	₱15,184,223,470	₱15,556,734,023
Property and equipment (see Note 9)	**117,870,398**	105,970,726	108,827,544
Intangible assets (see Note 10)	**9,989,150**	13,918,628	12,709,316

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

There was no impairment loss recognized in the financial statements for the years ended December 31, 2013, 2012 and 2011. There was no impairment testing performed for the years ended December 31, 2013, 2012 and 2011 as there were no indicators of impairment. The carrying values of the Company's nonfinancial assets as at December 31, 2013 and 2012 and January 1, 2012 are as follows:

	December 31, 2013	December 31, 2012	January 1, 2012
Service concession asset (see Note 8)	**₱14,925,938,094**	₱15,184,223,470	₱15,556,734,023
Property and equipment (see Note 9)	**117,870,398**	105,970,726	108,827,544
Intangible assets (see Note 10)	**9,989,150**	13,918,628	12,709,316

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. The Company's assessment on the recognition of deferred tax assets on deductible temporary differences is based on the expected future results of operations.

Deferred tax assets amounted to ₱110.8 million, ₱155.2 million and ₱164.6 million as at December 31, 2013 and 2012 and January 1, 2012, respectively (see Note 24).

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 20.

Total cost arising from share-based payments recognized by the Company, included in salaries and employee benefits under "General and administrative expenses" account in the statements of income, amounted to ₱0.6 million, ₱1.9 million and ₱5.6 million for the years ended December 31, 2013, 2012 and 2011, respectively (see Notes 18 and 20).

Retirement Costs. The cost of defined benefit retirement plan and the present value of the defined benefit obligation are determined using actuarial valuations. The actuarial valuations involve making various assumptions about discount rates, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, underlying assumptions and its long-term nature, 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 19.

Pension asset amounted to ₱1.8 million and ₱16.9 million as at December 31, 2013 and 2012, respectively. Accrued retirement costs amounted to ₱47.9 million as at January 1, 2012.

Long-Term Incentives Benefits. The LTIP for key executives of MPTC and its subsidiaries (includes the Company) was approved by MPTC's BOD and is 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 long-term incentives benefits.

LTIP payable as at December 31, 2013 and 2012 amounted to ₱64.8 million and ₱32.4 million, respectively (see Note 19). There was no LTIP in 2011.

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 seven to nine years or the expected heavy maintenance dates, to restore the assets to a level of serviceability during the service concession term and in good condition before the turnover to the Grantor. This is based on the best estimate of management to be the amount expected to be incurred to settle the obligation at every heavy maintenance date discounted using a pre-tax rate that reflects the current market assessment of the time value of money and the risk specific to the liability.

Provisions (current and noncurrent) amounted to ₱304.5 million, ₱501.1 million and ₱439.0 million as at December 31, 2013 and 2012 and January 1, 2012, respectively (see Note 13).

Contingencies. The Company is a party to certain lawsuits or claims arising from the ordinary course of business. However, the Company's management and legal counsel believe that the eventual liabilities under these lawsuits or claims, if any, will not have a material effect on the Company's financial statements (see Note 28).

6. Cash and Cash Equivalents

This account consists of:

	December 31, 2013	December 31, 2012	January 1, 2012
Cash on hand and in banks	**₱270,455,446**	₱487,196,703	₱115,395,103
Short-term deposits	**1,231,594,656**	2,190,802,226	1,005,522,058
	₱1,502,050,102	₱2,677,998,929	₱1,120,917,161

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 21).

7. Receivables

This account consists of:

	December 31, 2013	December 31, 2012	January 1, 2012
Trade receivables (see Note 14)	**₱146,292,473**	₱127,708,069	₱89,345,710
Advances to officers and employees (see Note 14)	**9,713,288**	5,255,272	6,951,469
Interest receivables	**4,198,922**	6,546,919	3,513,967
Other receivables	**83,009,599**	29,440,155	6,233,911
	243,214,282	168,950,415	106,045,057
Less allowance for doubtful accounts	**5,544,087**	5,259,500	5,259,500
	₱237,670,195	₱163,690,915	₱100,785,557

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

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

Interest receivables are collectible within three months.

Other receivables are noninterest-bearing and are collectible within a year. As at December 31, 2013 and 2012, other receivables include those receivables from motorists who caused accidental damage to NLEX property from day-to-day operations amounting to ₱28.9 million and ₱26.2 million respectively. Other receivables also include the advances made to DPWH amounting to ₱52.9 million as at December 31, 2013. Pursuant to the Reimbursement Agreement entered into by the Company with DPWH in 2013, DPWH requested these advances in order to fast track the acquisition of right-of-way for Phase II Segment 9.

There were no movements in the allowance for individually assessed impaired trade receivables and other receivables for the years ended December 31, 2012 and January 1, 2012. Movement in the allowance for doubtful accounts in 2013 is as follows:

	Individually Impaired		
	Trade Receivables	Other Receivables	Total
Balance at beginning of year	₱5,259,500	₱–	₱5,259,500
Provision for doubtful accounts (see Note 18)	–	5,544,087	5,544,087
Reversals during the year (see Note 23)	(5,259,500)	–	(5,259,500)
Balance at end of year	₱–	₱5,544,087	₱5,544,087

8. **Service Concession Asset**

The movements in this account follow:

	December 31, 2013	December 31, 2012	January 1, 2012
Cost:			
Balance at beginning of year	**₱20,038,672,262**	₱19,813,824,598	₱19,486,623,005
Additions	**341,646,216**	224,847,664	99,077,443
Reclassification (see Note 5)	–	–	228,124,150
Balance at end of year	**₱20,380,318,478**	₱20,038,672,262	₱19,813,824,598
Accumulated amortization:			
Balance at beginning of year	**₱4,854,448,792**	₱4,257,090,575	₱3,664,103,452
Amortization (see Note 17)	**599,931,592**	597,358,217	592,987,123
Balance at end of year	**₱5,454,380,384**	₱4,854,448,792	₱4,257,090,575
Carrying value:			
At December 31	**₱14,925,938,094**	₱15,184,223,470	₱15,556,734,023
At January 1	**15,184,223,470**	15,556,734,023	15,822,519,553

Additions during 2013 pertain mainly to the civil works construction on Segment 9 and fixed operating equipment (FOE) design, supply and installation for the toll collection system migration on Segment 8.1 and Phase I of the Project. Additions also include the pre-construction costs of Segments 8.2 and 10 of Phase II of the Project. Borrowing costs capitalized amounted to ₱11.4 million for the year ended December 31, 2013. The interest rate used to determine the amount of borrowing costs eligible for capitalization was 5.1% to 5.9% in 2013. There were no borrowing costs capitalized in 2012 and 2011.

Additions during 2012 pertain to the costs of the supply, installation, test and commissioning of FOE for the Plaridel Bypass Interchange and Bocaue and Angeles Interchange Toll Facilities, part of Phase I of the NLEX. 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, 2013, 2012 and 2011.

9. 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	₱69,824,103	₱51,445,415	₱72,624,196	₱193,893,714
Additions	2,285,388	16,390,137	12,590,273	31,265,798
Reclassifications (see Note 5)	7,200,251	1,326,214	954,424	9,480,889
Disposals	–	(6,541,022)	(1,311,877)	(7,852,899)
At December 31, 2011	79,309,742	62,620,744	84,857,016	226,787,502
Additions	12,530,431	4,979,643	9,359,850	26,869,924
Disposals	–	(7,489,776)	(6,215,938)	(13,705,714)
At December 31, 2012	91,840,173	60,110,611	88,000,928	239,951,712
Additions	1,270,140	13,473,357	27,689,684	42,433,181
Disposals	(20,882)	(9,229,643)	(3,492,021)	(12,742,546)
At December 31, 2013	**₱93,089,431**	**₱64,354,325**	**₱112,198,591**	**₱269,642,347**
Accumulated depreciation:				
At January 1, 2011	₱14,011,759	₱28,908,133	₱58,227,111	₱101,147,003
Depreciation (see Note 18)	5,002,690	10,125,768	9,493,886	24,622,344
Disposals	–	(6,497,568)	(1,311,821)	(7,809,389)
At December 31, 2011	19,014,449	32,536,333	66,409,176	117,959,958
Depreciation (see Note 18)	5,240,076	10,463,936	7,981,403	23,685,415
Disposals	–	(6,625,123)	(1,039,264)	(7,664,387)
At December 31, 2012	24,254,525	36,375,146	73,351,315	133,980,986
Depreciation (see Note 18)	3,588,918	10,344,980	14,947,805	28,881,703
Disposals	–	(7,603,055)	(3,487,685)	(11,090,740)
At December 31, 2013	**₱27,843,443**	**₱39,117,071**	**₱84,811,435**	**₱151,771,949**
Net book value:				
At December 31, 2013	**₱65,245,988**	**₱25,237,254**	**₱27,387,156**	**₱117,870,398**
At December 31, 2012	67,585,648	23,735,465	14,649,613	105,970,726
At January 1, 2012	60,295,293	30,084,411	18,447,840	108,827,544

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

Building and building improvements	5–25 years
Leasehold improvements	5 years
Transportation equipment	5 years
Office equipment and others	3–5 years

As discussed in Note 5, input VAT amounting to ₱9.5 million relates to the purchase of property and equipment and therefore were reclassified to "Property and equipment" account in 2011 and are being 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, ₱1.9 million and ₱2.3 million for the years ended December 31, 2013, 2012 and 2011, respectively.

Proceeds from the sale of property and equipment amounted to ₱2.6 million, ₱5.9 million and ₱0.4 million in 2013, 2012 and 2011, respectively. Gain on disposal of property and equipment amounted to ₱0.9 million and ₱0.3 million for the year ended December 31, 2013 and 2011, respectively. Loss on disposal of property and equipment amounted to ₱0.2 million for the year ended December 31, 2012 (see Note 23).

The gross carrying amounts of fully depreciated property and equipment that are still in use amounted to ₱85.7 million, ₱76.7 million and ₱62.6 million as at December 31, 2013 and 2012 and January 1, 2012, respectively.

10. 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:

	December 31, 2013	December 31, 2012	January 1, 2012
Cost:			
Balance at beginning of year	**₱71,151,772**	₱62,395,018	₱55,159,336
Additions	**4,178,582**	8,756,754	7,235,682
Balance at end of year	**₱75,330,354**	₱71,151,772	₱62,395,018
Accumulated amortization:			
Balance at beginning of year	**₱57,233,144**	₱49,685,702	₱42,783,111
Amortization (see Note 18)	**8,108,060**	7,547,442	6,902,591
Balance at end of year	**₱65,341,204**	₱57,233,144	₱49,685,702
Carrying value:			
At December 31	**₱9,989,150**	₱13,918,628	₱12,709,316
At January 1	**13,918,628**	12,709,316	12,376,225

11. **Available-for-sale Financial Assets**

As at December 31, 2013 and 2012 and January 1, 2012, the Company's AFS financial assets consist of unit investment trust funds, fixed rate retail treasury bonds of the ROP, fixed rate treasury notes and corporate bonds of Meralco. The quoted ROP retail treasury bonds and corporate bonds of Meralco, which bear fixed interest rates ranging from 2.1% to 6.0% are payable quarterly while the quoted fixed rate treasury notes which bear fixed interest rate of 4.4% is payable semi-annually (see Note 21)

The maturities of the AFS financial assets are shown below:

	December 31, 2013		December 31, 2012		January 1, 2012	
Maturity Date	**Fair Value**	**Principal Amount**	Fair Value	Principal Amount	Fair Value	Principal Amount
Unit investment Trust Fund						
Short-term	**₱1,995,120,215**	**₱1,990,364,790**	₱–	₱–	₱–	₱–
ROP Retail Treasury Bonds						
July 31, 2013	–	–	53,003,500	50,600,000	55,596,750	50,600,000
August 19, 2015	**214,720,000**	**200,000,000**	319,875,000	300,000,000	313,125,000	300,000,000
March 3, 2016	**164,997,000**	**150,000,000**	214,250,000	200,000,000	209,000,000	200,000,000
August 15, 2023	**553,594,564**	**562,524,166**	–	–	–	–
October 24, 2037	–	–	53,187,500	50,000,000	–	–
	933,311,564	**912,524,166**	640,316,000	600,600,000	577,721,750	550,600,000
Fixed Rate Treasury Notes						
August 23, 2018	**388,867,262**	**393,634,047**	–	–	–	–
Meralco Corporate Bonds						
December 12, 2020	**199,402,000**	**200,000,000**	–	–	–	–
	₱3,516,701,041	**₱3,496,523,003**	₱640,316,000	₱600,600,000	₱577,721,750	₱550,600,000

The movements in this account follow:

	December 31, 2013	December 31, 2012	January 1, 2012
Balance at beginning of year	**₱640,316,000**	₱577,721,750	₱424,093,000
Additions	**4,011,901,065**	50,000,000	200,000,000
Maturity	**(50,600,000)**	–	(50,000,000)
Sale of AFS (see Note 23)	**(1,065,378,062)**	–	–
Changes in fair value	**(19,537,962)**	12,594,250	3,628,750
Balance at end of year	**₱3,516,701,041**	₱640,316,000	₱577,721,750
Current	**₱1,995,120,215**	₱53,003,500	₱–
Noncurrent	**1,521,580,826**	587,312,500	577,721,750
	₱3,516,701,041	₱640,316,000	₱577,721,750

The fair value is based on the quoted market price of the financial instruments as at December 31, 2013 and 2012 and January 1, 2012. 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, 2013, 2012 and 2011 follow (see Note 16):

	December 31, 2013	December 31, 2012	January 1, 2012
Balance at beginning of year	**₱39,716,000**	₱27,121,750	₱23,493,000
Changes in fair value during the year	**(5,427,561)**	12,594,250	3,628,750
Reclassification during the year to profit and loss	**(14,110,401)**	–	–
Balance at end of year	**20,178,038**	39,716,000	27,121,750
Tax effects of items taken directly in equity (see Note 24)	**(8,915,100)**	(11,914,800)	(8,136,525)
	₱11,262,938	₱27,801,200	₱18,985,225

12. Accounts Payable and Other Current Liabilities

This account consists of:

	December 31, 2013	December 31, 2012	January 1, 2012
Trade payables (see Note 14)	**₱595,157,652**	₱592,538,581	₱300,892,097
Accrued expenses (see Note 14)	**524,611,595**	524,196,935	562,494,677
Output value-added tax (see Note 5)	**89,410,214**	86,864,241	76,582,161
Withholding taxes payable	**87,664,021**	69,941,878	33,523,365
Retention payable	**77,956,052**	37,841,912	29,112,003
Interest payable	**23,699,544**	19,876,421	32,472,965
Others	**12,518,081**	11,543,013	24,987,576
	₱1,411,017,159	₱1,342,802,981	₱1,060,064,844

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

Accrued expenses consist of:

	December 31, 2013	December 31, 2012	January 1, 2012
Operator's fee (see Note 14)	**₱323,285,740**	₱161,254,933	₱73,261,323
Repairs and maintenance	**45,347,588**	31,114,920	13,823,669
PNCC fee (see Note 14)	**42,112,144**	40,831,188	417,553,845
Salaries and employee benefits	**39,000,967**	37,702,201	35,263,818
Construction costs	**15,015,763**	19,693,654	831,690
Professional fees	**12,046,079**	9,904,443	5,790,763
Outside services	**9,487,937**	5,910,004	1,861,343
Advertising and marketing expenses	**7,262,000**	8,468,592	684,705
Toll collection and medical services	**2,413,740**	548,800	1,646,400
Pretermination costs on interest rate swap (see Notes 15 and 27)	–	171,500,000	–
Management fees (see Note 14)	–	28,967,568	–
Others	**28,639,637**	8,300,632	11,777,121
	₱524,611,595	₱524,196,935	₱562,494,677

Interest payable is settled within six months.

13. **Provisions**

The movements in this account follow:

	Heavy Maintenance	Others	Total
At January 1, 2011	₱396,692,240	₱37,341,421	₱434,033,661
Additions (see Notes 17 and 18)	120,000,000	38,799,285	158,799,285
Payments	(146,297,614)	(7,500,000)	(153,797,614)
At December 31, 2011	370,394,626	68,640,706	439,035,332
Additions (see Notes 17 and 18)	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
Additions (see Notes 17 and 18)	187,579,364	13,256,981	200,836,345
Accretion (see Note 22)	8,094,216	–	8,094,216
Payments	(326,540,042)	(79,045,461)	(405,585,503)
At December 31, 2013	**₱205,876,862**	**₱98,611,379**	**₱304,488,241**
At December 31, 2013:			
Current	**₱121,240,135**	**₱98,611,379**	**₱219,851,514**
Noncurrent	**84,636,727**	–	**84,636,727**
	₱205,876,862	**₱98,611,379**	**₱304,488,241**
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
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 the Company to restore the service concession asset to a specified level of serviceability during the service concession term and to maintain the same assets in good condition prior to turnover of the assets to the Grantor. The amount of provision is reduced by the actual obligations paid for heavy maintenance of the service concession asset.

Other provisions include estimated liabilities for certain reimbursements of corporate expenses being claimed against the Company by a related party (see Note 14). Other provisions also include 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.

14. **Related Party Disclosures**

Enterprises and individuals that directly, or indirectly through one or more intermediaries, control, or are controlled by, or under common control with the Company, including holding companies, subsidiaries and fellow subsidiaries are related 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 of significant transactions with related parties for the relevant year:

Related Party			Management Fees (see Note 18)	Operator's Fee (see Note 17)	PNCC Fee (see Note 17)	Outside Services (see Notes 17 and 18)	Repairs and Maintenance (see Note 17)	Other Income (see Note 23)
MPTC	Intermediate Parent Company	**2013**	**₱44,832,143**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**
		2012	26,116,074	–	–	–	–	–
		2011	58,500,000	–	–	–	–	–
MPTDC	Parent Company	**2013**	**–**	**–**	**–**	**–**	**–**	**–**
		2012	26,116,069	–	–	–	–	–
		2011	–	–	–	–	–	–
PNCC	Stockholder	**2013**	**–**	**–**	**41,808,777**	**–**	**–**	**–**
		2012	–	–	39,985,915	–	–	–
		2011	–	–	385,244,775	–	–	–
TMC	Affiliate	**2013**	**–**	**1,532,066,430**	**–**	**–**	**1,405,511**	**–**
		2012	–	1,492,527,064	–	–	–	–
		2011	–	1,566,118,059	–	–	–	–
Egis Projects Philippines, Inc. (EPPI)	Affiliate	**2013**	**–**	**–**	**–**	**–**	**11,549,271**	**–**
		2012	–	–	–	–	14,923,509	–
		2011	–	–	–	–	26,153,481	–
Easytrip Services Corp. (ESC)	Affiliate	**2013**	**–**	**–**	**–**	**44,393,941**	**–**	**1,311,900**
		2012	–	–	–	31,531,621	–	273,420
		2011	–	–	–	32,835,319	–	–
Smart Communications Inc. (Smart)	Affiliate	**2013**	**–**	**–**	**–**	**–**	**–**	**59,277,500**
		2012	–	–	–	–	–	38,524,392
		2011	–	–	–	–	–	27,727,317
Philippine Long Distance Telephone Company (PLDT)	Affiliate	**2013**	**–**	**–**	**–**	**–**	**–**	**1,760,749**
		2012	–	–	–	–	–	1,849,518
		2011	–	–	–	–	–	2,583,821
Digital Mobile Philippines, Inc. (Digitel)	Affiliate	**2013**	**–**	**–**	**–**	**–**	**–**	**8,448,000**
		2012	–	–	–	–	–	1,148,000
		2011	–	–	–	–	–	–
Total		**2013**	**₱44,832,143**	**₱1,532,066,430**	**₱41,808,777**	**₱44,393,941**	**₱12,954,782**	**₱70,798,149**
		2012	52,232,143	1,492,527,064	39,985,915	31,531,621	14,923,509	41,795,330
		2011	58,500,000	1,566,118,059	385,244,775	32,835,319	26,153,481	30,311,138

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

Name	Relationship		Advances to Contractors and Consultants	Receivables (see Note 7)	Due from Related Parties(1)	Accounts Payable and Other Current Liabilities(2) (see Note 12)	Dividends Payable(3) (see Note 16)	Due to Related Parties	Terms	Conditions
MPTC	Intermediate Parent Company	**2013**	**₱–**	**₱50,529**	**₱3,138,362**	**₱24,334,816**	**₱–**	**₱–**	On demand; noninterest-bearing	Unsecured; no impairment
		2012	–	–	1,420,090	25,833,639	–	–		
		2011	–	–	4,404,248	–	–	468,000		
MPTDC	Parent Company	**2013**	–	**170,241**	–	–	–	**97,549**	On demand; noninterest-bearing	Unsecured; no impairment
		2012	–	–	3,379,826	3,133,929	560,097,120	–		
		2011	–	–	5,353,509	–	–	53,510		
PNCC	Stockholder	**2013**	–	–	–	**45,383,204**	**31,080,000**	–	(2) On demand; noninterest-bearing	Unsecured
		2012	–	–	–	40,831,188	20,868,000	–	(3) 15– 45 days; noninterest-bearing	
		2011	–	–	–	417,553,845	37,740,000	–		
TMC	Affiliate	**2013**	–	–	**1,599,220**	**336,673,650**	–	–	(1) On demand; noninterest-bearing	Unsecured; no impairment
		2012	–	–	655,959	325,537,240	–	–	(2) 30 days; noninterest-bearing	
		2011	–	–	–	295,636,057	–	–		
ESC	Affiliate	**2013**	–	**94,530,177**	**99,000**	**29,865,264**	–	–	On demand; noninterest-bearing	Unsecured; no impairment
		2012	–	63,799,316	–	38,731,663	–	–		
		2011	–	52,943,771	–	43,835,308	–	–		
EPPI	Affiliate	**2013**	**19,209,306**	–	–	**3,909,673**	–	–	On demand; noninterest-bearing	Unsecured; no impairment
		2012	9,031,041	–	–	3,860,731	–	–		
		2011	16,095,285	–	–	6,055,494	–	–		
Egis Projects, SA (Egis)	Stockholder	**2013**	–	–	–	–	**172,804,800**	–	45 days; noninterest-bearing	Unsecured
		2012	–	–	–	–	116,026,080	–		
		2011	–	–	–	–	–	–		
Global Fund Holdings, Inc. (GFHI)	Stockholder	**2013**	–	–	–	–	**51,282,000**	–	45 days; noninterest-bearing	Unsecured
		2012	–	–	–	–	34,432,200	–		
		2011	–	–	–	–	–	–		
Banco de Oro Unibank, Inc. (BDO)	Stockholder	**2013**	–	–	–	–	**153,846,000**	–	45 days; noninterest-bearing	Unsecured
		2012	–	–	–	–	103,296,600	–		
		2011	–	–	–	–	–	–		
Smart	Affiliate	**2013**	–	**9,451,273**	–	**204,325**	–	–	On demand; noninterest-bearing	Unsecured; no impairment
		2012	–	45,346,189	–	–	–	–		
		2011	–	12,421,535	–	–	–	–		
PLDT	Affiliate	**2013**	–	**478,297**	–	**178,288**	–	–	On demand; noninterest-bearing	Unsecured; no impairment
		2012	–	1,294,078	–	–	–	–		
		2011	–	1,673,970	–	–	–	–		
Digitel	Affiliate	**2013**	–	**4,425,120**	–	**3,532**	–	–	On demand; noninterest-bearing	Unsecured; no impairment
		2012	–	2,611,840	–	–	–	–		
		2011	–	–	–	–	–	–		
		2013	**₱19,209,306**	**₱109,105,637**	**₱4,836,582**	**₱440,552,752**	**₱409,012,800**	**₱97,549**		
		2012	9,031,041	113,051,423	5,455,875	437,928,390	834,720,000	–		
		2011	16,095,285	67,039,276	9,757,757	763,080,704	37,740,000	521,510		

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 MPTC

- MPTC performs managerial and financial advisory services for the Company in 2013, 2012 and 2011. The Company is in the process of formalizing its management agreement with MPTC as at February 3, 2014.

Transactions with Stockholders

MPTDC

- The Company claimed reimbursements from MPTDC for certain expenses incurred in behalf of MPTDC amounting to ₱3.4 million and ₱5.5 million in 2012 and 2011, respectively. Outstanding receivables from MPTDC amounted to ₱0.2 million, ₱3.4 million and ₱5.4 million as at December 31, 2013 and 2012 and January 1, 2012, respectively.

- MPTDC also performed managerial and financial advisory services for the Company in 2012.

PNCC

- In consideration of the assignment by PNCC of its usufructuary rights, interests and privileges under its franchise, PNCC is entitled to receive payment equivalent to 6% and 2% of the toll revenue from the NLEX and Segment 7, respectively. Any unpaid balance carried forward will accrue interest at the rate of the latest Philippine 91-day Treasury bill rate plus 1% per annum. This entitlement, as affirmed in the Amended and Restated Shareholders' Agreement (ARSA) dated September 30, 2004, shall be subordinated to operating expenses and the requirements of the financing agreements and shall be paid out subject to availability of funds. In December 2006, the Company entered into a letter agreement with PNCC to set out the detailed procedure for payment.

  The PNCC franchise expired in May 2007. However, since the payment is a continuing obligation under the ARSA, the Company continues to accrue and pay the PNCC entitlement.

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

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

On December 29, 2010, the Company, through a letter sent by its legal counsel, informed PNCC and TRB of the consignation made to the RTC of Caloocan. Meantime, in a resolution dated January 18, 2011, the SC directed the Company to remit to the National Treasury PNCC's percentage share of toll revenues and dividends arising out of PNCC's participation in the NLEX 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 NLEX 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 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 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 praying that MNTC be ordered to comply with its contractual commitment to PNCC by releasing and delivering directly to PNCC the consigned amount. The Intervenor, however, does not pray for any damages against MNTC. PNCC 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 the RTC on December 27, 2011.

On January 11, 2012, the RTC, despite the fact that the consigned amount has already been remitted to the National Treasury, granted FHC's petition-in-intervention filed on September 19, 2011. Following the directive of the TRB dated March 22, 2012, MNTC 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.

Meantime, FHC filed a motion to withdraw intervention. In an order dated May 3, 2013, the RTC granted the withdrawal of the intervention. On September 6, 2013, the RTC heard the case to decide on the prayer for dismissal requested by MNTC, TRB and PNCC in their urgent joint manifestation and motion. During said hearing, the RTC found that the petition for consignation was already rendered moot and academic since the consigned amount was already remitted to the National Government and FHC already withdrew its intervention. Since there was no more pending incident for resolution, the RTC ordered the case dismissed.

Transactions with Affiliates

TMC

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

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

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

  Moreover, on May 27, 2010, pursuant to the O&M and the TRB’s approval to integrate the operations period of Phase I and Segment 8.1, portion of Phase II of the Project, and to extend the concession term, MNTC and TMC agreed to extend the O&M to cover Segment 8.1 from June 1, 2010 until December 31, 2037. Consequently, MNTC 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 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 NLEX.

  In 2012, the Company also added the new Bocaue Interchange to the scope of TMC’s operations and maintenance contract but the terms are still being formalized as at February 3, 2014.

EPPI

- In September 2007, the Company entered into a contract with EPPI, a wholly owned subsidiary of Egis, for FOE second line maintenance services. This contract pertains to services beyond the primary maintenance obligations of TMC under the O&M. The contract amount up to September 2010 is €1.2 million. On December 3, 2010, the Company and EPPI entered into a Supplemental Agreement for NLEX 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. The contract has not been extended after September 2013.

- In October 2011, the Company 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 NLEX and SCTEx. Total contract price amounted to €2.6 million, a fixed lump sum price, inclusive of VAT, and valid for 425 days from the Base Date. Unapplied mobilization advances to EPPI, included as part of "Advances to contractor and consultants" account in the balance sheet amounted to €0.2 million (₱9.0 million) as at December 31, 2013 and 2012 and January 1, 2012. The installation of the FOE has not yet been started since the SCTEx has not yet been turned over to MNTC as at February 3, 2014 (see Note 25).

- On April 26, 2011, the Company 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 NLEX 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.

- On December 27, 2012, the Company entered into a Contract Agreement with Egis Projects, Philippines. Inc. and Indra Philippines, Inc. Consortium for the FOE Design, Supply and Installation for the Toll Collection System Migration Project of Phase I and Segment 8.1. The total contract price of €6.2 million (₱365.3 million) shall be fixed lump sum, inclusive of VAT. The migration is expected to be completed by June 2014.

- On June 14, 2013, MNTC entered into a Contract Agreement with Egis Projects, Philippines Inc. and Indra Philippines, Inc. Consortium for the design, supply, installation, testing and commissioning of the FOE for Segment 9 of Phase II. The total contract price of €1.3 million (₱77.5 million) shall be fixed lump sum, inclusive of VAT.

- The Company purchased spare parts inventories from EPPI. Total purchases amounted to ₱15.9 million in 2013, ₱21.1 million in 2012 and ₱9.9 million in 2011.

ESC

- On December 5, 2007, the Company engaged the services of ESC, a wholly owned subsidiary of Egis, to assist the Company in increasing the usage of the electronic toll collection (ETC) facility along the NLEX which ended on April 30, 2010. On November 24, 2010, the Company and ESC signed the Supplemental Agreement to the Service Agreement extending the services of ESC 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 ₱3.0 and ₱4.0 per transactions for Class 2 and 3, respectively, which are also to be maintained and escalated every year for labor index and CPI.

PLDT, Smart and Digitel

- In 2010, as part of MNTC's commercial policy on sponsorship of NLEX communication programs through co-branding, the Company and Smart, together with PLDT, entered into an agreement for the "Northern Fiesta Campaign" which is a collaborative tourism promotion of local fiestas and festivals in the North and of safety and traffic discipline along the NLEX through print media and through banners and traffic control gates stickers in the NLEX toll plazas.

  The Company has outstanding receivable from PLDT for its share in the costs of the promotion amounting to ₱0.3 million (inclusive of VAT), ₱1.1 million (inclusive of VAT) and ₱1.7 million (inclusive of VAT) as at December 31, 2013, 2012 and January 1, 2012, respectively.

  Outstanding receivable from Smart for its share in the costs of the promotion amounted to ₱2.9 million (inclusive of VAT)) as at December 31, 2013 and 2012 and ₱12.4 million (inclusive of VAT) as at January 1, 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 NLEX, the contract of which was signed on February 18, 2013. Pursuant to the agreement, PLDT paid the Company ₱1.3 million for annual fee for the years ended December 31, 2013, 2012 and 2011.

  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, 2013, 2012 and 2011.

  The Company also has outstanding receivable from PLDT relating to Utility Facilities Contract for the Fiber Optic Overlay along the NLEX amounting to ₱0.2 million as at December 31, 2013 and 2012.

- 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 cell site inside the NLEX 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 NLEX-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 ₱6.5 million (inclusive of VAT) as at December 31, 2013 and ₱42.4 million (inclusive of VAT) as at December 31, 2012.

- On October 22, 2012 and March 1, 2013, MNTC and Digitel entered into an advertising arrangements related to various advertising mediums which include rental, material production, installation and maintenance at several locations along NLEX covering the period from November 2012 to November 2013 and February 1, 2013 to July 31, 2013, respectively. Total consideration for the one year and six-month arrangement amounted to ₱6.9 million and ₱1.9 million, respectively.

Transactions with Other Related Parties

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

	2013	2012	2011
Short-term employee benefits	**₱97,828,770**	₱103,930,143	₱83,777,148
Retirement costs (see Note 19)	**8,848,409**	11,280,472	10,786,377
Executive stock option expense (see Note 20)	**622,422**	1,937,988	5,639,149
Long-term incentive plan payable (see Note 19)	**32,414,200**	32,414,200	–
	₱139,713,801	₱149,562,803	₱100,202,674

- 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 ₱0.04 million to ₱0.4 million.

- The Company paid directors fees amounting to ₱0.6 million, ₱0.7 million and ₱0.6 million in 2013, 2012 and 2011, respectively, recorded under "General and administrative expenses" account in the statements of income (see Note 18).

- Advances to officers and employees has an outstanding balance of ₱9.7 million, ₱5.3 million and ₱7.0 million as at December 31, 2013 and 2012 and January 1, 2012, respectively (see Note 7).

15. Long-term Debt

This account consists of:

	December 31, 2013	December 31, 2012	January 1, 2012
Peso-denominated Notes and Loans:			
Series A Notes	**₱6,086,026,234**	₱6,148,128,542	₱6,210,230,849
Term Loan Facilities	**3,000,000,000**	1,000,000,000	1,000,000,000
Philippine National Bank (PNB) Loan	**1,785,000,000**	1,890,000,000	1,995,000,000
	10,871,026,234	9,038,128,542	9,205,230,849
Less unamortized debt issue costs	**125,004,006**	132,160,218	154,613,409
	10,746,022,228	8,905,968,324	9,050,617,440
Less current portion of long-term debt - net of unamortized debt issue costs of ₱23,228,185 in 2013, ₱22,803,271 in 2012 and ₱21,927,648 in 2011	**931,374,123**	144,299,038	145,174,660
	₱9,814,648,105	₱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 ₱125.0 million, ₱132.2 million and ₱154.6 million as at December 31, 2013 and 2012 and January 1, 2012, respectively, were deducted against the long-term debt. The movements in debt issue costs are as follows:

	December 31, 2013	December 31, 2012	January 1, 2012
Balance at beginning of year	**₱132,160,218**	₱154,613,409	₱139,470,924
Amortization during the year* (see Note 22)	**(23,472,003)**	(22,453,191)	(134,890,348)
Debt issue costs incurred during the year	**16,315,791**	–	150,032,833
Balance at end of year	**₱125,004,006**	₱132,160,218	₱154,613,409

**Includes amortization of debt issue costs capitalized to service concession assets amounting to ₱138,554 in 2013.*

Series A Notes

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

On April 15, 2011, the Company entered into a Corporate Notes Facility Agreement with various local financial institutions for fixed-rate unsecured notes amounting to ₱6.2 billion, with tenors ranging from 5 years, 7 years and 10 years ("Series A Notes"). Proceeds of the notes were used to prepay the ₱2.7 billion short-term loan in full and to partially prepay the 2006-issued 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, the Company 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 22).

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, the Company entered into an Amended and Restated Loan Agreement with PNB to amend certain commercial terms of the 2009 PNB Loan, incorporate the interest rate conversion from fixed to floating rate, 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 12 and 27).

Term Loan Facilities
On December 12, 2011, the Company entered into a Term Loan Facility Agreement for a ₱1.0 billion fixed-rate term loan facility from The Insular Life Assurance Company, Ltd. (Insular) and the Philippine American Life and General Insurance Company (Philam). 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.

On October 11, 2013, the Company entered into a Term Loan Facility Agreement with Sun Life of Canada (Philippines) Inc. for a fixed-rate loan amounting to ₱800.0 million payable in lump sum after 10 years. The fixed interest rate on the loan is 5.30% per annum. Debt issue costs incurred in the availment of the loan amounted to ₱6.5 million.

On November 29, 2013, MNTC entered into Term Loan Facility Agreement with Insular for a ₱200.0 million fixed-rate loan payable in lump sum after 10 years. The fixed interest rate on the loan is 5.03% per annum. Debt issue costs incurred in the availment of the loan amounted to ₱1.6 million.

On December 12, 2013, MNTC again entered into a Term Loan Facility Agreement with Philam for a ₱1.0 billion fixed-rate loan payable in lump sum after 15 years. The fixed interest rate on the loan is 5.80% per annum. Debt issue costs incurred in the availment of the loan amounted to ₱8.2 million.

These loans availed in 2013 are intended to partially finance the Phase II expansion projects of MNTC.

Others
On April 27, 2009, the Company obtained a standby letter of credit (SBLC) facility of up to ₱100.0 million from Security Bank to secure the Company's Segment 8.1 construction obligation in favor of the TRB. The letter of credit for an amount of ₱80.3 million was issued effective April 27, 2009. Upon TRB's final acceptance of Segment 8.1, as certified by its independent engineer, the Company cancelled the SBLC effective April 11, 2011.

As at December 31, 2013 and 2012 and January 1, 2012, the Company is in compliance with the required financial ratios and other loan covenants. The Company's long-term debts are unsecured as at December 31, 2013 and 2012 and January 1, 2012.

16. **Equity**

Capital Stock
Details of shares of stock of the Company as at December 31, 2013 and 2012 and January 1, 2012 follow:

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

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

On September 30, 2004, the Principal Shareholders of the Company and Leighton International Limited (LIL, formerly Leighton Asia Limited), amended and restated the SA dated December 13, 2001. The ARSA provides, among others, the transfer of certain Company shares from MPTDC to LIL resulting to a revised equity participation as follows: MPTDC - 67.1%; LIL - 16.5%; Egis - 13.9%; and PNCC - 2.5%.

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

Likewise on the same date, an Accession to Shareholders Agreement was executed between GFHI, MPTDC, PNCC, Egis, LIL and MNTC, whereby GFHI agreed to accede to the ARSA and assume all the obligation of LIL as a shareholder under the ARSA.

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

Likewise on the same date, an Accession to Shareholders Agreement was executed among BDO, GFHI, MPTDC, PNCC, Egis, and MNTC, whereby BDO agreed to accede to the ARSA and assume all the obligation of GFHI as a shareholder under the ARSA.

Cash Dividends
The Company's BOD declared the following cash dividends in 2013, 2012 and 2011:

Declaration Date	Record Date	Payment Date	Cash Dividend per Share	Total
July 24, 2013	July 24, 2013	August 31, 2013	₱46	₱816,960,000
December 18, 2013	December 18, 2013	January 31, 2014	70	1,243,200,000
July 26, 2012	July 26, 2012	September 15, 2012	49	870,240,000
December 18, 2012	December 18, 2012	January 31, 2013	47	834,720,000
August 3, 2011	August 3, 2011	August 12, 2011	40	710,400,000
December 16, 2011	December 15, 2011	December 31, 2011	45	799,200,000

Unpaid dividends amounted to ₱409.0 million, ₱834.7 million and ₱37.7 million as at December 31, 2013 and 2012 and January 1, 2012, respectively (see Note 14).

Other Comprehensive Income Reserve

	Cash Flow Hedge	Income Tax related to cash flow hedge	AFS Financial Assets	Income Tax Related to AFS Financial Assets	Re-measurement of Defined Benefit Plan	Income Tax Related to Defined Benefit Plan	Total
Balance at January 1, 2013	**(₱23,219,515)**	**₱6,965,854**	**₱39,716,000**	**(₱11,914,800)**	**₱11,846,715**	**(₱3,554,015)**	**₱19,840,239**
Net movement in cash flow hedge (see Note 27)	**10,508,616**	**(3,152,584)**	–	–	–	–	**7,356,032**
Change in fair value of AFS (see Note 11)	–	–	**(19,537,962)**	**2,999,700**	–	–	**(16,538,262)**
Remeasurement loss (see Note 19)	–	–	–	–	**(3,619,777)**	**1,085,933**	**(2,533,844)**
Balance at December 31, 2013	**(₱12,710,899)**	**₱3,813,270**	**₱20,178,038**	**(₱8,915,100)**	**₱8,226,938**	**(₱2,468,082)**	**₱8,124,165**
Balance at January 1, 2012	(₱33,728,171)	₱10,118,451	27,121,750	(₱8,136,525)	(19,230,454)	₱5,769,136	(₱18,085,813)
Net movement in cash flow hedge (see Note 27)	10,508,656	(3,152,597)	–	–	–	–	7,356,059
Change in fair value of AFS (see Note 11)	–	–	12,594,250	(3,778,275)	–	–	8,815,975
Remeasurement gain (see Note 19)	–	–	–	–	31,077,169	(9,323,151)	21,754,018
Balance at December 31, 2012	(₱23,219,515)	₱6,965,854	39,716,000	(₱11,914,800)	₱11,846,715	(₱3,554,015)	₱19,840,239
Balance at January 1, 2011	(₱3,475,927)	₱1,042,778	₱23,493,000	(₱7,047,900)	₱–	₱–	₱14,011,951
Net movement in cash flow hedge (see Note 27)	(30,252,244)	9,075,673	–	–	–	–	(21,176,571)
Change in fair value of AFS (see Note 11)	–	–	3,628,750	(1,088,625)	–	–	2,540,125
Remeasurement loss (see Note 19)	–	–	–	–	(19,230,454)	5,769,136	(13,461,318)
Balance at December 31, 2011	(₱33,728,171)	₱10,118,451	₱27,121,750	(₱8,136,525)	(₱19,230,454)	₱5,769,136	(₱18,085,813)

17. Cost of Services

This account consists of:

	2013	2012	2011
Toll operation and maintenance costs	**₱2,338,440,774**	₱2,169,706,413	₱2,261,491,237
Amortization of service concession asset (see Note 8)	**599,931,592**	597,358,217	592,987,123
Cost of inventories	**3,370**	7,673	18,633
	₱2,938,375,736	₱2,767,072,303	₱2,854,496,993

Toll operation and maintenance costs consist of:

	2013	2012	2011
Operator's fee (see Note 14)	**₱1,532,066,430**	₱1,492,527,064	₱1,566,118,059
PNCC fee (see Note 14)	**418,087,772**	399,859,153	385,244,775
Provision for heavy maintenance (see Note 13)	**167,481,570**	107,142,857	109,116,393
Repairs and maintenance (see Note 14)	**108,859,648**	105,502,279	127,680,969
Insurance	**43,673,719**	42,971,970	48,957,913
Toll collection and medical services	**17,988,000**	20,223,090	21,297,634
Others	**50,283,635**	1,480,000	3,075,494
	₱2,338,440,774	₱2,169,706,413	₱2,261,491,237

18. General and Administrative Expenses

This account consists of:

	2013	2012	2011
Salaries and employee benefits (see Notes 14, 19 and 20)	**₱207,912,356**	₱212,098,864	₱194,435,493
Taxes and licenses	**56,820,919**	52,259,250	70,063,924
Professional fees	**52,144,556**	36,152,514	31,562,736
Advertising and marketing expenses	**48,945,056**	66,952,441	60,289,272
Management fees (see Note 14)	**44,832,143**	52,232,143	58,500,000
Depreciation of property and equipment (see Note 9)	**28,881,703**	23,685,415	24,622,344
Representation and travel	**20,673,614**	20,417,363	26,264,300
Outside services (see Note 14)	**16,331,803**	43,672,982	49,639,497
Provisions (see Note 13)	**13,256,981**	108,313,713	38,799,285
Repairs and maintenance	**8,974,739**	5,365,714	9,103,440
Communication, light and water	**8,484,186**	7,650,455	9,523,453
Amortization of intangible assets (see Note 10)	**8,108,060**	7,547,442	6,902,591
Provision for doubtful accounts (see Note 7)	**5,544,087**	–	–
Office supplies	**3,811,919**	3,156,577	3,420,286
Training and development costs	**3,299,894**	4,022,767	3,171,569
Directors' fees (see Note 14)	**590,000**	710,000	590,000
Rentals	**75,224**	75,224	517,354
Provision for potential losses on claim for refund	**–**	11,060,341	8,640,240
Collection charges	**–**	127,758	5,445,734
Miscellaneous	**7,949,223**	10,240,695	6,526,853
	₱536,636,463	₱665,741,658	₱608,018,371

19. Employee Benefits

LTIP

On April 27, 2012, MPTC's BOD approved the implementation of LTIP of MPTC and its subsidiaries (MPTC Group) which will be effective on January 1, 2012. MPTC'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 MPTC Group's long-term business plans; recognizing and rewarding the contribution of eligible employees to the overall profitability and performance of the MPTC Group; and attracting and retaining talented employees to ensure the sustained growth and success of the MPTC Group. 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 MPTC Group's cumulative consolidated core income target for the 2012 to 2014 Performance Cycle.

Total amount of LTIP under this Plan 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 2012 to 2014 LTIP was 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 2013 and 2012 included in "Salaries and employee benefits" account under "General and administrative expenses" in the statements of income amounted to ₱32.4 million . Long-term incentive plan payable amounted to ₱64.8 million and ₱32.4 million, respectively. There was no LTIP 2011.

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

The funds are administered by a trustee bank. Subject to the specific instructions provided by Company in writing, the Company directs the trustee bank to hold, invest, and reinvest the funds and keep the same invested, in its sole discretion, without distinction between principal and income in, but not limited to, certain government securities and bonds, term loans, short-term fixed income securities and other loans and investments.

Under the existing regulatory framework, Republic Act 7641 requires a provision for retirement pay to qualified private sector employees in the absence of any retirement plan in the entity, provided however that the employee's retirement benefits under any collective bargaining and other agreements shall not be less than those provided under the law. The law does not require minimum funding of the plan.

Changes in pension asset in 2013 are as follows:

	Present value of Defined Benefit Obligation	**Fair Value of Plan Assets**	**Pension Asset**
At January 1, 2013	**₱104,780,939**	**₱121,667,967**	**(₱16,887,028)**
Net benefit cost in statement of income:			
Current service cost	**12,202,831**	**–**	**12,202,831**
Net interest	**4,798,967**	**5,572,393**	**(773,426)**
	121,782,737	**127,240,360**	**(5,457,623)**
Benefits paid	**(15,088,771)**	**(15,088,771)**	**–**
Remeasurements in other comprehensive income:			
Return on plan assets (excluding amount included in net interest)	**–**	**3,013,449**	**(3,013,449)**
Actuarial changes arising from changes in financial assumptions	**6,196,967**	**–**	**6,196,967**
Actuarial changes due to experience adjustment	**436,259**	**–**	**436,259**
	6,633,226	**3,013,449**	**3,619,777**
At December 31, 2013	**₱113,327,192**	**₱115,165,038**	**(₱1,837,846)**

Changes in accrued retirement costs (pension asset) in 2012 are as follows:

	Present Value of Defined Benefit Obligation	Fair Value of Plan Assets	Accrued Retirement Costs (Pension Asset)
At January 1, 2012	₱125,405,769	₱77,472,555	₱47,933,214
Net benefit cost in statement of income:			
Current service cost	15,479,076	–	15,479,076
Net interest	6,947,480	4,291,980	2,655,500
	147,832,325	81,764,535	66,067,790
Benefits paid	(14,741,123)	(14,741,123)	–
Remeasurements in other comprehensive income:			
Return on plan assets (excluding amount included in net interest)	–	2,766,906	(2,766,906)
Actuarial changes arising from changes in financial assumptions	(32,681,135)	–	(32,681,135)
Actuarial changes due to experience adjustment	4,370,872	–	4,370,872
	(28,310,263)	2,766,906	(31,077,169)
Contributions	–	51,877,649	(51,877,649)
At December 31, 2012	₱104,780,939	₱121,667,967	(₱16,887,028)

Changes in accrued retirement costs in 2011 are as follows:

	Present Value of Defined Benefit Obligation	Fair Value of Plan Assets	Accrued Retirement Costs (Pension Asset)
At January 1, 2011	₱68,082,135	₱47,253,657	₱20,828,478
Net benefit cost in statement of income:			
Current service cost	13,055,802	–	13,055,802
Past service cost	20,514,289	–	20,514,289
Net interest	5,514,653	3,827,546	1,687,107
	107,166,879	51,081,203	56,085,676
Benefits paid	(3,271,234)	(3,271,234)	–
Remeasurements in other comprehensive income:			
Return on plan assets (excluding amount included in net interest)	–	2,279,670	(2,279,670)
Actuarial changes arising from changes in financial assumptions	21,621,489	–	21,621,489
Actuarial changes due to experience adjustment	(111,365)	–	(111,365)
	21,510,124	2,279,670	19,230,454
Contributions	–	27,382,916	(27,382,916)
At December 31, 2011	₱125,405,769	₱77,472,555	₱47,933,214

The maximum economic benefit available is a combination of expected refunds from the plan and reductions in future contributions.

The actual return on plan assets amounted to ₱8.6 million in 2013, ₱7.1 million in 2012 and ₱6.1 million in 2011.

The Company does not expect to contribute to its defined benefit retirement plan in 2014.

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

	2013	2012	2011
Investments in:			
Government securities	**71.37%**	67.27%	76.08%
Debt securities	**24.85%**	15.39%	6.45%
Equity securities	**0.00%**	5.10%	8.13%
Loans/notes receivable	**2.24%**	4.29%	4.72%
Cash and cash equivalents	**0.27%**	7.21%	4.06%
Receivables and others	**1.27%**	0.74%	0.56%
	100.00%	100.00%	100.00%

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

	2013	2012	2011
Investments in:			
Government securities	**₱82,194,575**	₱81,849,549	₱58,937,376
Debt securities	**28,628,225**	18,720,266	5,000,000
Equity instruments	**–**	6,210,000	6,300,000
Loans/notes receivables	**2,574,000**	5,220,402	3,656,197
Cash and cash equivalents	**310,498**	8,770,923	3,146,414
Receivables and others	**1,457,740**	896,827	432,568
	₱115,165,038	₱121,667,967	₱77,472,555

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, 2013 and 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 3.58% to 9.42% and have maturities from 2013 to 2037.
- Investments in debt instruments consist of quoted, unsecured, long-term corporate bonds and subordinated notes, which bear interest ranging from 4.63% to 6.27% per annum and have maturities from 2017 to 2023.
- Cash and cash equivalents include regular savings and time deposits, which bear interest ranging from 1.25% 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. The PLDT FXCNs were disposed of in 2013. Thus, as at December 31, 2013, loan and receivables consist only of the unsecured subordinated note of an unaffiliated company amounting to ₱2.6 million. Interest income on these loans and notes receivable amounted to ₱0.2 million in 2013 and 2012.

- Investments in equity securities include investment in perpetual non-voting preferred shares of FPHC amounting to ₱6.2 million as at December 31, 2012. Dividend income from these investments amounted to ₱0.5 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. These investments were disposed of in 2013.
- Other financial assets held by the plan are primarily accrued interest income from cash and cash equivalents and investments in debt securities.

The principal assumptions used to determine accrued retirement costs as at December 31, 2013 and 2012 and January 1, 2012 are as follows:

	December 31, 2013	December 31, 2012	January 1, 2012
Discount rate	**3.78%**	4.58%	5.54%
Salary increase rate	**7.00%**	7.00%	12.00%

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as at balance sheet date, assuming if all other assumptions were held constant:

			Amount
Discount rate	(Actual + 1.00%)	4.78%	₱105,689,157
	(Actual - 1.00%)	2.78%	122,174,896
Salary increase rate	(Actual + 1.00%)	8.00%	121,525,925
	(Actual - 1.00%)	6.00%	106,047,816

The management performed an Asset-Liability Matching Study (ALM) annually. The overall investment policy and strategy of the Company's defined benefit plan is guided by the objective of achieving an investment return which, together with contributions, ensures that there will be sufficient assets to pay pension benefits as they fall due while also mitigating the various risk of the plans. The Company's current strategic investment strategy consists of 98.22% of debt instruments and 0.90% cash.

The average duration of the defined benefit obligation at the end of the reporting period is 14 years.

Shown below is the maturity analysis of the undiscounted benefit payments:

	December 31, 2013	December 31, 2012
Less than 1 year	**₱51,707,273**	₱31,341,059
More than 1 year to 5 years	**19,667,067**	33,427,947
More than 5 years to 10 years	**58,071,484**	34,336,008
More than 10 years to 15 years	**59,213,098**	86,972,757
More than 15 years to 20 years	**103,105,731**	99,893,539
More than 20 years	**174,637,842**	158,421,091

20. **Share-based Payment Plan**

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

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

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

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

A summary of the Company's stock option activity received from MPIC and related information for the years ended December 31, 2013 and 2012 and January 1, 2012 follows:

	2013		2012		2011	
	Number of Shares	**Exercise Price**	Number of Shares	Exercise Price	Number of Shares	Exercise Price
Outstanding at beginning of year	**4,830,000**	**₱2.73**	6,500,000	₱2.73	7,700,000	₱2.73
Exercise during the year	**4,345,000**	**2.73**	1,670,000	2.73	1,200,000	2.73
Outstanding at the end of year	**485,000**	**₱2.73**	4,830,000	₱2.73	6,500,000	₱2.73
Exercisable at end of year	**485,000**	**₱–**	2,135,000	₱–	1,110,000	₱–

The weighted average remaining contractual life for the share options outstanding as at December 31, 2013 and 2012 and January 1, 2012 is 1.5 years, 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.*

Executive stock options expense, recognized by the Company in "Salaries and employee benefits" account under "General and administrative expenses" in the statement of income amounted to ₱0.6 million, ₱1.9 million and ₱5.6 million in 2013, 2012 and 2011, respectively (see Notes 14 and 18).

Carrying value of the ESOP, recognized under "Other reserve" in the statement of changes in equity, amounted to ₱8.2 million, ₱7.6 million and ₱5.6 million as at December 31, 2013 and 2012 and January 1, 2012, respectively.

21. Interest Income

Sources of interest income follow:

	2013	2012	2011
Cash and cash equivalents (see Note 6)	**₱43,609,422**	₱81,138,506	₱107,975,299
AFS financial assets (see Note 11)	**38,587,263**	34,944,625	34,658,167
Others	**366,431**	518,706	563,035
	₱82,563,116	₱116,601,837	₱143,196,501

22. Interest Expense and Other Finance Costs

Sources of interest expense and other finance costs follow:

	2013	2012	2011
Interest expense on:			
Long-term debt (see Notes 15 and 27)	**₱584,348,880**	₱659,466,103	₱794,415,849
Provision for heavy maintenance (see Note 13)	**8,094,216**	–	–
Finance costs:			
Amortization of debt issue costs (see Note 15)	**23,333,449**	22,453,191	134,890,348
Lenders' fees	**1,500,062**	956,694	5,602,677
Bank charges	**1,105,665**	1,178,239	1,158,874
Loan prepayment fees (see Note 15)	**–**	–	329,943,301
	₱618,382,272	₱684,054,227	₱1,266,011,049

23. Other Income and Other Expense

Details of other income and other expense follow:

Other Income

	2013	2012	2011
Income from advertising (see Note 14)	**₱64,226,382**	₱45,002,103	₱32,697,931
Income from toll service facilities	**21,126,460**	17,277,992	20,220,627
Gain on sale of AFS financial assets (see Note 11)	**11,780,746**	–	–
Reversal of allowance for doubtful accounts (see Note 7)	**5,259,500**	–	–
Income from utility facilities (see Note 14)	**2,074,249**	1,926,304	1,814,636
Reversal of allowance for potential losses on input VAT (see Note 5)	–	–	288,052,966
Refunds from lenders	**–**	–	24,183,224
Others	**2,130,513**	4,390,775	3,218,438
	₱106,597,850	₱68,597,174	₱370,187,822

Other Expense

	2013	2012	2011
Mark-to-market loss on derivatives (see Note 27)	**₱–**	₱44,844,434	₱94,636,391
Loss on sale of property and equipment (see Note 9)	**–**	176,481	–
	₱–	₱45,020,915	₱94,636,391

24. Income Taxes

The provision for current income tax for the years ended December 31, 2013, 2012 and 2011 is as follows:

	2013	2012	2011
Regular corporate income tax (RCIT)	**₱724,348,235**	₱781,694,037	₱522,300,904
Final tax on interest income from banks	**16,815,145**	23,194,589	28,524,542
	₱741,163,380	₱804,888,626	₱550,825,446

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

	December 31, 2013	December 31, 2012 (As restated - see Note 3)	January 1, 2012 (As restated - see Note 3)
Deferred tax assets:			
Provision for heavy maintenance	**₱55,935,211**	₱90,728,555	₱99,742,297
Accrued expenses and provisions	**40,153,723**	44,953,092	–
Unamortized past service cost	**10,913,971**	12,522,956	4,100,123
Fair value changes on derivatives deferred in equity	**3,813,270**	6,965,854	10,118,451

(Forward)

	December 31, 2013	December 31, 2012 (As restated - see Note 3)	January 1, 2012 (As restated - see Note 3)
Accrued retirement costs	**₱–**	₱–	₱14,379,965
Fair value changes on derivatives charged to statement of income	**–**	–	28,928,219
Unearned toll revenue	**–**	–	3,175,377
Allowance for doubtful accounts	**–**	–	1,577,850
Provision for potential losses on claim for refund	**–**	–	2,592,072
	110,816,175	155,170,457	164,614,354
Deferred tax liabilities:			
Difference in amortization of service concession asset	**(540,764,578)**	(491,496,942)	(447,928,145)
Unamortized realized foreign exchange losses capitalized	**(21,374,072)**	(22,264,658)	(23,155,245)
Fair value changes on AFS financial assets	**(8,915,100)**	(11,914,800)	(8,136,525)
Pension asset	**(551,354)**	(5,066,109)	–
Unrealized foreign exchange gains - net	–	–	(49,603)
	(571,605,104)	(530,742,509)	(479,269,518)
Deferred tax liabilities - net	**(₱460,788,929)**	(₱375,572,052)	(₱314,655,164)

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

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

	2013	2012	2011
Income before income tax	**₱3,205,222,206**	₱2,808,889,399	₱2,144,469,009
Income tax computed at statutory tax rate of 30%	**961,566,662**	842,666,820	643,340,703
Add (deduct) the tax effects of:			
Effect of optional standard deduction	**(126,299,566)**	–	–
Interest income already subjected to final tax	**(24,768,935)**	(34,824,939)	(42,790,040)
Nondeductible expenses and others	**–**	14,345,099	20,409,551
Reversal of allowance for potential losses on input VAT (Note 5)	–	–	(86,415,890)
Final tax on interest income	**16,815,145**	23,194,589	28,524,542
Write-off of deferred tax assets relating to allowance for doubtful accounts and provision for potential losses on claim for refund	**–**	4,169,922	–
Provision for income tax	**₱827,313,306**	₱849,551,491	₱563,068,866

On December 18, 2008, the Bureau of Internal Revenue (BIR) issued Revenue Regulation (RR) No. 16-2008, which implemented the provisions of R.A. 9504 on Optional Standard Deduction (OSD), which allowed both individual and corporate tax payers to use OSD in computing their taxable income. For corporations, they may elect a standard deduction in an amount equivalent to 40% of gross income, as provided by law, in lieu of the itemized allowed deductions.

The Company opted to avail of the OSD for the taxable year 2013 while this was not availed for taxable years 2012 and 2011.

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

	2013	2012 (As restated – see Note 3)	2011 (As restated – see Note 3)
Balance at beginning of year	**₱375,572,052**	₱314,655,164	₱316,167,928
Provision for income tax during the year recognized in the statements of income	**86,149,926**	44,662,865	12,243,420
Income tax effect during the year recognized in the statements of comprehensive income	**(933,049)**	16,254,023	(13,756,184)
Balance at end of year	**₱460,788,929**	₱375,572,052	₱314,655,164

25. **Significant Contracts and Commitments**

Subic-Clark-Tarlac Expressway (SCTEx) Agreements
In 2010, the Company participated in a public bidding conducted by the BCDA under the latter's Terms of Reference (TOR) for the Privatization of the SCTEX with the right to manage, operate and maintain the SCTEx on an "as is, where is" basis for a period until October 30, 2043. On June 9, 2010, BCDA formally awarded the Company the right to enter into a concession agreement with BCDA for the management, operation and maintenance of SCTEx.

On July 20, 2011, the Company and BCDA signed a Business and Operating Agreement (BOA) under which BCDA granted the Company all its usufructuary rights, interests and obligations under its Toll Operating Agreement with the TRB relating to the management, operation and maintenance of the 94-km SCTEX, including the exclusive right to possess and use the SCTEx toll road and facilities and the right to collect toll. The BOA requires the satisfaction of certain conditions precedent including the necessary Philippine Government approvals such as the approval of the President of the Republic of the Philippines and the execution of a Supplemental Toll Operation Agreement (STOA) by and among the Company, BCDA and ROP, through the TRB. The term of the BOA shall be from the 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 or its successor-in-interest conformably with law, and in all cases in accordance with and subject to the terms and conditions of the STOA, in relation to SCTEx.

The BOA and the STOA were favorably endorsed for Presidential approval via a joint letter of BCDA and TRB dated 5 October 2011 which contained the following statement: *"The privatization of the SCTEX, as embodied in the BOA and STOA, is very well in harmony with the administration's Public-Private-Partnership (PPP) Program. We thus respectfully seek your favorable action on this request for approval of the BOA and the STOA".*

Meantime, the Company and BCDA agreed to extend the deadline provided under the BOA for compliance by the parties with all conditions precedent (Long-stop Date) until December 31, 2013. On December 20, 2013, MNTC proposed to further extend the Long-Stop Date to June 30, 2014 and this was approved by the BCDA Board on January 16, 2014.

As at February 3, 2014, BCDA is still in the process of obtaining the necessary Philippine Government approvals. Accordingly, the SCTEx had not been assigned and turned over to the Company.

NLEX-SLEX Connector Road Project
In September 2013, MPTDC was requested by the Government to consider undertaking the Connector Road Project either through a new joint venture with PNCC, or under the existing joint venture between PNCC and MPTDC and pursuant to the existing STOA amongst PNCC, MNTC and the TRB dated April 30, 1998. Accordingly, the NEDA Board approved that the Connector Road Project proposed by MPTDC will be implemented: (i) through a joint venture between MPTDC and PNCC, or (ii) to the extent possible, through an amendment or extension of the existing joint venture of PNCC and MPTDC and/or STOA pursuant to PD No. 1894.

In a letter dated November 7, 2013, DPWH informed MPTDC that it would defer further consideration and processing of the Connector Road Project as a BOT unsolicited proposal to allow TRB to pursue the implementation of the same project as an amendment or extension of the existing STOA. Consequently, MNTC as the existing joint venture company, was requested to consider undertaking the NLEX-SLEX Connector Road Project as an extension of Segment 10 of the NLEX under the existing STOA from C3 Road in Caloocan to PUP Sta. Mesa, Manila utilizing the same PNR right-of-way covered by the BOT unsolicited proposal .

On November 20, 2013, MNTC submitted to TRB an Investment Proposal for the implementation of the Connector Road Project as the new Segment 10.2 of the NLEX through an amendment or extension of the STOA, particularly the existing Phase II Segment 10, pursuant to a Grantor-initiated request under Clause 8.2 of the STOA.

On January 10, 2014, MNTC and MPTDC entered into a letter agreement with PNCC, as shareholder of MNTC, and joint venture partner of MPTDC for the NLEX Project, confirming the agreement to implement Segment 10.2 as an extension or linkage of Phase 2 Segment 10 of the NLEX Project pursuant to P.D. No. 1894, and as an integral portion of NLEX subject to prior approval of the TRB. Conformably to the provisions of the JVA and the ARSA, and upon TRB approval of the implementation of Segment 10.2, PNCC will be entitled (a) to receive 6% of the gross toll revenue collected by MNTC from the operation and maintenance of Segment 10.2 upon its completion in addition to its share in the gross toll revenues collected by MNTC from the toll roads as provided in the ARSA, and (b) to all dividends accruing on its shares of stock in MNTC. As at February 3, 2014, the Company is still in the process of obtaining the necessary Philippine Government approvals.

26. Financial Risk Management Objectives and Policies

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

The Company also enters into derivative transactions, particularly interest rate swaps and cross currency swaps, to manage the interest rate and foreign currency risks arising 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 in 2008 to 2009. 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 15).

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

Interest Rate Risk
Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to interest rate risk relates primarily to the Company's long-term debt 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 27).

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				Fixed
Loan Facility	**December 31, 2013**	December 31, 2012	January 1, 2012	Floating Interest Rate	Interest Rate
PNB	**₱–**	₱–	₱1,995,000,000	PDST-F + 0.50% Margin	5.88%

The Company has also fixed-rate bonds and notes 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, 2013				
	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%	**₱1,411,979**	**₱–**	**₱–**	**₱–**	**₱1,411,979**
AFS financial assets	2.13%–6.00%	**–**	**350,000**	**393,634**	**762,524**	**1,506,158**
		₱1,411,979	**₱350,000**	**₱393,634**	**₱762,524**	**₱2,918,137**
Fixed-rate loans:						
Series A-5	6.54%	**₱10,000**	**₱970,000**	**₱–**	**₱–**	**₱980,000**
Series A-7	7.27%	**42,102**	**84,205**	**3,999,719**	**–**	**4,126,026**
Series A-10	7.70%	**10,000**	**20,000**	**20,000**	**930,000**	**980,000**
Term-loan facility	5.13% - 7.50%	**–**	**–**	**–**	**3,000,000**	**3,000,000**
		62,102	**1,074,205**	**4,019,719**	**3,930,000**	**9,086,026**
Floating-rate loan - PNB Loan	PDST-F + 0.50% Margin	**892,500**	**892,500**	**–**	**–**	**1,785,000**
		₱954,602	**₱1,966,705**	**₱4,019,719**	**₱3,930,000**	**₱10,871,026**

		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%	₱2,605,580	₱–	₱–	₱–	₱2,605,580
AFS financial assets	5.88%–9.00%	50,600	300,000	200,000	50,000	600,600
		₱2,656,180	₱300,000	₱200,000	₱50,000	₱3,206,180
Fixed-rate loans:						
Series A-5	6.54%	₱10,000	₱20,000	₱960,000	₱–	₱990,000
Series A-7	7.27%	42,102	84,205	84,205	3,957,617	4,168,129
Series A-10	7.70%	10,000	20,000	20,000	940,000	990,000
Term-loan facility	6.90% - 7.50%	–	–	–	1,000,000	1,000,000
		62,102	124,205	1,064,205	5,897,617	7,148,129
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%	₱1,068,923	₱–	₱–	₱–	₱1,068,923
AFS financial assets	5.88%–9.00%	–	50,600	500,000	–	550,600
		₱1,068,923	₱50,600	₱500,000	₱–	₱1,619,523
Fixed-rate loans:						
Series A-5	6.54%	₱10,000	₱20,000	₱970,000	₱–	₱1,000,000
Series A-7	7.27%	42,102	84,205	84,205	3,999,719	4,210,231
Series A-10	7.70%	10,000	20,000	20,000	950,000	1,000,000
Term-loan facility	6.90% - 7.50%	–	–	–	1,000,000	1,000,000
		62,102	124,205	1,074,205	5,949,719	7,210,231
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 statement of income:

	Increase/Decrease in Basis Points	Effect on Income Before Income Tax
2013	+50	**(₱8,925,000)**
	-50	**8,925,000**
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 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 derivative transactions as at December 31, 2013 and 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, 2013 and 2012 and January 1, 2012, the Company is not significantly exposed to foreign currency risk as the Company fully paid its U.S. dollar-denominated loans in January 2011. The minimal exposure to foreign currency risk relates to the Company's foreign currency denominated cash and cash equivalents and trade payables as at December 31, 2013 and 2012 and January 1, 2012.

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 dollar-denominated loans.

The sensitivity of income to changes in foreign exchange rates is not significant because the Company holds minimal amount 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. In prior years, the Company, through TMC, offers a credit card payment option called automatic debit via credit card (Credit Card ADA) which, to a certain extent, operates like a post-payment account that can have some collection backlog if not managed properly. The Company's policy is to provide TMC a 30-day window within which to collect declined Credit Card ADA transactions for the annual period. Any uncollected Credit Card ADA top-ups after the 30-day grace period will be considered as part of the toll collection variance of TMC (ADA variance). In 2011, the cut-off date for the determination of the ADA variance is on January 30, 2011, 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 and AFS financial assets, the Company's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to carrying amount of these financial assets. The Company does not require collateral for its financial assets.

The Company's credit risk is concentrated on AFS financial assets covering at least 94%, 79% and 84% of the Company's financial assets, except cash and cash equivalents, as at December 31, 2013 and 2012 and January 1, 2012, respectively. The table below shows the maximum exposure to credit risk for the Company's financial assets, without taking account of any collateral, credit enhancements and other credit risk mitigation techniques.

	December 31, 2013	December 31, 2012	December 31, 2011
Cash and cash equivalents[(a)]	**₱1,411,978,601**	₱2,605,579,634	₱1,068,923,344
Receivables[(b)]	**227,956,907**	158,435,643	93,834,088
Due from related parties	**4,836,582**	5,455,875	9,757,757
AFS financial assets	**3,516,701,041**	640,316,000	577,721,750
Refundable deposits[(c)]	**3,694,561**	2,505,562	3,712,110
Total credit risk exposure	**₱5,165,167,692**	₱3,412,292,714	₱1,753,949,049

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

Cash and cash equivalents are placed with reputable local and international banks which meet the 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 NLEX and those non-toll revenues in the form of advertising services particularly from Smart. ESC, Smart and TMC are considered as low-risk counterparties as these are well-established companies. Moreover, the Company has payment obligations to TMC which far exceed the aggregate amount of receivables. 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 NLEX. 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 NLEX motorists. The fees range from one-time access fees to recurring fees calculated as a percentage of sales. The arrangements are backed by a service facility contract between the Company and the various locators. The credit risk on these arrangements is minimal because the fees are collected on a monthly basis mostly from well-established companies. The exposure is also limited given that the recurring amounts are not significant and there are adequate safeguards in the contract against payment delinquency. Nevertheless, the Company closely monitors receivables from the TSF.

As at December 31, 2013 and 2012 and January 1, 2012, 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, 2013 and 2012 and January 1, 2012.

Year	Neither Past Due nor Impaired	Past Due but not Impaired						Total
		<31 Days	31–60 Days	61–90 Days	91–180 Days	181 Days – 1 Year	Total	
2013	**₱129,698,331**	**₱599,390**	**₱1,756,982**	**₱1,596,237**	**₱2,890,054**	**₱9,751,479**	**₱16,594,142**	**₱146,292,473**
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 tables below show the credit quality of the Company's financial assets based on their historical experience with the corresponding third parties:

	December 31, 2013			
	Neither Past Due nor Impaired - High-grade	**Past Due but not Impaired**	**Impaired**	**Total**
Cash and cash equivalents[(a)]	**₱1,411,978,601**	**₱–**	**₱–**	**₱1,411,978,601**
Receivables:				
Trade receivables	**129,698,331**	**16,594,142**	**–**	**146,292,473**
Interest receivables	**4,198,922**	**–**	**–**	**4,198,922**
Other receivables	**77,465,512**	**–**	**5,544,087**	**83,009,599**
Due from related parties	**4,836,582**	**–**	**–**	**4,836,582**
AFS financial assets	**3,516,701,041**	**–**	**–**	**3,516,701,041**
Refundable deposits[(b)]	**3,694,561**	**–**	**–**	**3,694,561**
	₱5,148,573,550	**16,594,142**	**₱5,544,087**	**₱5,170,711,779**

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

	December 31, 2012			
	Neither Past Due nor Impaired - High-grade	Past Due but not Impaired	Impaired	Total
Cash and cash equivalents[(a)]	₱2,605,579,634	₱–	₱–	₱2,605,579,634
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	29,440,155	–	–	29,440,155
Due from related parties	5,455,875	–	–	5,455,875
AFS financial assets	640,316,000	–	–	640,316,000
Refundable deposits[(b)]	2,505,562	–	–	2,505,562
	₱3,402,340,842	₱9,951,872	₱5,259,500	₱3,417,552,214

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

	January 1, 2012			
	Neither Past Due nor Impaired - High-grade	Past Due but not Impaired	Impaired	Total
Cash and cash equivalents[a]	₱1,068,923,344	₱–	₱–	₱1,068,923,344
Receivables:				
Trade receivables	63,742,079	20,344,131	5,259,500	89,345,710
Interest receivables	3,513,967	–	–	3,513,967
Other receivables	6,233,911	–	–	6,233,911
Due from related parties	9,757,757	–	–	9,757,757
AFS financial assets	577,721,750	–	–	577,721,750
Refundable deposits[b]	3,712,110	–	–	3,712,110
	₱1,733,604,918	₱20,344,131	₱5,259,500	₱1,759,208,549

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

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, ₱1,450.0 million and ₱1,300.0 million as at December 31, 2013 and 2012 and 2011, respectively and cash and cash equivalents amounting to ₱1,502.1 million, ₱2,678.0 million and ₱1,120.9 million as at December 31, 2013 and 2012 and January 1, 2012, respectively, that are allocated to meet the Company's short-term liquidity needs.

The tables below summarize the maturity profile of the Company's financial assets and financial liabilities as at December 31, 2013 and 2012 and January 1, 2012 based on undiscounted payments:

	December 31, 2013				
	Within the Year	**2–3 Years**	**4–5 Years**	**More than 5 Years**	**Total**
Financial Assets		–			
Cash and cash equivalents	**₱1,502,050,102**	**₱–**	**₱–**	**₱–**	**₱1,502,050,102**
Receivables [a]	**233,500,994**	–	–	–	**233,500,994**
Due from related parties	**4,836,582**	–	–	–	**4,836,582**
AFS financial assets [b]	**2,056,806,938**	**481,435,841**	**463,532,168**	**859,225,621**	**3,861,000,568**
	₱3,797,194,616	**₱481,435,841**	**₱463,532,168**	**₱859,225,621**	**₱5,601,388,246**

	December 31, 2013				
	Within the Year	**2–3 Years**	**4–5 Years**	**More than 5 Years**	**Total**
Financial Liabilities					
Accounts payable and other current liabilities [c]	**₱1,233,942,924**	**₱–**	**₱–**	**₱–**	**₱1,233,942,924**
Due to related parties	**97,549**	**–**	**–**	**–**	**97,549**
Dividends payable	**409,012,800**	**–**	**–**	**–**	**409,012,800**
Long-term debt [d]	**1,589,751,304**	**3,110,062,748**	**4,850,916,743**	**4,046,251,381**	**13,596,982,176**
	₱3,232,804,577	**₱3,110,062,748**	**₱4,850,916,743**	**₱4,046,251,381**	**₱15,240,035,449**

[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, 2012				
	Within the Year	2–3 Years	4–5 Years	More than 5 Years	Total
Financial Assets					
Cash and cash equivalents	₱2,677,998,929	₱–	₱–	₱–	₱2,677,998,929
Receivables [a]	163,695,143	–	–	–	163,695,143
Due from related parties	5,455,875	–	–	–	5,455,875
AFS financial assets [b]	89,598,443	381,653,819	223,501,910	115,330,729	810,084,901
	₱2,936,748,390	₱381,653,819	₱223,501,910	₱115,330,729	₱3,657,234,848
Financial Liabilities					
Accounts payable and other current liabilities [c]	₱1,185,695,446	₱–	₱–	₱–	₱1,185,695,446
Dividends payable	834,720,000	–	–	–	834,720,000
Long-term debt [d]	719,492,169	2,978,267,354	1,974,156,967	6,718,632,350	12,390,548,840
	₱2,739,907,615	₱2,978,267,354	₱1,974,156,967	₱6,718,632,350	₱14,410,964,286

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

	January 1, 2012				
	Within the Year	2–3 Years	4–5 Years	More than 5 Years	Total
Financial Assets					
Cash and cash equivalents	₱1,120,917,161	₱–	₱–	₱–	₱1,120,917,161
Receivables [a]	99,093,588	–	–	–	99,093,588
Due from related parties	9,757,757	–	–	–	9,757,757
AFS financial assets [b]	–	62,807,250	635,281,250	–	698,088,500
	₱1,229,768,506	₱62,807,250	₱635,281,250	₱–	₱1,927,857,006
Financial Liabilities					
Accounts payable and other current liabilities [c]	₱949,731,707	₱–	₱–	₱–	₱949,731,707
Due to related parties	521,510	–	–	–	521,510
Dividends payable	37,740,000	–	–	–	37,740,000
Long-term debt [d]	710,271,301	2,234,363,797	2,960,033,115	7,212,813,426	13,117,481,639
	1,698,264,518	2,234,363,797	2,960,033,115	7,212,813,426	14,105,474,856
Derivative liabilities:					
Derivative contracts – receipts	(45,570,427)	(130,888,718)	(46,419,353)	–	(222,878,498)
Derivative contracts – payments	112,382,630	204,446,940	39,762,734	–	356,592,304
	66,812,203	73,558,222	(6,656,619)	–	133,713,806
	₱1,765,076,721	₱2,307,922,019	₱2,953,376,496	₱7,212,813,426	₱14,239,188,662

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

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 Debt Service Coverage Ratio 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 1.3 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 60:40, 56:44 and 58:42 as at December 31, 2013 and 2012 and January 1, 2012, respectively, indicating that the Company has the capacity to incur additional long-term debt to build up its capital.

	2013	2012	2011
Long-term debt	**₱10,746,022,228**	₱8,905,968,324	₱9,050,617,440
Total equity	**7,199,019,088**	6,892,363,840	6,598,121,892
Total capital	**₱17,945,041,316**	₱15,798,332,164	₱15,648,739,332
Debt to equity ratio	**60:40**	56:44	58:42

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.

27. 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, 2013 and 2012 and January 1, 2012 follows:

	December 31, 2013		December 31, 2012		January 1, 2012	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets						
Loans and receivables:						
Cash and cash equivalents	**₱1,502,050,102**	**₱1,502,050,102**	₱2,677,998,929	₱2,677,998,929	₱1,120,917,161	₱1,120,917,161
Receivables:						
Trade	**140,748,386**	**140,748,386**	122,448,569	122,448,569	84,086,210	84,086,210
Interest receivables	**4,198,922**	**4,198,922**	6,546,919	6,546,919	3,513,967	3,513,967
Other receivables	**83,009,599**	**83,009,599**	29,440,155	29,440,155	6,233,911	6,233,911
Due from related parties	**4,836,582**	**4,836,582**	5,455,875	5,455,875	9,757,757	9,757,757
Refundable deposits[(a)]	**3,694,561**	**3,694,561**	2,505,562	2,505,562	3,712,110	3,708,618
	1,738,538,152	**1,738,538,152**	2,844,396,009	2,844,396,009	1,228,221,116	1,228,217,624
AFS financial assets:						
Unit investment trust fund	**1,995,120,215**	**1,995,120,215**	–	–	–	–
Investment in bonds	**1,521,580,826**	**1,521,580,826**	640,316,000	640,316,000	577,721,750	577,721,750
	3,516,701,041	**3,516,701,041**	640,316,000	640,316,000	577,721,750	577,721,750
	₱5,255,239,193	**₱5,255,239,193**	₱3,484,712,009	₱3,484,712,009	₱1,805,942,866	₱1,805,939,374
Financial Liabilities						
FVPL -						
Derivative liabilities	**₱–**	**₱–**	₱–	₱–	₱130,155,566	₱130,155,566
Other financial liabilities:						
Accounts payable and other current liabilities[(b)]	**1,233,942,924**	**1,233,942,924**	1,185,695,446	1,185,695,446	949,731,707	949,731,707
Due to related parties	**97,549**	**97,549**	–	–	521,510	521,510
Dividends payable	**409,012,800**	**409,012,800**	834,720,000	834,720,000	37,740,000	37,740,000
Long-term debt	**10,746,022,228**	**11,811,159,171**	8,905,968,324	9,817,379,206	9,050,617,440	9,616,868,839
	12,389,075,501	**13,454,212,444**	10,926,383,770	11,837,794,652	10,038,610,657	10,604,862,056
	₱12,389,075,501	**₱13,454,212,444**	₱10,926,383,770	₱11,837,794,652	₱10,168,766,223	₱10,735,017,622

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

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

Derivative Liabilities
As at December 31, 2011, the fair values of the interest rate swap transaction is 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, 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 is based on the quoted market price of the financial instruments as at December 31, 2013 and 2012 and January 1, 2012.

Refundable Deposits
Estimated fair value is based on the discounted value of future cash flows using the prevailing peso interest rates that are specific to the tenor of the instruments' cash flows ranging from1.8% to 2.2% in 2011. In 2013 and 2012, the fair value of refundable deposits approximates their carrying value as they are already due at yearend.

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. In 2013, 2012 and 2011, the prevailing peso interest rates ranged from 1.1% to 7.7%, from 2.2% to 7.7% and 2.2% to 7.1%, respectively.

Fair Value Hierarchy
As at December 31, 2013 and 2012 and January 1, 2012, the Company held the following financial instruments measured at fair value:

	December 31, 2013	**Level 1**	**Level 2**	**Level 3**
Financial Assets				
AFS financial assets:				
Unit investment trust fund	**₱1,995,120,215**	**₱–**	**₱1,995,120,215**	**₱–**
Investment in bonds	**1,521,580,826**	**1,521,580,826**	**–**	**–**
	₱3,516,701,041	**₱1,521,580,826**	**₱1,995,120,215**	**₱–**

	December 31, 2012	Level 1	Level 2	Level 3
Financial Assets				
AFS financial assets –				
Investment in bonds	₱640,316,000	₱640,316,000	₱–	₱–

	January 1, 2012	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, 2013, 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.

Derivative Instruments

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

The swap was designated as cash flow hedge at trade date. As at June 30, 2011, the effectiveness ratio was only 58.05% and the hedging relationship failed to meet the 80% to 125% hedge effectiveness criterion of PAS 39. As a result, the hedge was de-designated by the Company. The ₱39.0 million (gross of ₱10.7 million tax) deferred in equity representing the negative fair value change of the swap up to March 31, 2011 (the last testing date when the hedge was still effective) is being amortized over the term of the hedged loan and recognized under “Interest expense and other finance costs” account. Fair value changes of the swap subsequent to March 31, 2011 is recognized in the “Mark-to-market loss” account included in “Other expense” account in the statement of income. As at December 31, 2011, the outstanding notional amount of the interest rate swap amounted to ₱1,995.0 million with a negative fair value of ₱130.2 million. As at December 31, 2013 and 2012 and January 1, 2012, the unamortized amount deferred in equity amounted to ₱12.7 million (gross of ₱3.8 million tax) after amortization of ₱10.5million, ₱23.2 million (gross of ₱7.0 million tax) after amortization of ₱10.5 million, ₱33.7 million (gross of ₱10.1 million tax) after amortization of ₱5.3 million. The negative fair value change of the swap from April 1, 2011 to December 31, 2011 amounted to ₱91.2 million 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 15, this swap was preterminated on December 28, 2012.

As at December 31, 2013 and 2012 and January 1, 2012, 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, 2013, 2012 and 2011 follow:

	2013	2012	2011
Balance at beginning of year	**(₱23,219,515)**	(₱33,728,171)	(₱3,475,927)
Changes in fair value of cash flow hedges	**–**	–	(59,250,968)
	(23,219,515)	(33,728,171)	(62,726,895)
Transferred to statements of income:			
Mark-to-market loss	**–**	–	3,475,927
Interest expense*	**10,508,616**	10,508,656	25,522,797
	10,508,616	10,508,656	28,998,724
	(12,710,899)	(23,219,515)	(33,728,171)
Tax effects of items taken directly to equity	**3,813,270**	6,965,854	10,118,451
Balance at end of year	**(₱8,897,629)**	(₱16,253,661)	(₱23,609,720)

**Included in "Interest expense on bank loans" under "Interest expense and other finance costs" account (see Note 22).*

Fair Value Changes on Derivatives. The net changes in the fair values of all derivative instruments for the years ended December 31, 2013, 2012 and 2011 follow:

	2013	2012	2011
Balance at beginning of year	**₱–**	(₱130,155,566)	(₱209,010,941)
Net changes in fair values of derivatives:			
Designated as accounting hedges	**–**	–	(59,250,968)
Not designated as accounting hedges* (see Notes 22 and 23)	**–**	(44,844,434)	(112,777,098)
	–	(175,000,000)	(381,039,007)
Fair value of settled instruments:			
Designated as accounting hedges	**–**	–	20,255,865
Not designated as accounting hedges	**–**	175,000,000	230,627,576
Balance at end of year	**₱–**	₱–	(₱130,155,566)

**In 2012, this is recorded as mark-to-market loss under "Other expense" account in the statement of income. In 2011, these are recorded in the statement of income as follows: (a) ₱91,160,464 is included in mark-to-market loss under "Other expense" account and (b) ₱21,616,634 is included in "Interest expense" account.*

28. Contingencies and Others

a. Value-Added Tax

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

Thereafter, the TRB, in its letter dated October 28, 2005, directed the Company (and all Philippine toll expressway companies) to defer the imposition of VAT on toll fees. However, due to the possibility that the Company may eventually be subjected to VAT by virtue of RA No. 9337 as implemented by RR No. 16-2005, the Company, in 2005, carved out the input tax from its purchases of goods and services (includes input tax in relation to the Project construction cost) in 2004 which were previously recorded as part of service concession asset and recorded such input tax, together with the input tax in 2005 purchases and onwards, as a separate "Input value-added tax" account and accordingly reflected the input tax in the VAT returns.

In September 2005, the Company also requested for confirmation from the BIR that the Company can claim input VAT for the passed-on VAT on its purchases of goods and services for 2003 and prior years. The request is currently pending and has not been acted upon by the BIR as at February 3, 2014.

On December 21, 2009, the BIR issued RMC No. 72-2009, a reiteration of RMC No. 52-2005 issued on September 28, 2005, directing all internal revenue officers and other concerned on the imposition of VAT on tollway operators. However, on January 21, 2010, the Tollways Association of the Philippines (TAP) issued a letter to all tollway operators referring to a letter issued by TRB to TAP dated December 29, 2009. The 2010 letter reiterated TRB's previous instruction in the 2009 letter asking all toll operators to defer the imposition of VAT on toll fees until otherwise advised. The TRB directive was a result of a cabinet meeting held on 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 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 should be for purchases of goods and services delivered/rendered and invoiced/receipted on or after August 16, 2010. More importantly, RMC No. 63-2010 allowed tollway operators with prior VAT assessments to apply for abatement of tax liability, surcharge, interest and penalties under Section 204 of the Tax Code.

Thus, on August 4, 2010, notwithstanding legal basis on its claim for VAT exemption, 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 immediately resolve the application for abatement of MNTC because of a temporary restraining order issued by the Supreme Court on August 13, 2010 on the imposition VAT on tollway operators. On July 19, 2011, however, the matter was resolved when the SC upheld the legality of RMC No. 63-2010 issued by the BIR on July 19, 2010, in relation to Section 108 of the National Internal Revenue Code that imposes VAT on all services for a fee.

Following the SC decision, the BIR issued RMC No. 39-2011 dated August 31, 2011 fully implementing VAT on the gross receipts of tollway operators from all types of vehicles beginning October 1, 2011. The notable provisions of RMC No. 39-2011 are as follows:

i. Tollway operators who have been assessed VAT liabilities on gross receipts from toll fees prior to October 1, 2011 can apply for Abatement of the assessed tax liability, surcharge and interest under Section 204 of the NIRC and RR No. 13-2001.

ii. The accumulated input VAT account of the toll companies shall have a zero balance on October 1, 2011. Any input VAT that will henceforth be reflected in the books of accounts and other accounting records of tollway operators will have to be for purchases of goods delivered and invoiced on or after October 1, 2011. Whereas, for services, it should be for purchases of services which will be rendered and receipted on or after October 1, 2011.

iii. No future claims for tax credit or refunds shall be allowed for any VAT passed-on to the tollways operators on any of their purchases made prior to October 1, 2011.

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

In view of RMC No. 39-2011, the Company started imposing VAT on toll fees from motorists and correspondingly started recognizing VAT liability on October 1, 2011. The Company also reduced its accumulated input VAT to zero as at September 30, 2011. The input VAT were either charged to expense or capitalized to assets. Also, on September 30, 2011, pursuant to RMC No. 39-2011, a Memorandum of Understanding (MOU) was executed between the BIR and MNTC. Under the MOU, MNTC undertook that its accumulated input VAT account will have a zero balance on October 1, 2011, such that any input VAT that will thenceforth be reflected in MNTC's books will be for purchases of goods delivered and invoiced or services rendered and invoiced on or after October 1, 2011. MNTC likewise undertook not to claim any tax credit or refund for any VAT passed-on to MNTC on any of its purchases made prior to October 1, 2011. On the other hand, the BIR undertook to immediately process the application for abatement of tax liabilities, surcharge, interest and penalties on all open VAT assessments on toll fees issued against MNTC covering the period prior to October 1, 2011.

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

- The BIR issued a Formal Letter of Demand on March 16, 2009 requesting the Company to pay deficiency VAT plus penalties amounting to ₱1,010.5 million for taxable year 2006. MNTC filed a protest letter with the BIR in May 2009. In July of 2009, MNTC filed a supplement to the protest letter stating that its May 2009 submission should be considered its complete submission of documents for the purpose of counting the BIR's 180-day period to decide the protest pursuant to the Tax Code. However, the BIR did not act upon the protest letter. Meanwhile, in August 2010, MNTC, in accordance with RMC No. 63-2010 dated July 19, 2010, applied for abatement of alleged VAT liabilities for taxable year 2006. In March 2012, MNTC filed a position paper with the BIR regarding the treatment of deferred input VAT from the purchase of capital goods and services in relation to its above application for abatement. The BIR has yet to resolve the application for abatement of MNTC.

- A Final Assessment Notice was received from the BIR dated November 15, 2009, assessing the Company deficiency VAT plus penalties amounting to ₱557.6 million for taxable year 2007. MNTC filed a protest letter with the BIR in December 2009. in February 2010, MNTC filed a supplement to the protest letter stating that its December 2009 submission should be considered as its complete submission of documents for the purpose of counting the BIR's 180-day period to decide the protest pursuant to the Tax Code. In March 2010, MNTC received the decision of the BIR denying the protest (the "Disputed Decision"). Within 30 days from the receipt of the Disputed Decision or in

April 2010, MNTC filed a petition for review with the CTA to appeal the denial by the BIR of its protest. MNTC filed its memorandum in July 2013 and a supplemental memorandum in August 2013. The case is now considered submitted for decision. Meanwhile, in August 2010, MNTC, in accordance with Revenue Memorandum Circular No. 63-2010 dated 19 July 2010, applied for abatement of alleged VAT liabilities for taxable year 2007. The BIR has yet to resolve the application for abatement of MNTC.

- The BIR issued a Notice of Informal Conference from the BIR dated October 5, 2009, assessing the Company for deficiency VAT plus penalties amounting to ₱470.9 million for taxable year 2008. On May 21, 2010, the BIR issued another notice increasing the deficiency VAT for taxable year 2008 to ₱1,209.2million (including penalties). On June 11, 2010, MNTC filed its Position Paper with the BIR reiterating its claim that it is not subject to VAT on toll fees.

- The BIR issued a Notice of Informal Conference on May 21, 2010 assessing MNTC deficiency VAT plus penalties amounting to ₱1,026.6 million for taxable year 2009. On June 11, 2010, MTNC filed its Position Paper with the BIR reiterating its claim that it is not subject to VAT on toll fees for years 2008 and 2009. On June 11, 2010, MNTC filed its Position Paper with the BIR reiterating its claim that it is not subject to VAT on toll fees.

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

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

Local Business Tax (LBT)
In 2008, the Company received an assessment from the municipality of Guiguinto, Bulacan for alleged deficiency LBT for years 2005 to 2007 amounting to ₱67.4 million, inclusive of surcharges and penalties. The Company, through its legal counsel, protested and subsequently, in 2009 filed a complaint for annulment of assessment (with prayer for the issuance of TRO and/or writ of preliminary injunction) with the RTC of Malolos, Bulacan claiming, among other things, that its predecessor, PNCC has never been subjected to LBT and as such the Company continued the customary practice of obtaining the business permits solely from the local government unit where its principal office is located (Pasig City and later, Caloocan City).

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

In March 2010, the Company received a final demand letter from the municipality to pay LBT, permits, and regulatory fees. On March 12, 2010, the RTC of Malolos, Bulacan denied the Company's application for the issuance of a TRO and/or writ of preliminary injunction. On March 15, 2010, the Company filed with the Court of Appeals a petition for certiorari (with application for the issuance of a TRO and/or a writ of preliminary injunction) to annul or set aside the orders of the RTC of Malolos, Bulacan denying the Company's application for the issuance of a writ of preliminary injunction. The Court of Appeals, in its decision dated July 23, 2010, dismissed the petition. On August 17, 2010, the Company filed a motion for reconsideration but the motion was denied by the Court of Appeals on December 3, 2010.

On July 25, 2011, the Company received a copy of the decision of the RTC of Malolos, Bulacan dated July 7, 2011. The RTC dismissed the Company's complaint for lack of merit and upheld the imposition of taxes and further ordered the Company to settle the taxes upon finality of the decision. The Company filed its motion for reconsideration on August 9, 2011, which was denied by the RTC in an order dated October 6, 2011. A proffer of excluded evidence and a petition for review with the RTC of Malolos, Bulacan and Court of Tax Appeals (CTA), respectively, were filed on November 9, 2011 by the Company. The CTA, in a decision dated December 3, 2012, partially granted the Company'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 the Company for ₱67.4 million LBT for the years 2005 to 2007. However, the CTA ordered the Company 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. The municipality of Guiguinto subsequently filed with the CTA a motion for reconsideration. The CTA, in a resolution dated April 25, 2013, denied the motion for reconsideration filed by the municipality of Guiguinto. As at February 3, 2014, the local government has not filed an appeal.

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

The DOF issued Local Finance Circular No. 1-2013 dated January 18, 2013 prescribing guidelines governing the power of LGUs to impose LBT on tollway operators. The guidelines state that, among other things, all receipts collected by the toll booths in a toll barrier/plaza shall be recorded in said toll barrier/plaza and the tax due thereon shall be payable to the city or municipality where the said toll booth or toll barrier/plaza is located. The LBT guideline shall apply to all LGUs that may host a toll booth or toll barrier/plaza that may be established in the future along other segments, extensions, stretches, linkages, diversions, or expansions of the toll expressway system. The LBT allocation shall apply prospectively from the time of the issuance and/or effectivity of this Circular.

Real Property Tax (RPT)
On July 15, 2008, MNTC filed a petition for review under Section 226 of the Local Government Code ("LGC") with the LBAA to annul and set aside the action of the provincial assessor of the province of Bulacan, in *motu proprio* issuing five (5) assailed tax declarations under the name of MNTC as administrator/beneficial user and classifying and categorizing the NLEX as a commercial property subject to RPT. In August 2008, the respondent provincial assessor filed its answer with motion to dismiss. In September 2008, MNTC filed the corresponding reply with opposition. The LBAA scheduled an ocular inspection of the subject real properties on May 7, 2009 to determine whether said properties in fact covers portions of the NLEX, which MNTC argues are part of public land exempt from RPT. The ocular inspection however was reset due to the unavailability of some of the members of the LBAA. The LBAA has yet to re-schedule the ocular inspection as of date. The case is still pending before the LBAA of the Province of Bulacan.

In April 2013, MNTC filed a petition for review under Section 226 of the LGC with the LBAA to declare as null and void the assailed assessment and the assailed thirty-four (34) tax declarations *motu proprio* issued by the provincial assessor of the province of Bulacan in the name of MNTC as owner of the NLEX and categorizing the NLEX as a commercial property, subject to RPT, and the corresponding notice of assessment dated January 10, 2013 for RPT against MNTC over the said properties pursuant to Section 204 of the LGC. In June 2013, the LBAA issued an order denying due course to the petition. In July 2013, MNTC filed a motion for reconsideration praying that the order be reconsidered and that MNTC's petition be given due course. In September 2013, MNTC received an order from the LBAA setting the date for the hearing on MNTC's motion for reconsideration on September 25, 2013. In September 2013, MNTC received the province of Bulacan's comment to MNTC's motion for reconsideration. Since MNTC learned of the September 25, 2013 hearing only after it received the order on September 26, 2013, MNTC filed a manifestation and motion praying that (i) MNTC be given until October 16, 2013 within which to file its reply to the comment, and (ii) the hearing on the motion for reconsideration be reset to October 22, 2013. During the hearing on November 20, 2013, the province requested for time to file its rejoinder. The LBAA also ordered the Respondents to submit samples of the tax declarations in question. The LBAA then set another hearing on December 11, 2013. The LBAA submitted the Motion for Reconsideration for resolution during the December 11, 2013 hearing. To date, the LBAA has not yet resolved the motion.

On September 18, 2013, MNTC received Notices of Realty Tax Delinquencies for the years 2006 to 2013 issued by the Provincial Treasurer, which state that, if after fifteen (15) days from MNTC's receipt of the Notices, MNTC fails to pay or remit the alleged delinquent RPT due in the amount of ₱304.9 million, the remedies provided for under the law for the collection of delinquent taxes shall be applied to enforce collection. On September 27, 2013, the BLGF wrote a letter to the LGU advising it to hold in abeyance any further course of action pertaining to the RPT delinquency covering the subject 34 tax declarations. On October 3, 2013, MNTC received another notice dated October 1, 2013 from the Provincial Treasurer, alleging that since the period given in the Notices has already elapsed, the Province may apply "the remedies under the law for the collection of delinquent taxes." On October 4, 2013, the Provincial Treasurer withdrew the October 3, 2013 notice to respect the directive from the DOF-BLGF to hold the enforcement of any collection remedies in abeyance.

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

29. Supplementary Information Required Under Revenue Regulations 19-2011

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

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

Sales, Revenue, Receipts and Fees	
Toll fees – net	₱7,101,436,578
Sale of magnetic cards	3,527
	7,101,440,105
Cost of Sales/Services	
Operator's fee	1,502,066,430
Depreciation of service concession asset	761,188,425
PNCC fee	418,087,772
Heavy maintenance expense	283,459,388
Repairs and maintenance	108,859,648
Insurance	43,673,719
Toll collection and medical services	17,988,000
Cost of inventories	3,370
Others	50,283,635
	3,185,610,387
Other Income:	
Income from advertising	64,226,382
Income from toll service facilities	21,126,460
Gain on sale of AFS financial assets	11,780,746
Foreign exchange gain	6,622,358
Income from utility facilities	2,074,249
Others	2,496,946
	108,327,141
Total Gross Income	4,024,156,859
Less optional standard deduction	1,609,662,744
Net taxable income	₱2,414,494,115

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

In compliance with the requirements set forth by RR No. 15-2010 hereunder are the information on taxes and license fees paid as at and for the year ended December 31, 2013.

Value-added tax (VAT)

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

a. Net Sales/Receipts and Output VAT declared in the Company's VAT returns filed in 2013

	Net Sales/ Receipts	Output VAT
Sales of services:		
Vatable receipts	₱7,200,483,301	₱864,057,996
Zero-rated	188,445	–
Exempt	394,846	–
	₱7,201,066,592	₱864,057,996

The Company's sales of services are based on actual collections received, hence, may not be the same as amounts reflected in the statements of income. The amount of output tax is deferred upon recording of sales services subject to VAT. These deferred output taxes are reclassed to output tax upon collection.

Sales from services represent collections received from such sales which for the year amounted to ₱7,200.7 million, of which ₱7,101.4 million pertains to toll collections which are under "Operating revenues" account in the statements of income and ₱99.3 million pertains to collections from toll service facilities and others which are recorded in "Other income" account in the statements of income.

The Company has zero-rated sales amounting to ₱0.2 million pursuant to the provisions of National Internal Revenue Code Section 106 (A) (2) (a) (5) which states that those considered export sales under Executive Order No. 226, otherwise known as the Omnibus Investment Code of 1987, and other special laws shall be subject to zero percent rate.

b. Input VAT declared in the Company's VAT returns filed for 2013 are as follows:

Balance at beginning of year:	
Carried over from previous period	₱–
Input VAT deferred on capital goods exceeding ₱1.0 million from previous period	307,002
Current year's importations of goods other than capital goods	1,623,741
Current year's domestic purchases/payments for:	
Goods other than for resale or manufacture	4,924,680
Domestic purchase of services:	
Services lodged under cost of service	296,478,828
Services lodged under other accounts	78,258
Capital goods not subject to amortization	109,425
Capital goods subject to amortization	2,518,396
Input VAT claimed against output VAT	(303,586,221)
Balance at end of year	₱2,454,109

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

Importations

Details of the Company's importations for the year ended December 31, 2013 are shown below:

Total landed cost of imports	₱13,330,831
Customs duties	200,344
Balance at end of year	₱13,531,175

Input VAT on importation amounted to ₱1.6 million and is presented in (b) above.

Taxes, Duties and License Fees

This includes all other taxes, local and national, including real estate taxes, licenses and permit fees lodged under the "Taxes and licenses" account in the statement of income for the year ended December 31, 2013:

a. Local taxes

Local Business Taxes	₱42,908,381
Real Property Taxes	8,643,801
License and Permit Fees	1,076,413
Filing, registration and notarial fees	215,441
	₱52,844,036

b. National taxes

Documentary stamp taxes	₱1,245
Fringe benefits taxes	3,775,293
	₱3,776,538

Withholding Taxes

Details of withholding tax payments for the year ended December 31, 2013 are as follows:

Expanded withholding taxes	₱152,612,999
Withholding taxes on compensation and benefits	43,310,691
Final withholding taxes	23,503,163
	₱219,426,853

Tax Assessments and Litigations

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

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

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

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

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

On July 25, 2011, the Company received a copy of the decision of the RTC of Malolos, Bulacan dated July 7, 2011. The RTC dismissed the Company's complaint for lack of merit and upheld the imposition of taxes and further ordered the Company to settle the taxes upon finality of the decision. The Company filed its motion for reconsideration on August 9, 2011, which was denied by the RTC in an order dated October 6, 2011. A proffer of excluded evidence and a petition for review with the RTC of Malolos, Bulacan and Court of Tax Appeals (CTA), respectively, were filed on November 9, 2011 by the Company. The CTA, in a decision dated December 3, 2012, partially granted the Company'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 the Company for ₱67.4million LBT for the years 2005 to 2007. However, the CTA ordered the Company to pay the municipality of Guiguinto the ₱2.3million mayor's permit and other regulatory fees assessment for the years 2004 to 2008, inclusive of surcharges and penalties. The municipality of Guiguinto subsequently filed with the CTA a motion for reconsideration. The CTA, in a resolution dated April 25, 2013, denied the motion for reconsideration filed by the municipality of Guiguinto. As at February 3, 2014, the local government has not filed an appeal.

Meanwhile, on July 22, 2010, the Company filed another complaint with the RTC of Malolos, Bulacan seeking to annul and set aside the illegal assessment for unpaid LBT in the total amount of ₱34.0 million, inclusive of surcharges and penalties, for the years 2008 and 2009 issued against the Company by the Municipal Treasurer of Guiguinto, Province of Bulacan in February 2010. On May 20, 2011, the Company filed a manifestation with the RTC that with the categorical withdrawal of the assessment by the Municipal Government, there is no longer any need to pursue this case. The RTC issued an order dated May 23, 2011 which deemed the case closed and terminated.

Real Property Tax Assessment. On July 15, 2008, MNTC received five (5) assailed tax declarations under the name of MNTC as administrator/beneficial user and classifying and categorizing the NLEX as a commercial property subject to RPT. In August 2008, the respondent provincial assessor filed its answer with motion to dismiss. In September 2008, MNTC filed the corresponding reply with opposition. The LBAA scheduled an ocular inspection of the subject real properties on May 7, 2009 to determine whether said properties in fact covers portions of the NLEX, which MNTC argues are part of public land exempt from RPT. The ocular inspection however was reset due to the unavailability of some of the members of the LBAA. The LBAA has yet to re-schedule the ocular inspection as of date. The case is still pending before the LBAA of the Province of Bulacan.

In April 2013, MNTC received assailed thirty-four (34) tax declarations *motu proprio* issued by the provincial assessor of the province of Bulacan in the name of MNTC as owner of the NLEX and categorizing the NLEX as a commercial property, subject to RPT, and the corresponding notice of assessment dated January 10, 2013 for RPT against MNTC over the said properties pursuant to Section 204 of the LGC. In June 2013, the LBAA issued an order denying due course to the petition. In July 2013, MNTC filed a motion for reconsideration praying that the order be reconsidered and that MNTC's petition be given due course. In September 2013, MNTC received an order from the LBAA setting the date for the hearing on MNTC's motion for reconsideration on September 25, 2013. In September 2013, MNTC received the province of Bulacan's comment to MNTC's motion for reconsideration. Since MNTC learned of the September 25, 2013 hearing only after it received the order on September 26, 2013, MNTC filed a manifestation and motion praying that (i) MNTC be given until October 16, 2013 within which to file its reply to the comment, and (ii) the hearing on the motion for reconsideration be reset to October 22, 2013. During the hearing on November 20, 2013, the province requested for time to file its rejoinder. The LBAA also ordered the Respondents to submit samples of the tax declarations in question. The LBAA then set another hearing on December 11, 2013. The LBAA submitted the Motion for Reconsideration for resolution during the December 11, 2013 hearing. As at February 3, 2014, the LBAA has not yet resolved the motion.

On September 18, 2013, MNTC received Notices of Realty Tax Delinquencies for the years 2006 to 2013 issued by the Provincial Treasurer, which state that, if after fifteen (15) days from MNTC's receipt of the Notices, MNTC fails to pay or remit the alleged delinquent RPT due in the amount of ₱304.9 million, the remedies provided for under the law for the collection of delinquent taxes shall be applied to enforce collection. On September 27, 2013, the BLGF wrote a letter to the LGU advising it to hold in abeyance any further course of action pertaining to the RPT delinquency covering the subject 34 tax declarations. On October 3, 2013, MNTC received another notice dated October 1, 2013 from the Provincial Treasurer, alleging that since the period given in the Notices has already elapsed, the Province may apply "the remedies under the law for the collection of delinquent taxes." On October 4, 2013, the Provincial Treasurer withdrew the October 3, 2013 notice to respect the directive from the DOF-BLGF to hold the enforcement of any collection remedies in abeyance.