Tollways Management Corporation

Financial Statements
December 31, 2013 and 2012

and

Independent Auditors' Report

SGV
Building a better working world

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Tollways Management Corporation

Report on the Financial Statements

We have audited the accompanying financial statements of Tollways Management Corporation, which comprise the balance sheets as at December 31, 2013 and 2012, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

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

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in Note 22 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of Tollways Management Corporation. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Belinda T. Beng Hui

Belinda T. Beng Hui
Partner
CPA Certificate No. 88823
SEC Accreditation No. 0923-AR-1 (Group A),
March 25, 2013, valid until March 24, 2016
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 13, 2014

TOLLWAYS MANAGEMENT CORPORATION
BALANCE SHEETS

	December 31, 2013	December 31, 2012 (As restated - Note 2)	January 1, 2012 (As restated - Note 2)
ASSETS			
Current Assets			
Cash and cash equivalents (Note 4)	**₱299,978,269**	₱269,970,415	₱423,545,662
Receivables (Notes 5 and 11)	**461,514,576**	496,482,170	390,631,984
Inventories	**8,550,896**	9,070,783	17,588,338
Other current assets (Note 6)	**42,397,130**	31,422,779	33,476,089
Total Current Assets	**812,440,871**	806,946,147	865,242,073
Noncurrent Assets			
Property and equipment (Note 7)	**67,826,274**	76,036,948	72,268,689
Deferred income tax assets - net (Note 17)	**19,915,978**	77,497,396	72,186,616
Pension asset (Note 15)	**–**	15,557,600	14,070,900
Deposits and other noncurrent assets (Note 8)	**9,955,118**	10,767,720	16,459,292
Total Noncurrent Assets	**97,697,370**	179,859,664	174,985,497
	₱910,138,241	₱986,805,811	₱1,040,227,570
LIABILITIES AND EQUITY			
Current Liabilities			
Accounts payable and other current liabilities (Notes 9 and 11)	**₱419,405,379**	₱484,844,989	₱493,198,857
Provisions (Notes 10 and 11)	**64,663,889**	89,028,466	86,970,098
Dividends payable (Notes 11 and 12)	**–**	–	79,222,931
Income tax payable	**24,607,475**	20,912,185	39,489,528
Retention payable	**4,890,651**	3,267,279	6,721,749
Total Current Liabilities	**513,567,394**	598,052,919	705,603,163
Noncurrent Liability			
Accrued retirement cost (Note 15)	**9,966,602**	–	–
Total Liabilities	**523,533,996**	598,052,919	705,603,163
Equity			
Capital stock - ₱100 par value			
Authorized, issued and outstanding - 380,000 shares	**38,000,000**	38,000,000	38,000,000
Other comprehensive income (loss)	**(12,775,827)**	2,120,544	–
Retained earnings (Note 12)	**361,380,072**	348,632,348	296,624,407
Total Equity	**386,604,245**	388,752,892	334,624,407
	₱910,138,241	₱986,805,811	₱1,040,227,570

See accompanying Notes to Financial Statements.

TOLLWAYS MANAGEMENT CORPORATION
STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2013	2012 (As restated - Note 2
SERVICE REVENUES (Note 11)	**₱1,889,781,865**	₱1,811,869,108
COST OF SERVICES (Notes 11 and 13)	**917,115,983**	886,898,847
GROSS PROFIT	**972,665,882**	924,970,261
GENERAL AND ADMINISTRATIVE EXPENSES (Notes 11 and 14)	**241,762,934**	284,382,506
OTHER INCOME (EXPENSES)		
Guarantee fees (Note 11)	**(36,763,263)**	(36,317,192)
Provisions for claims and losses (Note 10)	**(4,884,328)**	(14,006,280)
Gain (loss) on disposal of property and equipment (Note 7)	**6,521,602**	(1,202,305)
Interest income (Note 4)	**3,593,578**	8,442,797
Foreign exchange gain (loss) -net	**105,060**	(10,231)
Bank charges	**(1,347)**	(16,858)
Reversal of provisions and accruals (Notes 5, 9 and 10)	**47,434,814**	3,976,718
Other income (Note 16)	**35,795,672**	58,182,159
	51,801,788	19,048,808
INCOME BEFORE INCOME TAX	**782,704,736**	659,636,563
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 17)		
Current	**182,434,390**	177,849,276
Deferred	**59,942,196**	(6,219,585)
	242,376,586	171,629,691
NET INCOME	**540,328,150**	488,006,872
OTHER COMPREHENSIVE INCOME (LOSS)		
Items that will not be reclassified subsequently to profit or loss:		
Remeasurement gain (loss) on defined benefit plan (Note 15)	**(17,257,149)**	3,029,349
Income tax effect (Note 17)	**2,360,778**	(908,805)
	(14,896,371)	2,120,544
TOTAL COMPREHENSIVE INCOME	**₱525,431,779**	₱490,127,416

See accompanying Notes to Financial Statements.

TOLLWAYS MANAGEMENT CORPORATION
STATEMENTS OF CHANGES IN EQUITY

	Years Ended December 31	
	2013	2012 (As restated - Note 2)
CAPITAL STOCK	**₱38,000,000**	₱38,000,000
OTHER COMPREHENSIVE INCOME - net of tax (Note 15)		
Balance at beginning of year, as previously reported	**–**	–
Effect of adoption of revised PAS 19 (Note 2)	**2,120,544**	–
Balance at beginning of year, as restated	**2,120,544**	–
Effect of adoption of revised PAS 19 (Note 2)	**–**	2,120,544
Remeasurement loss on defined benefit plan	**(14,896,371)**	–
Balance at end of year	**(12,775,827)**	2,120,544
RETAINED EARNINGS (Note 12)		
Balance at beginning of year, as previously reported	**339,114,970**	286,027,205
Effect of adoption of revised PAS 19 (Note 2)	**9,517,378**	10,597,202
Balance at beginning of year, as restated	**348,632,348**	296,624,407
Net income, as previously reported	**540,328,150**	489,086,696
Effect of adoption of revised PAS 19 (Note 2)	**–**	(1,079,824)
Net income, as restated	**540,328,150**	488,006,872
Dividends declared	**(527,580,426)**	(435,998,931)
Balance at end of year, as restated	**361,380,072**	348,632,348
	₱386,604,245	₱388,752,892

See accompanying Notes to Financial Statements.

TOLLWAYS MANAGEMENT CORPORATION
STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱782,704,736**	₱659,636,563
Adjustments for:		
Depreciation (Notes 7, 13 and 14)	**32,727,914**	31,888,215
Reversal of provisions and accruals (Notes 5, 9 and 10)	**(47,434,814)**	(3,976,718)
Retirement benefits cost (Note 15)	**8,267,053**	8,205,049
Loss (gain) on disposal of property and equipment (Note 7)	**(6,521,602)**	1,202,305
Provision for claims and losses (Note 10)	**4,884,328**	14,006,280
Interest income (Note 4)	**(3,593,578)**	(8,442,797)
Operating income before working capital changes	**771,034,037**	702,518,897
Decrease (increase) in:		
Receivables	**63,967,470**	(105,850,186)
Other current assets	**(47,383,307)**	(25,226,545)
Inventories - at cost	**519,887**	8,517,555
Increase (decrease) in:		
Accounts payable and other current liabilities	**(56,732,291)**	25,392
Provisions	**(10,813,966)**	(11,947,912)
Retention payable	**1,623,372**	(3,454,470)
Cash generated from operations	**722,215,202**	564,582,731
Income tax paid	**(142,330,144)**	(169,146,764)
Net cash provided by operating activities	**579,885,058**	395,435,967
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to property and equipment (Note 7)	**(30,104,913)**	(37,762,217)
Proceeds from disposal of property and equipment	**12,109,275**	903,438
Interest received	**3,593,578**	8,442,797
Decrease in deposits and other noncurrent assets	**812,602**	5,691,571
Retirement plan asset contribution (Note 15)	**(8,707,320)**	(11,064,941)
Net cash used in investing activities	**(22,296,778)**	(33,789,352)
CASH FLOWS FROM FINANCING ACTIVITY		
Dividends paid	**(527,580,426)**	(515,221,862)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**30,007,854**	(153,575,247)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR (Note 4)	**269,970,415**	423,545,662
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	**₱299,978,269**	₱269,970,415

See accompanying Notes to Financial Statements.

TOLLWAYS MANAGEMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS

1. **General Information**

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

   The Company is 46% owned by Metro Pacific Tollways Development Corporation (MPTDC), 34% by Egis Road Operation S.A. (Egis) and 20% by the Republic of the Philippines.

   The Company, under an Operation and Maintenance Agreement (O&M Agreement) with Manila North Tollways Corporation (MNTC), a subsidiary of MPTDC , is the operator of Phase I consisting of Segments 1, 2, 3 and 7 and Segment 8.1, a portion of Phase II of the North Luzon Expressway (NLEX) Project of MNTC. The Phase I of the NLEX Project includes an 84-km stretch of road extending from Metro Manila to Sta. Inez Exit, Mabalacat, Pampanga, and an 8.8-km stretch of road linking Tipo, Hermosa, Bataan to Subic. Segment 8.1, a portion of Phase II, is a 2.7-km stretch of road linking NLEX to Mindanao Avenue. The O&M Agreement is effective until December 31, 2030. In 2012, TMC was engaged by MNTC to operate and maintain the new Plaridel Bypass Interchange, a 1.5-km stretch connecting Plaridel to NLEX. The Company was also engaged by MNTC to operate the Bocaue North Bound Plaza in which the engagement for the operations and maintenance is still being formalized as at February 13, 2014.

   The Company, Egis, and First Philippine Holdings Corporation (FPHC) have a joint venture agreement (JVA) for the interim operation and maintenance of the Subic-Clark-Tarlac Expressway (SCTEX) (the Project) of Bases Conversion and Development Authority (BCDA). On November 13, 2008, FPHC and Metro Pacific Investments Corporation (MPIC) executed a letter pursuant to Share Purchase Agreement whereby FPHC granted to MPIC an assignable option (the “SCTEX Option”) to acquire all the rights and interests of FPHC under the JVA, in consideration for the assumption by MPIC or its assignee of all of the obligations of FPHC under all the SCTEX Agreements. MPIC exercised the SCTEX Option on February 11, 2009. The Project which had been extended several times from an initial period of six (6) months can be extended on a monthly basis but any extension should not exceed six (6) months. The BCDA Board has approved Resolution No. 2013-10-168 during its meeting on October 16, 2013 for the engagement of the services of the Joint Venture of FPHC, Egis and TMC for the O&M of SCTEX from October 28, 2013 to April 27, 2014 subject to pre-termination should all the “Conditions Precedent” of the Business Operations Agreement be completed and MNTC be ready to take-over SCTEX.

   Under the JVA, the Company has a 20% interest in the Project. However, consistent with the allocation of respective duties to each other and to the BCDA, as well as the mutually agreed upon rights and to simplify operational set-up with BCDA, the parties agreed that the Company shall receive payments in its name and instructions from the BCDA pertaining to the operations and maintenance of the SCTEX.

The registered office address of the Company is OMC Building, Balintawak Toll Plaza,Km. 12 North Luzon Expressway, Caloocan City.

Authorization for Issuance of the Financial Statements
The accompanying financial statements were authorized for issue by the Board of Directors (BOD) on February 13, 2014.

2. Basis of Preparation, Statement of Compliance and Changes in Accounting Policies and Disclosures

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

Statement of Compliance
The accompanying financial statements of the Company have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). PFRS includes statements named PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations from International Financial Reporting Interpretations Committee (IFRIC) issued by the Financial Reporting Standards Council (FRSC).

Changes in Accounting Policies and Disclosures
The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended PFRSs which were adopted as at January 1, 2013.

The adoption of the following amendments have significant impact on the Company's financial statements:

- PAS 1, *Presentation of Financial Statements - Presentation of Items of Other Comprehensive Income* (Amendments), became effective for annual periods beginning on or after July 1, 2012. The amendment to PAS 1 change grouping of items presented in Other Comprehensive Income (OCI). Items may 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 amendment was applied retrospectively and resulted to modification of the presentation of OCI.

- PAS 19, *Employee Benefits* (Revised), became effective for annual periods beginning on or after January 1, 2013.

  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:

	December 31, 2013	December 31, 2012	January 1, 2012
Increase (decrease) in balance sheet:			
Accrued retirement cost	**₱2,883,574**	(₱16,625,603)	(₱15,138,860)
Deferred tax asset - net	**(2,318,826)**	(4,987,681)	(4,541,658)
Other comprehensive income, net of tax	**(12,775,827)**	2,120,544	–
Retained earnings, net of tax	**7,573,427**	9,517,378	10,597,202

	2013	2012
Increase (decrease) in statement of comprehensive income:		
Retirement benefit cost	**₱2,252,028**	₱1,542,606
Income tax expense	**(308,077)**	(462,782)
Net income	**(1,943,951)**	(1,079,824)
Remeasurement of retirement benefit cost		
Income tax expense	**(2,360,778)**	908,805
Other comprehensive income, net of tax	**(14,896,371)**	2,120,544
Total comprehensive income	**(₱16,840,322)**	₱1,040,720

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

The adoption of the following new standards and amendments did not have a material effect on the accounting policies, financial position or performance of the Company:

- PFRS 7, *Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities*, became effective for annual periods beginning on or after January 1, 2013.

- PFRS 10, *Consolidated Financial Statements*, became effective for annual periods beginning on or after January 1, 2013.

- PFRS 11, *Joint Arrangements*, became effective for annual periods beginning on or after January 1, 2013.

- PFRS 12, *Disclosure of Interests in Other Entities*, became effective for annual periods beginning on or after January 1, 2013.

- PFRS 13, *Fair Value Measurement*, became effective for annual periods beginning on or after January 1, 2013.

- PAS 27, *Separate Financial Statements* (as revised in 2011), became effective for annual periods beginning on or after January 1, 2013.

- PAS 28, *Investments in Associates and Joint Ventures* (as revised in 2011), became effective for annual periods beginning on or after January 1, 2013.

- Philippine Interpretation IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*, became effective for annual periods beginning on or after January 1, 2013.

<u>Annual Improvements to PFRSs (2009-2011 cycle)</u>
This contains non-urgent but necessary amendments to PFRSs. The Company adopted these amendments in the current year. The Company does not expect these amendments to have significant impact on its financial statements, unless otherwise stated.

- PFRS 1, *First-time Adoption of PFRS - Borrowing Costs*

- 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*.

- PAS 32, *Financial Instruments: Presentation - Tax Effect of Distribution to Holders of Equity Instruments*.

- PAS 34, *Interim Financial Reporting - Interim Financial Reporting and Segment Information for Total Assets and Liabilities.*

Standards Issued but not yet Effective
Standards issued but are not yet effective up to the date of the Company's financial statements are listed below. The Company intends to adopt these standards when they become effective. Except as otherwise indicated, the Company does not expect these standards, amendments and interpretations to have a significant impact on its financial statements.

- 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.

- 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.

- 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 36, *Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets* (Amendments). 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. 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.

- 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.

- Philippine Interpretation IFRIC 21, *Levies*. 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.

- 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 (FVPL). All equity financial assets are measured at fair value either through OCI or profit or loss. Equity financial assets held for trading must be measured at FVPL. For liabilities designated as at FVPL using the FVO, 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.

  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.

- 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 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.

<u>Annual Improvements to PFRSs (2010-2012 cycle)</u>
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.

- 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.

- 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.

- 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. This amendment is effective for annual periods beginning on or after July 1, 2014.

- 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.

- 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.

- 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.

<u>Annual Improvements to PFRSs (2011-2013 cycle)</u>
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. The amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively.

- 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.

- 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.

- 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.

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

Financial Instruments

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

Initial Recognition of Financial Instruments. All financial assets are initially recognized at fair value, which is the fair value of the consideration given (in case of an asset) or received (in case of a liability). Except for financial assets and financial liabilities classified as at FVPL, the initial measurement of financial assets includes transactions costs.

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

Determination of Fair Value. 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, or
- 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 to 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 best economic interest.

A fair value measurement of a nonfinancial 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 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.

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; and

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 re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The Company determines the policies and procedures for both recurring and non-recurring fair value measurements. For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy.

The Company recognizes transfers into and transfers out of fair value hierarchy levels by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) as at the date of the event or change in circumstances that caused the transfer.

Determination of Amortized Cost. HTM investments and loans and receivables are measured at amortized cost. This is computed using the effective interest method less any allowance for impairment. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate (EIR). Financial instruments are classified as financial liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument or a component that is a financial liability are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity, net of any related income tax benefits.

The Company has no financial assets and financial liabilities at FVPL, HTM investments and AFS investments. As at December 31, 2013 and 2012, the Company has the following categories of financial assets and financial liabilities:

(a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not designated as AFS investments or financial assets at FVPL.

After initial measurement, the loans and receivables are subsequently measured at amortized cost using the effective interest method less any allowance for impairment. Amortized cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate. Gains and losses are recognized in profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortization process. Loans and receivables are included in current assets if maturity is within 12 months from the balance sheet date. Otherwise, these are classified as noncurrent assets.

The Company's loans and receivables consist of cash and cash equivalents, receivables and deposits.

(b) Other financial liabilities

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

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

The Company's other financial liabilities consist of accounts payable and other current liabilities, provisions for claims and losses, dividends payable and retention payable.

"Day 1" Difference

Where the transaction price in a non-active market is different from the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Company recognizes the difference between the transaction price and fair value (a "Day 1" difference) in the statement of comprehensive income unless it qualifies for recognition as some other type of asset. In cases where variables used are made of data which are not observable, the difference between the transaction price and model value is only recognized in the profit or loss 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" difference amount.

Derecognition of Financial Assets and Liabilities

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

- the right to receive cash flows from the asset has expired;
- the Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or

- the Company has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Company's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

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

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

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification will result into the removal of the original liability and the recognition of a new liability at fair value, and any resulting difference is recognized in statement of comprehensive income.

Impairment of Financial Assets

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

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

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced through the use of an allowance account and the amount of loss shall be recognized in statement of comprehensive income. Receivables, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery.

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

Offsetting of Financial Instruments
Financial assets and financial liabilities are offset and the net amount reported in the balance sheet if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the balance sheet.

Inventories
Inventories, which consist of transit tickets, cleaning supplies, construction supplies 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. NRV for the supplies is the current replacement cost.

Property and Equipment
Property and equipment are stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment in value. The initial cost of property and equipment comprises its purchase price, including import duties, taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the property and equipment have been put into operations, such as repairs and maintenance, are normally recognized as expense in the period when the cost are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional cost of property and equipment.

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

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

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

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

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

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

Fully depreciated assets are retained in the accounts until they are no longer in use and no further depreciation is credited or charged to current operation.

When each major inspection is performed, the cost is recognized in the carrying amount of property and equipment as replacement, if the recognition criteria are met.

Impairment of Nonfinancial Assets
The carrying values of property and equipment and other nonfinancial assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying value exceeds the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. An asset's recoverable amount is higher of an asset's 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 group of assets. Where the carrying value 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 assessment of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Any impairment loss is recognized in the statement of comprehensive income.

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

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 a deduction from proceeds, net of any tax effects. Proceeds and/or fair value of considerations received in excess of par value are recognized as additional paid in capital.

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

Retained earnings represent accumulated earnings, net of cumulative dividends declared.

Revenue Recognition
Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured, regardless of when payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment, excluding discounts, rebates and sales taxes or duty. The Company assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Company concluded that it is acting as a principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognized:

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

Interest Income. Interest income from bank deposits are recognized as interest accrues based on the effective yield of the asset.

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

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

Retirement Costs

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.

Termination benefits are employee benefits provided in exchange for the termination of an employee's employment as a result of either an entity's decision to terminate an employee's employment before the normal retirement date or an employee's decision to accept an offer of benefits in exchange for the termination of employment.

A liability and expense for a termination benefit is recognized at the earlier of when the entity can no longer withdraw the offer of those benefits and when the entity recognizes related restructuring costs. Initial recognition and subsequent changes to termination benefits are measured in accordance with the nature of the employee benefit, as either post-employment benefits, short-term employee benefits, or other long-term employee benefits.

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

Foreign Currency-denominated Transactions and Translation

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

Income Taxes

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

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

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

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

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

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

Value-Added Tax (VAT). Revenue, expenses and assets are recognized net of the amount of VAT, except:

- where the tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

- receivables and payables that are stated with the amount of tax included. The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of "Other current assets" and "Accounts payable and other current liabilities" accounts in the balance sheet.

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense.

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

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

3. Significant Accounting Judgments, Estimates and Assumptions

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

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

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

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 given the recognition of certain provisions, the eventual liabilities under these lawsuits or claims, if any, will no longer have a material effect on the Company's financial statements.

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

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

The methods and assumptions used to estimate the fair values of financial assets and liabilities are discussed in Note 18.

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

The carrying value of receivables amounted to ₱461.5 million and ₱496.5 million as at December 31, 2013 and 2012, respectively (see Note 5). Allowance for doubtful account amounted to ₱91.4 million and ₱117.4 million as at December 31, 2013 and 2012, respectively (see Note 5).

The carrying value of refundable deposits amounted to ₱9.7 million and ₱10.0 million as at December 31, 2013 and 2012, respectively (see Note 8).

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

There was no write-down of inventories recognized in the financial statements for the years ended December 31, 2013 and 2012.

The carrying value of inventories amounted to ₱8.6 million and ₱9.1 million as at December 31, 2013 and 2012, respectively.

Estimated Useful Lives of Property and Equipment. The Company estimates the useful lives of its property and equipment based on the period over which the assets are expected to be available for use. Such estimation is based on a collective assessment of industry practice, internal technical evaluation and experience with similar assets. The estimated useful life of each asset is reviewed periodically and updated if expectations differ from previous estimates due to physical wear and tear or other limits on the use of the asset. It is possible, however, that future results of operations could be materially affected by changes in these estimates brought about by changes in these factors. A reduction in the estimated useful life of any property and equipment would increase the depreciation expense and decrease in the value of the asset.

There were no changes in the estimated useful lives of property and equipment as at December 31, 2013 and 2012. The carrying value of the Company's property and equipment as at December 31, 2013 and 2012 amounted to ₱67.8 million and ₱76.0 million, respectively (see Note 7).

Impairment of Nonfinancial Assets. The Company determines whether items of its property and equipment and other nonfinancial assets are impaired whenever events or circumstances indicate that the carrying amount of the asset may not be recoverable. 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 were no movement loss recognized in 2013 and 2012. The carrying value of property and equipment amounted to ₱67.8 million and ₱76.0 million as at December 31, 2013 and 2012, respectively (see Note 7). The carrying value of other nonfinancial assets amounted to ₱42.6 million and ₱32.2 million as at December 31, 2013 and 2012, respectively (see Notes 6 and 8). As at December 31, 2013 and 2012, there are no indications of impairment on the Company's other nonfinancial assets.

Retirement Benefits Cost. The cost of defined benefit pension plans as well as the present value of the pension obligation are determined using actuarial valuations. The actuarial valuation involves making various assumptions. These include the determination of the discount rates, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefit obligations are highly sensitive to changes in these assumptions. All assumptions are reviewed at each balance sheet date.

As at December 31, 2013, the Company's accrued retirement cost amounted to ₱10.0 million. As at December 31, 2012, the Company's pension asset amounted to ₱15.6 million. The Company recognized retirement benefits cost in the profit or loss amounting to ₱8.3 million and ₱8.2 million in 2013 and 2012, respectively (see Note 15).

The Company recognized remeasurements of actuarial gains (losses) in the other comprehensive income, net of tax, amounting to (₱14.9 million) and ₱2.1 million in 2013 and 2012, respectively (see Notes 15 and 17).

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

As at December 31, 2013 and 2012, the Company recognized deferred tax assets for all temporary differences amounting to ₱19.9 million and ₱82.2 million, respectively (see Note 17).

4. Cash and cash equivalents

	2013	2012
Cash on hand and in banks	**₱207,674,409**	₱121,924,375
Short-term deposits	**92,303,860**	148,046,040
	₱299,978,269	₱269,970,415

Cash in banks earn interest at the respective 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.

Interest income earned from cash in banks and short-term deposits amounted to ₱3.6 million and ₱8.4 million in 2013 and 2012, respectively.

5. Receivables

	2013	2012
Trade (see Note 11)	**₱549,809,291**	₱608,170,157
Others	**3,081,504**	5,754,607
	552,890,795	613,924,764
Less allowance for doubtful accounts	**91,376,219**	117,442,594
	₱461,514,576	₱496,482,170

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

Other receivables represent receivables from employee loans and cash shortages that are noninterest-bearing and are collected within the next financial year.

Individually assessed impaired receivable as at December 31, 2013 and 2012 amounted to ₱120.4 million and ₱117.4 million, respectively.

The movements in allowance for doubtful accounts are as follows:

	2013	2012
Balance at beginning of year	**₱117,442,594**	₱78,371,152
Bad debt expense (see Note 14)	**2,933,501**	116,749,681
Reversal of provision	**(28,999,876)**	(77,678,239)
Balance at end of year	**₱91,376,219**	₱117,442,594

6. Other Current Assets

	2013	2012
Advances to contractors and suppliers	**₱19,422,449**	₱3,694,429
Prepaid expense	**7,942,322**	4,401,333
Input value added tax (VAT)	–	12,226,514
Others	**15,032,359**	11,100,503
	₱42,397,130	₱31,422,779

Others include advances to employees and car plan loan receivable.

7. Property and Equipment

	2013				
	Transportation Equipment	**Office Furniture, Fixtures and Equipment**	**Leasehold Improvements**	**Tools, Construction and Engineering Equipment**	**Total**
Cost:					
Balance at beginning of year	**₱193,492,694**	**₱72,022,497**	**₱25,726,723**	**₱106,310,879**	**₱397,552,793**
Additions	**23,943,880**	**5,551,090**	**357,143**	**252,800**	**30,104,913**
Disposals	**(19,991,730)**	**(72,186)**	**(42,828)**	**(408,054)**	**(20,514,798)**
Balance at end of year	**197,444,844**	**77,501,401**	**26,041,038**	**106,155,625**	**407,142,908**
Accumulated depreciation:					
Balance at beginning of year	**151,066,011**	**65,072,223**	**7,710,686**	**97,666,925**	**321,515,845**
Depreciation for the year (see Notes 13 and 14)	**20,342,709**	**4,584,509**	**3,446,772**	**4,353,924**	**32,727,914**
Disposals	**(14,608,976)**	**(151,752)**	**(42,828)**	**(123,569)**	**(14,927,125)**
Balance at end of year	**156,799,744**	**69,504,980**	**11,114,630**	**101,897,280**	**339,316,634**
Net book value	**₱40,645,100**	**₱7,996,421**	**₱14,926,408**	**₱4,258,345**	**₱67,826,274**

	2012				
	Transportation Equipment	Office Furniture, Fixtures and Equipment	Leasehold Improvements	Tools, Construction and Engineering Equipment	Total
Cost:					
Balance at beginning of year	₱184,471,605	₱93,101,357	₱24,526,218	₱119,522,971	₱421,622,151
Additions	25,113,060	3,362,164	6,456,732	2,830,261	37,762,217
Disposals	(16,091,971)	(24,441,024)	(5,256,227)	(16,042,353)	(61,831,575)
Balance at end of year	193,492,694	72,022,497	25,726,723	106,310,879	397,552,793
Accumulated depreciation:					
Balance at beginning of year	150,192,191	82,726,584	9,662,701	106,771,986	349,353,462
Depreciation for the year (see Notes 13 and 14)	16,965,791	5,409,776	2,614,939	6,897,709	31,888,215
Disposals	(16,091,971)	(23,064,137)	(4,566,954)	(16,002,770)	(59,725,832)
Balance at end of year	151,066,011	65,072,223	7,710,686	97,666,925	321,515,845
Net book value	₱42,426,683	₱6,950,274	₱18,016,037	₱8,643,954	₱76,036,948

Gain on disposal of property and equipment in 2013 amounting to ₱6.5 million and loss on disposal of property and equipment in 2012 amounting to ₱1.2 million were included as part of "Other income (expenses)" account in the statement of comprehensive income.

Fully depreciated assets that are still in use in the Company's operations amounted to ₱266.4 million and ₱252.1 million as at December 31, 2013 and 2012, respectively. The Company has no temporary idle property and equipment as at December 31, 2013 and 2012.

8. Deposits and Other Noncurrent Assets

	2013	2012
Deposits	**₱9,704,182**	₱9,979,669
Others	**250,936**	788,051
	₱9,955,118	₱10,767,720

9. Accounts Payable and Other Current Liabilities

	2013	2012
Trade	**₱48,734,993**	₱35,085,127
Accrued expenses (see Note 11):		
Outside services	**135,400,447**	112,199,848
Personnel expenses	**118,862,892**	120,564,890
Interest and guarantee fee	**34,185,051**	37,402,010
Payable to related parties (see Note 11)	**36,963,184**	90,831,264
Withholding taxes	**25,359,556**	18,258,813
Output VAT	**12,790,590**	70,262,597
Others	**7,108,666**	240,440
	₱419,405,379	₱484,844,989

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

Others consist mainly of accrued purchases.

In 2012, reversals of accruals, which is included under "Reversal of provisions and accruals" in the statement of comprehensive income, amounted to ₱4.0 million.

10. Provisions

	2013	2012
Provision for claims and losses (see Note 11)	**₱21,993,058**	₱37,036,535
Other provisions	**42,670,831**	51,991,931
	₱64,663,889	₱89,028,466

Movements in provision as at December 31 are presented below:

	2013	2012
Beginning at the beginning of the year	**₱89,028,466**	₱86,970,098
Provisions	**4,884,328**	14,006,280
Payments	**(10,813,966)**	(11,947,912)
Reversal	**(18,434,938)**	–
Balance at the end of the year	**₱64,663,890**	₱89,028,466

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

The information usually required by PAS 37, *Provisions, Contingent Liabilities and Contingent Assets,* is not disclosed on the grounds that it could prejudice the Company's position.

In 2013 and 2012, reversals of provision, which is included under "Reversal of provisions and accruals" in the statement of comprehensive income, amounted to ₱18.4 million and nil, respectively.

11. Related Party Transactions

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

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

O&M Agreement. The Company provides services to MNTC, a subsidiary of MPTDC as operator to the NLEX and Segment 7 under the O&M. The O&M contains the terms and conditions for the operation and maintenance by the Company of Phase I of the NLEX and subsequently of Segment 7, and sets forth the scope of its services. Under the O&M, MNTC pays the Company 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 will take effect upon start of commercial operations. The O&M, which also provides for certain bonuses and penalties as described in the O&M, shall be effective for the entire concession period.

On May 7, 2010, the Company and MNTC 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 due to the reduction of six Point of Sales facilities being operated and maintained by the Company.

Moreover, on May 27, 2010, pursuant to the O&M and the Toll Regulatory Board'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, the Company and MNTC agreed to extend the O&M to cover Segment 8.1 from June 1, 2010 until December 31, 2037. Consequently, MNTC agreed to pay the Company an annual base fee for the operations and maintenance of Segment 8.1 in the amount of ₱33.6 million effective in June 2010.

In 2012, TMC was engaged by MNTC to operate and maintain the new Plaridel Bypass Interchange, effective on June 25, 2012 until December 31, 2037. MNTC agreed to pay TMC an annual base fee of ₱17.5 million for the operations and maintenance of the said Plaridel Bypass Interchange. TMC was also engaged by MNTC to operate the Bocaue North Bound Plaza at the proposed annual fee of ₱7.7 million. The engagement for the operations and maintenance of the Bocaue North Bound Plaza is still being formalized as at February 13, 2014.

On October 29, 2013, the BOD passed and approved the amendment of O&M Agreement dated July 6, 2011 for the rebasing of O&M fees and other such fees subject to escalation in order to be consistent with updated consumer price index values as published by the National Statistics Office last July 2011. The Base Fee was amended as ₱1,470.1 million for Phase 1 of NLEX, ₱94.3 million for Segment 7, ₱7.8 million for Dau Interchange and ₱36.9 million for Segment 8.1. The foregoing was formalized through a Side Letter Agreement executed by MNTC and TMC on January 22, 2014.

Guarantee Agreement. Pursuant to the O&M Agreement, liabilities incurred by the Company to MNTC are required to be underwritten by the corporate guarantees of Egis and MPTDC (collectively, the "Guarantors"). The Company shall pay the Guarantors annual guarantee fees equal to 2.5% of the gross value of the relevant Corporate Guarantees. Any guarantee fee not paid within the payment dates shall earn an interest based on 91-day Philippine Treasury Bill Rate plus 2% per annum.

Management Services Agreement. MPTC and MPTDC performed management and financial services which involve the coordination and utilization of the Company's resources. Management fee is included as part of "Outside services" under "General and administrative expenses" in the statement of comprehensive income.

The following table summarizes the significant transactions during the year and outstanding balances as at balance sheet date:

			Outstanding balances					
Related Party	**Year**	**Amount/ Volume of Transactions**	**Trade receivables** (see Note 5)	**Payable to affiliates** (see Note 9)	**Accrued expenses** (see Note 9)	**Provision for claims and losses** (see Note 10)	**Terms**	**Conditions**
MPTDC								
Management fees expense (see Note 14)	**2013**	**₱28,214,902**	**₱–**	**₱–**	**₱58,984,350**	**₱–**	Noninterest-bearing	Unsecured
	2012	23,540,687	–	–	23,540,689	–		
Guarantee fees expense	**2013**	**24,263,754**	–	–	**24,263,754**	–	Noninterest-bearing	Unsecured
	2012	23,969,347	–	–	15,914,828	–		

(Forward)

			Outstanding balances					
Related Party	**Year**	**Amount/ Volume of Transactions**	**Trade receivables** (see Note 5)	**Payable to affiliates** (see Note 9)	**Accrued expenses** (see Note 9)	**Provision for claims and losses** (see Note 10)	**Terms**	**Conditions**
Dividends declared	**2013**	**₱242,687,001**	**₱–**	**₱–**	**₱–**	**₱–**	Noninterest-bearing	Unsecured
	2012	200,559,508	–	–	–	–		
Recoverable cost	**2013**	**30,769,447**	**296,793**	**36,769,448**	–	–	Noninterest-bearing	Unsecured; no impairment
	2012	37,402,010	–	90,637,528	–	–		
EGIS								
Guarantee fees expense	**2013**	**12,499,509**	–	–	**6,325,587**	–	Noninterest-bearing	Unsecured
	2012	12,347,845	–	–	19,881,987	–		
Dividends declared		**179,377,348**	–	–	–	–	Noninterest-bearing	Unsecured
		148,239,637	–	–	–	–		
EGIS Projects Philippines Inc. [(a)]								
Outside and technical service (see Note 13)	**2013**	**17,142,857**	–	–	**10,285,714**	–	Noninterest-bearing	Unsecured
	2012	17,142,857	–	–	2,771,429	–		
Reimbursement of expenses	**2013**	**1,919,549**	–	–	–	–	Noninterest-bearing	Unsecured
	2012	–	–	–	–	–		
Stockholder								
Dividends declared	**2013**	**105,516,087**	–	–	–	–	Noninterest-bearing	Unsecured
	2012	87,199,786	–	–	–	–		
MNTC [(a)]								
Operator's fee	**2013**	**1,514,241,266**	**293,856,917**	–	–	–	Noninterest-bearing	Unsecured; ₱0.2 million impairment in 2012
	2012	1,501,156,152	326,435,088	–	–	–		
Reimbursement of expenses	**2013**	**2,164,501**	**1,884,931**	**193,736**	–	–	Noninterest-bearing	Unsecured; no impairment
	2012	–	–	193,736	–	–		
Additional services	**2013**	**27,541,694**	**6,715,349**	–	–	–	Noninterest-bearing	Unsecured
	2012	–	–	–	–	–		
Provision for claims and losses (see Note 10)	**2013**	**1,686,863**	–	–	–	**21,993,058**	Noninterest-bearing	Unsecured
	2012	–	–	–	–	20,306,195		
MPTC [(b)]								
Management fees expense (see Note 14)	**2013**	**27,400,000**	–	–	**27,400,000**	–	Noninterest-bearing	Unsecured
	2012	42,352,941	–	–	51,334,279	–		
Reimbursement of expenses	**2013**	**17,375,000**	–	–	–	–	Noninterest-bearing	Unsecured
	2012	2,272,727	–	–	27,415,263	–		
	2013		**₱302,753,990**	**₱36,963,184**	**₱127,453,141**	**₱21,993,058**		
	2012		326,435,088	90,831,264	140,858,475	20,306,195		

[(a)] *With common stockholder.*
[(b)] *MPTC wholly owns MPTDC.*

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

	2013	2012
Short-term employee benefits	**₱53,040,044**	₱55,744,521
Retirement benefits costs	**1,785,000**	1,356,400
	₱54,825,044	₱57,100,921

12. Retained Earnings

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

As at December 31, 2013 and 2012, the Company's retained earnings is in excess of 100% of its paid-up capital. The Company intends to use the excess in retained earnings for future dividend declaration pursuant to the SEC Memorandum, Circular No. 11 series of 2008 on December 5, 2008, which provides guidance on retained earnings available for dividend declaration.

On February 20, 2013, the BOD declared cash dividends totaling ₱256.1 million or ₱673.90 per share to stockholders of record as at February 20, 2013. In addition, on July 24, 2013, the BOD declared cash dividends totaling ₱271.5 million or ₱714.50 per share to stockholders of record as at July 24, 2013. These dividends were already paid in full as at December 31, 2013.

On February 23, 2012, the BOD declared cash dividends totaling ₱209.3 million or ₱550.79 per share to stockholders of record as at February 23, 2012. In addition, on July 26, 2012, the BOD declared cash dividends totaling ₱226.7 million or ₱596.58 per share to stockholders of record as at July 26, 2012. These dividends were already paid in full as at December 31, 2012.

13. Cost of Services

	2013	2012 (As restated - see Note 2)
Personnel expenses:		
Salaries and wages	**₱344,949,656**	₱332,580,289
Other personnel expenses (see Note 15)	**44,994,347**	57,598,613
Outside services (see Note 11)	**282,081,494**	244,451,387
Communications, light and water	**79,653,946**	88,839,660
Repairs and maintenance	**52,058,457**	49,885,258
Transportation and travel	**44,765,534**	47,557,843
Depreciation (see Note 7)	**28,444,480**	25,324,812
Technical services (see Note 11)	**17,142,857**	17,142,857
Supplies	**15,797,370**	16,884,335
Taxes and licenses	**1,030,606**	933,861
Entertainment, amusement and recreation	**820,595**	1,024,963
Others	**5,376,641**	4,674,969
	₱917,115,983	₱886,898,847

14. General and Administrative Expenses

	2013	2012 (As Restated - see Note 2)
Personnel expenses:		
Salaries and wages	**₱68,983,387**	₱71,519,051
Other personnel expenses (see Note 15)	**21,577,346**	16,535,834
Outside services (see Note 11)	**82,510,033**	87,937,068
Taxes and licenses	**19,585,469**	19,635,496
Transportation and travel	**13,168,619**	13,005,025

(Forward)

	2013	2012 (As Restated - see Note 2)
Entertainment, amusement and recreation	**₱4,598,733**	₱4,676,782
Depreciation (see Note 7)	**4,283,434**	6,563,403
Repairs and maintenance	**3,065,000**	4,216,787
Communications, light and water	**2,934,354**	2,862,254
Bad debt expense (see Note 5)	**2,933,501**	39,071,442
Supplies	**2,167,493**	2,039,409
Advertising and promotions	**1,912,544**	2,754,510
Others	**14,043,021**	13,565,445
	₱241,762,934	₱284,382,506

Others pertain mainly to insurance, meetings and conferences expenses.

15. **Retirement Plan**

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

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.

The following tables summarize the components of retirement cost included in personnel expenses under "Cost of services" and "General and administrative expenses" accounts in the statement of comprehensive income and "Pension asset" and "Accrued retirement cost" accounts in the balance sheet, which are based on the 2013 and 2012 actuarial valuations:

Changes in accrued retirement costs (pension asset) in 2013 are as follows:

	Present Value of Defined Benefit Obligation	**Fair Value of Plan Assets**	Accrued Retirement Costs (Pension Asset)
At January 1, 2013, as restated	**₱63,461,700**	**₱79,019,300**	**(₱15,557,600)**
Net benefit cost in profit or loss:			
Current service cost	**9,211,400**	**–**	**9,211,400**
Net interest	**3,852,125**	**4,796,472**	**(944,347)**
	13,063,525	**4,796,472**	**8,267,053**
Benefits paid	**(1,887,048)**	**(1,887,048)**	**–**

(Forward)

	Present Value of Defined Benefit Obligation	**Fair Value of Plan Assets**	Accrued Retirement Costs (Pension Asset)
Remeasurement loss (gain) in other comprehensive income			
Return on plan assets (excluding amount included in net interest)	**₱–**	**(₱6,079,453)**	**₱6,079,453**
Actuarial changes arising from changes in demographic assumptions	**(2,631,604)**	**–**	**(2,631,604)**
Actuarial changes arising from changes in financial assumptions	**13,890,686**	**–**	**13,890,686**
Actuarial changes due to experience adjustment	**(81,386)**	**–**	**(81,386)**
	11,177,696	**(6,079,453)**	**17,257,149**
At December 31, 2013	**₱85,815,873**	**₱75,849,271**	**₱9,966,602**

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, as restated	₱54,899,500	₱68,970,400	(₱14,070,900)
Net benefit cost in profit or loss:			
Current service cost	9,128,100	–	9,128,100
Net interest	3,601,407	4,524,458	(923,051)
	12,729,507	4,524,458	8,205,049
Benefits paid	(3,981,200)	(3,981,200)	–
Remeasurements in other comprehensive income:			
Return on plan assets (excluding amount included in net interest)	–	2,843,242	(2,843,242)
Actuarial changes arising from changes in financial assumptions	(473,900)	–	(473,900)
Actuarial changes due to experience adjustment	287,793	–	287,793
	(186,107)	2,843,242	(3,029,349)
Contributions	–	6,662,400	(6,662,400)
At December 31, 2012, as restated	₱63,461,700	₱79,019,300	(₱15,557,600)

The actual return on plan assets amounted to (₱1.3 million) in 2013 and ₱7.4 million in 2012.

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

	2013	2012
Investments in:		
Government securities/bonds	**49**	60
Stocks	**29**	29
Debt instruments and other securities	**8**	–
Deposit in banks	**9**	7
Loans/notes receivable	**4**	–
Other receivables	**1**	4

The assets of the Plan are being held by a trustee bank. The investing decisions of the Plan are made by certain officers of the Company duly authorized by the BOD.

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

	2013	2012
Investments in:		
Government securities/bonds	**₱37,166,143**	₱47,411,580
Stocks	**21,996,289**	22,915,597
Debt securities	**6,067,942**	–
Deposit in banks	**6,826,434**	5,531,351
Loans/notes receivables	**3,033,971**	–
Other receivables	**758,492**	3,160,772
	₱75,849,271	₱79,019,300

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 4.80% to 11.14% per annum and have maturities from 2015 to 2035.

- Investments in debt instruments consist of quoted, unsecured, long-term corporate bonds and subordinated notes, which bear interest ranging from 5.75% to 8.46% per annum and have maturities from 2014 to 2022.

- Cash and cash equivalents include regular savings and time deposits, which bear 2.00% interest.

- Loans and notes receivables consist of unsecured debt securities classified as loans that bear interest ranging from 5.64% to 6.26% per annum and will mature in 2022.

The principal assumptions used to determine retirement plan assets as at December 31 are as follows:

	2013	2012
Discount rate	**4.69%**	6.07%
Rate of compensation increase	**4.00%**	4.00%

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as at December 31, 2013 assuming if all other assumptions were held constant:

		Amount
Discount rate	(Actual - 1.00%)	₱11,847,063
Salary increase rate	(Actual + 1.00%)	11,778,722

The management performed an Asset-Liability Matching Study (ALM). 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 the 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 85% to 90% of debt and equity instruments and 10% to 15% other financial assets.

The average duration of the defined benefit obligation is 19 years in 2013 and 17 years in 2012.

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

	December 31, 2013	December 31, 2012
Less than 1 year	**₱4,470,288**	₱2,012,000
More than 1 year to 5 years	**18,559,261**	7,717,431
More than 5 years to 10 years	**51,473,020**	27,842,553
More than 10 years	**457,931,589**	485,816,228

The Company expects to contribute ₱22.1 million to its defined benefit retirement plan in 2014.

Defined Contribution Plan. The Company also has a funded, contributory defined contribution plan covering all of its regular and full-time employees. The plan provides for retirement benefit payment equal to the accumulated fund in the hands of the trustee. The Company made contributions to the plan amounting to ₱8.7 million and ₱4.4 million in 2013 and 2012, respectively.

16. **Other income**

	2013	2012
Additional services	**₱15,403,198**	₱40,350,676
Scrap sales	**9,643,870**	–
Advertising	**1,577,940**	1,401,508
Others	**9,170,664**	16,429,975
	₱35,795,672	₱58,182,159

Additional services account pertains to the revenues of the Company for maintenance of roads and security augmentation.

Other income pertains to services rendered such as insurance recovery or third party damages, sale of motorist handbook, lifting assistance and others.

17. Income Taxes

The components of income tax expense for the year ended December 31, 2013 and 2012 are as follows:

Profit or loss:

	2013	2012
Current income tax change	**₱182,434,390**	₱177,849,276
Deferred income tax relating to origination and reversal of temporary difference	**59,942,196**	(6,219,585)
	₱242,376,586	₱171,629,691

Other comprehensive income:

	2013	2012
Deferred tax change directly to equity during the year - Provision for (benefit from) remeasurement gain and loss on defined benefit plan	**(₱2,360,778)**	₱908,805

The Company's provision for current income tax in 2013 and 2012 represents regular corporate income tax (RCIT).

The components of the Company's net deferred income tax assets as at December 31, 2013 and 2012 are as follows:

	2013	2012 (As restated - see Note 2
Deferred income tax assets on temporary differences arising from:		
Accrued expenses and provisions	**₱17,034,423**	₱44,080,659
Accrued retirement cost	**1,568,628**	–
Unamortized past service costs	**1,239,577**	2,730,456
Allowance for impairment on inventory	**73,350**	122,250
Allowance for doubtful accounts	–	35,232,778
	19,915,978	82,166,143
Deferred income tax liability on temporary differences arising from:		
Pension asset	–	(4,667,280)
Unrealized foreign exchange gain	–	(1,467)
	–	(4,668,747)
	₱19,915,978	₱77,497,396

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

	2013	2012 (As restated - Note 2)
Income tax computed at statutory tax rate	**₱234,811,421**	₱197,890,969
Add (deduct) the tax effects of:		
Change in rate in recognition of deferred tax to Optional Standard Deduction (OSD)	**30,998,959**	–
Benefit from availment of OSD	**(23,591,304)**	(25,528,439)
Interest income subjected to final tax	**(1,078,073)**	(2,532,839)
Nondeductible expenses	**1,235,583**	1,800,000
	₱242,376,586	₱171,629,691

Pursuant to the implementing terms of Revenue Regulations No. 16-2008 on Republic Act (R.A.) No. 9504, the Company opted to use the OSD instead of the itemized deductions for the year ended December 31, 2013 and 2012 in the computation of RCIT.

18. Financial Assets and Liabilities

Fair Value Information
The carrying values of cash and cash equivalents (excluding cash on hand), receivables, deposits, trade payables, accrued expenses, payable to related parties, provision for claims and losses, retention payable and other liabilities approximate fair values primarily due to the relatively short-term maturities of these financial instruments.

Fair Value Hierarchy
The Company has no financial instruments measured at fair value using any valuation technique as at December 31, 2013 and 2012.

19. Financial Risk Management Objectives and Policies

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

The main risks arising from the Company's financial instruments are credit risk and liquidity risk.

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

Credit Risk
Under the O&M Agreement, the Company has a 30-day credit term with MNTC, as well as in relation to the entitlement to income given by the joint venture parties. The Company continuously reviews credit policies and processes and implements various credit actions,

depending on assessed risks, to minimize credit exposure. Since the Company's primary source of revenue is the concessionaires of the NLEX, Segments 7 and 8.1 and SCTEX, there is significant credit risk in case the concessionaires will be in default. However, there are provisions stated in the O&M Agreement that will give the Company remedies to recover its costs and loss of profit.

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

With the exception of the impaired portion, all of the Company's financial assets, which consist of cash and cash equivalents, receivables and deposits, are considered Grade A since these are receivables from counterparties who are not expected to default in settling their obligations.

Liquidity Risk

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

The table below summarizes the maturity profile of the Company's financial liabilities as at December 31, 2013 and 2012 based on undiscounted payments. The table also analyses the maturity profile of the Company's financial assets in order to provide complete view of the Company's contractual commitments and liquidity.

	2013				
	On Demand	**30 Days**	**Over 30 Days**	**Impaired**	**Total**
Financial Assets					
Cash and cash equivalents[(a)]	**₱284,681,960**	**₱–**	**₱–**	**₱–**	**₱284,681,960**
Receivables	**4,777,012**	**163,048,928**	**293,688,636**	**91,376,219**	**552,890,795**
Deposits[(b)]	**–**	**–**	**9,704,182**	**–**	**9,704,182**
	₱289,458,972	**₱163,048,928**	**₱303,392,818**	**₱91,376,219**	**₱847,276,937**
Financial Liabilities					
Trade	**₱–**	**₱48,734,993**	**₱–**	**₱–**	**₱48,734,993**
Accrued expenses:					
Outside services	**512,545**	**134,887,902**	**–**	**–**	**135,400,447**
Personnel expenses	**7,054,402**	**110,056,537**	**1,751,953**	**–**	**118,862,892**
Interest and guarantee	**–**	**34,185,051**	**–**	**–**	**34,185,051**
Payable to related parties	**–**	**36,769,448**	**193,736**	**–**	**36,963,184**
Provision for claims and losses[(c)]	**11,876,793**	**116,265**	**10,000,000**	**–**	**21,993,058**
Retention payable	**–**	**–**	**4,890,651**	**–**	**4,890,651**
Others	**7,508**	**893,184**	**6,207,973**	**–**	**7,108,665**
	₱19,451,248	**₱365,643,380**	**₱23,044,313**	**₱–**	**₱408,138,941**

[(a)] *Excluding cash on hand amounting to ₱15,296,309.*
[(b)] *Included under "Deposits and other noncurrent assets" account.*
[(c)] *Included under "Provisions" account.*

	2012				
	On Demand	30 Days	Over 30 Days	Impaired	Total
Financial Assets					
Cash and cash equivalents[(a)]	₱254,305,665	₱–	₱–	₱–	₱254,305,665
Receivables	5,737,607	410,949,215	79,795,348	117,442,594	613,924,764
Deposits[(b)]	–	–	9,979,669	–	9,979,669
	₱260,043,272	₱410,949,215	₱89,775,017	₱117,442,594	₱878,210,098
Financial Liabilities					
Trade	₱2,122,428	₱22,262,127	₱10,700,572	₱–	₱35,085,127
Accrued expenses:					
Personnel expenses	6,676,800	7,845,973	106,042,117	–	120,564,890
Outside services	5,851,497	80,843,510	25,504,841	–	112,199,848
Interest and guarantee	37,065,949	–	336,061	–	37,402,010
Payable to related parties	–	36,000,000	54,831,264	–	90,831,264
Provision for claims and losses[(c)]	37,036,535	–	–	–	37,036,535
Retention payable	–	–	3,267,279	–	3,267,279
Others	–	211,553	28,887	–	240,440
	₱88,753,209	₱147,163,163	₱200,711,021	₱–	₱436,627,393

[(a)] *Excluding cash on hand amounting to ₱15,664,750.*
[(b)] *Included under "Deposits and other noncurrent assets" account.*
[(c)] *Included under "Provisions" account.*

Capital Risk Management
The Company considers its issued capital stock and retained earnings as its capital.

The primary objective of the Company's management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions.

20. Other Matters

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

The Company has unused approved credit facilities from local banks amounting to ₱265.0 million as at December 31, 2013 and 2012.

21. Events After Reporting Date

On February 13, 2014, the BOD approved the declaration of cash dividends amounting to ₱334.3 million to stockholders of record as at February 13, 2014, payable on or before April 30, 2014.

22. **Supplementary Information Required Under Revenue Regulations (RR) 15-2010**

In compliance with RR 15-2010 issued by the BIR on November 25, 2010, mandating all taxpayers to include information on taxes, duties and license fees paid or accrued during the taxable year, presented below are the taxes paid and accrued by the Company:

VAT

Details of the Company's gross sales/receipts, output VAT and input VAT accounts as at December 31, 2013 are as follows:

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

	Gross Receipts	Output VAT
Taxable sales:		
Sales of services	₱1,910,998,297	₱229,319,796
Others	23,941,898	2,873,028
	₱1,934,940,195	₱232,192,824

Taxable sales pertain to gross receipts/collections on revenues from toll operations and incidental activities (i.e., lodged under the accounts "Operator's fee" and "Other Income" in the books of the Company).

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

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

Balance at January 1	
Input tax deferred on capital goods exceeding ₱1 million from previous period	₱6,981,806
Current year's domestic purchases/payments for:	
Goods other than for resale or manufacture	3,655,073
Capital goods subject to amortization	2,580,570
Capital goods not subject to amortization	564,814
Goods subject to importation other than capital goods	594,915
Domestic purchase of services	38,211,840
Input tax claimed against output tax	(46,432,044)
Balance at December 31	
Input tax on purchases of capital goods exceeding ₱1 million deferred for the succeeding period	₱6,156,974

Landed Costs and Custom Duties
The landed cost of the Company's importations amounted to ₱7,642,607 for the year, with paid amount of ₱690,356 as customs duties/tariff fees. Input VAT on importations amounting to ₱3,279,898 was included as part of current year's purchases, presented under the breakdown of input VAT.

Taxes and Licenses

This includes all other taxes, local and national, including licenses and permit fees presented as taxes and licenses under the "Cost of Services" and "General and Administrative" accounts in the 2013 statement of comprehensive income:

Local taxes:		
Business permits		₱19,617,306
National taxes:		
Vehicle registration	₱426,613	
Security and firearms license	227,235	
Radio license	331,290	
Importer accreditation	10,331	
Annual registration	3,200	
Tax clearance certificate	100	998,769
		₱20,616,075

Fringe Benefits Tax

The Company paid fringe benefit tax amounting to ₱673,726 as at December 31, 2013.

Withholding Taxes

Details of withholding taxes for 2013 are as follows:

Withholding taxes on compensation and benefits	₱64,845,376
Expanded withholding taxes	24,500,496
Final withholding taxes	18,701,945

Tax Contingencies

The Company has not received any deficiency tax assessments during the year that has reached the final stage.