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

Financial Statements
December 31, 2014 and 2013
and Years Ended December 31, 2014, 2013 and 2012

and

Independent Auditors' Report

SGV
Building a better working world

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

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Manila North Tollways Corporation

Report on the Financial Statements

We have audited the accompanying financial statements of Manila North Tollways Corporation (a subsidiary of Metro Pacific Tollways Development Corporation), which comprise the balance sheets as at December 31, 2014 and 2013, and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2014, 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.

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Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Manila North Tollways Corporation as at December 31, 2014 and 2013, and its financial performance and its cash flows for each of the three years in the period ended December 31, 2014 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 30 to the financial statements, respectively, is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of Manila North Tollways Corporation. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Belinda T. Beng Hui

Belinda T. Beng Hui
Partner
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PTR No. 4751259, January 5, 2015, Makati City

February 12, 2015

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

	December 31	
	2014	2013
ASSETS		
Current Assets		
Cash and cash equivalents (Note 6)	**₱2,953,881,594**	₱1,502,050,102
Short-term deposits (Notes 11 and 27)	**4,789,522,429**	1,995,120,215
Receivables (Notes 7 and 14)	**683,237,587**	237,670,195
Inventories - at cost (Note 14)	**47,804,484**	50,289,462
Advances to contractors and consultants (Notes 14 and 25)	**123,022,645**	226,262,269
Due from related parties (Note 14)	**12,494,187**	4,836,582
Available-for-sale financial assets (Notes 11 and 27)	**255,591,000**	–
Other current assets	**177,854,263**	135,461,356
Total Current Assets	**9,043,408,189**	4,151,690,181
Noncurrent Assets		
Service concession asset (Note 8)	**16,867,583,654**	14,925,938,094
Property and equipment (Note 9)	**129,502,464**	117,870,398
Other intangible assets (Note 10)	**22,169,763**	9,989,150
Available-for-sale financial assets (Notes 11 and 27)	**1,682,521,728**	1,521,580,826
Pension asset (Note 19)	**2,573,985**	1,837,846
Other noncurrent assets (Note 25)	**967,275,471**	59,396,398
Total Noncurrent Assets	**19,671,627,065**	16,636,612,712
	₱28,715,035,254	₱20,788,302,893
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and other current liabilities (Notes 12 and 14)	**₱2,175,790,461**	₱1,411,017,159
Due to related parties (Note 14)	**–**	97,549
Unearned toll revenue	**149,003**	335,345
Income tax payable	**171,342,675**	192,693,154
Dividends payable (Notes 14 and 16)	**1,193,472,000**	409,012,800
Provisions (Note 13)	**145,806,420**	219,851,514
Current portion of long-term debt (Notes 15 and 27)	**932,509,947**	931,374,123
Total Current Liabilities	**4,619,070,506**	3,164,381,644
Noncurrent Liabilities		
Long-term debt - net of current portion (Notes 15 and 27)	**15,813,559,542**	9,814,648,105
Long-term incentive plan payable (Note 19)	**–**	64,828,400
Provisions (Note 13)	**112,169,833**	84,636,727
Deferred tax liabilities - net (Note 24)	**542,379,105**	460,788,929
Total Noncurrent Liabilities	**16,468,108,480**	10,424,902,161
Total Liabilities	**21,087,178,986**	13,589,283,805

(Forward)

	December 31	
	2014	2013
Equity (Note 16)		
Capital stock	**₱1,776,000,000**	₱1,776,000,000
Additional paid-in capital	**3,749,711,168**	3,749,711,168
Retained earnings	**2,052,153,253**	1,656,984,196
Other comprehensive income reserve (Note 16)	**39,447,251**	8,124,165
Other reserve (Note 20)	**10,544,596**	8,199,559
Total Equity	**7,627,856,268**	7,199,019,088
	₱28,715,035,254	₱20,788,302,893

See accompanying Notes to Financial Statements.

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

STATEMENTS OF INCOME

	Years Ended December 31		
	2014	2013	2012
OPERATING REVENUES			
Toll fees (net of discounts amounting to ₱79,048,588 in 2014, ₱59,283,405 in 2013 and ₱56,778,507 in 2012)	**₱7,516,586,901**	₱7,101,436,578	₱6,784,126,258
Sales of magnetic cards	**5,357**	3,527	5,625
	7,516,592,258	7,101,440,105	6,784,131,883
COST OF SERVICES (Note 17)	**(3,146,485,760)**	(2,938,375,736)	(2,767,072,303)
GROSS PROFIT	**4,370,106,498**	4,163,064,369	4,017,059,580
CONSTRUCTION REVENUE (Note 8)	**2,425,272,471**	341,646,216	224,847,664
CONSTRUCTION COSTS (Note 8)	**(2,425,272,471)**	(341,646,216)	(224,847,664)
GENERAL AND ADMINISTRATIVE EXPENSES (Note 18)	**(552,082,087)**	(536,636,463)	(665,741,658)
INTEREST EXPENSE AND OTHER FINANCE COSTS (Note 22)	**(601,214,207)**	(618,382,272)	(684,054,227)
INTEREST INCOME (Note 21)	**61,266,122**	82,563,116	116,601,837
FOREIGN EXCHANGE GAIN (LOSS) – Net	**4,260,215**	8,015,606	1,447,608
OTHER EXPENSE (Note 23)	**–**	–	(45,020,915)
OTHER INCOME (Note 23)	**121,786,577**	106,597,850	68,597,174
INCOME BEFORE INCOME TAX	**3,404,123,118**	3,205,222,206	2,808,889,399
PROVISION FOR INCOME TAX (Note 24)			
Current	**752,767,850**	741,163,380	804,888,626
Deferred	**85,914,211**	86,149,926	44,662,865
	838,682,061	827,313,306	849,551,491
NET INCOME	**₱2,565,441,057**	₱2,377,908,900	₱1,959,337,908

See accompanying Notes to Financial Statements.

MANILA NORTH TOLLWAYS CORPORATION
(A Subsidiary of Metro Pacific Tollways Development Corporation)
STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2014	2013	2012
NET INCOME	**₱2,565,441,057**	₱2,377,908,900	₱1,959,337,908
OTHER COMPREHENSIVE INCOME (LOSS)			
Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:			
Net gain on cash flow hedges (Note 27)	**8,935,147**	10,508,616	10,508,656
Income tax effect (Note 24)	**(2,680,544)**	(3,152,584)	(3,152,597)
	6,254,603	7,356,032	7,356,059
Gain (loss) on available-for-sale financial assets (Note 11)	**21,117,971**	(19,537,962)	12,594,250
Income tax effect (Note 24)	**6,088,359**	2,999,700	(3,778,275)
	27,206,330	(16,538,262)	8,815,975
	33,460,933	(9,182,230)	16,172,034
Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods:			
Remeasurement gains (losses) on defined benefit retirement plan (Note 19)	**(3,054,067)**	(3,619,777)	31,077,169
Income tax effect (Note 24)	**916,220**	1,085,933	(9,323,151)
	(2,137,847)	(2,533,844)	21,754,018
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE YEAR, NET OF TAX	**31,323,086**	(11,716,074)	37,926,052
TOTAL COMPREHENSIVE INCOME	**₱2,596,764,143**	₱2,366,192,826	₱1,997,263,960

See accompanying Notes to Financial Statements.

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

STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012

	Capital Stock	Additional Paid-in Capital	Retained Earnings	Other Comprehensive Income Reserve	Other Reserve	Total Equity
At January 1, 2014	**₱1,776,000,000**	**₱3,749,711,168**	**₱1,656,984,196**	**₱8,124,165**	**₱8,199,559**	**₱7,199,019,088**
Cash dividends (Note 16)	–	–	**(2,170,272,000)**	–	–	**(2,170,272,000)**
Equity contribution - executive stock option plan (Note 20)	–	–	–	–	**2,345,037**	**2,345,037**
Net income	–	–	**2,565,441,057**	–	–	**2,565,441,057**
Other comprehensive income (Note 16)	–	–	–	**31,323,086**	–	**31,323,086**
Total comprehensive income for the year	–	–	**2,565,441,057**	**31,323,086**	–	**2,596,764,143**
At December 31, 2014	**₱1,776,000,000**	**₱3,749,711,168**	**₱2,052,153,253**	**₱39,447,251**	**₱10,544,596**	**₱7,627,856,268**
At January 1, 2013	₱1,776,000,000	₱3,749,711,168	₱1,339,235,296	₱19,840,239	₱7,577,137	₱6,892,363,840
Cash dividends (Note 16)	–	–	(2,060,160,000)	–	–	(2,060,160,000)
Equity contribution - executive stock option plan (Note 20)	–	–	–	–	622,422	622,422
Net income	–	–	2,377,908,900	–	–	2,377,908,900
Other comprehensive loss (Note 16)	–	–	–	(11,716,074)	–	(11,716,074)
Total comprehensive income for the year	–	–	2,377,908,900	(11,716,074)	–	2,366,192,826
At December 31, 2013	₱1,776,000,000	₱3,749,711,168	₱1,656,984,196	₱8,124,165	₱8,199,559	₱7,199,019,088
At January 1, 2012	₱1,776,000,000	₱3,749,711,168	₱1,084,857,388	(₱18,085,813)	₱5,639,149	₱6,598,121,892
Cash dividends (Note 16)	–	–	(1,704,960,000)	–	–	(1,704,960,000)
Equity contribution - executive stock option plan (Note 20)	–	–	–	–	1,937,988	1,937,988
Net income	–	–	1,959,337,908	–	–	1,959,337,908
Other comprehensive income (Note 16)	–	–	–	37,926,052	–	37,926,052
Total comprehensive income for the year	–	–	1,959,337,908	37,926,052	–	1,997,263,960
At December 31, 2012	₱1,776,000,000	₱3,749,711,168	₱1,339,235,296	₱19,840,239	₱7,577,137	₱6,892,363,840

See accompanying Notes to Financial Statements.

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

STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2014	2013	2012
OPERATING ACTIVITIES			
Income before income tax	**₱3,404,123,118**	₱3,205,222,206	₱2,808,889,399
Adjustments to reconcile income before income tax to net cash flows:			
Interest expense and other finance costs (Note 22)	**601,214,207**	618,382,272	684,054,227
Amortization of service concession asset (Notes 8 and 17)	**483,626,911**	599,931,592	597,358,217
Interest income (Note 21)	**(61,266,122)**	(82,563,116)	(116,601,837)
Movements in:			
Provisions (Note 13)	**(58,490,828)**	(204,749,158)	62,107,851
Pension asset/Accrued retirement costs	**(3,790,206)**	11,429,405	(33,743,073)
Long-term incentive plan expense (Note 19)	**55,171,612**	32,414,200	32,414,200
Depreciation of property and equipment (Notes 9 and 18)	**30,963,982**	28,881,703	23,685,415
Gain on disposal of available-for-sale financial assets (Note 11)	**(1,169,267)**	(11,780,746)	–
Amortization of other intangible assets (Notes 10 and 18)	**6,056,952**	8,108,060	7,547,442
Executive stock option plan expense (Note 20)	**2,345,037**	622,422	1,937,988
Unrealized foreign exchange loss (gain) – net	**1,006,086**	(1,393,248)	–
Loss (gain) on disposals of property and equipment (Notes 9 and 23)	**(355,322)**	(907,581)	176,481
Deferred toll revenue realized	**(335,345)**	–	(10,584,590)
Reversal of allowance for doubtful accounts (Note 23)	–	(5,259,500)	–
Mark-to-market loss on derivatives (Note 23)	–	–	44,844,434
Provision for potential losses on claim for refund (Note 18)	–	–	11,060,341
Working capital changes:			
Decrease (increase) in:			
Receivables	**(436,253,453)**	(71,067,777)	(59,872,406)
Inventories	**2,484,978**	(5,029,929)	10,000,899
Advances to contractors and consultants	**103,239,624**	(209,141,384)	4,052,553
Due from related parties	**(7,657,605)**	619,293	4,301,882
Other current assets	**(42,392,907)**	(21,864,940)	(21,369,254)
Increase (decrease) in:			
Accounts payable and other current liabilities	**644,634,166**	239,391,055	109,826,024
Due to related parties	**(97,549)**	97,549	(521,510)
Unearned toll revenue	**149,003**	335,345	–
Income tax paid	**(774,118,329)**	(700,035,575)	(684,679,147)
Net cash flows from operating activities	**3,949,088,743**	3,431,642,148	3,474,885,536

(Forward)

	Years Ended December 31		
	2014	2013	2012
INVESTING ACTIVITIES			
Interest received	**₱51,952,183**	₱84,911,113	₱113,568,885
Acquisition of available-for-sale financial assets (Note 11)	**(4,049,816,145)**	(4,011,901,065)	(50,000,000)
Decrease (increase) in other noncurrent assets	**(907,879,073)**	(7,284,874)	1,499,417
Additions to:			
Service concession asset (Note 8)	**(2,423,808,366)**	(341,507,662)	(224,847,664)
Property and equipment (Note 9)	**(43,881,614)**	(42,433,181)	(26,869,924)
Other intangible assets (Note 10)	**(18,237,565)**	(4,178,582)	(8,756,754)
Proceeds from:			
Sale of available-for-sale financial assets (Note 11)	**866,641,317**	1,077,158,808	–
Maturity of investments in bonds (Note 11)	**–**	50,600,000	–
Sale of property and equipment (Note 9)	**1,640,888**	2,559,387	5,864,846
Net cash flows used in investing activities	**(6,523,388,375)**	(3,192,076,056)	(189,541,194)
FINANCING ACTIVITIES			
Proceeds from loans (Note 15)	**7,000,000,000**	2,000,000,000	–
Payments of:			
Dividends (Note 16)	**(1,385,812,800)**	(2,485,867,200)	(907,980,000)
Loans	**(954,602,309)**	(167,102,308)	(167,102,307)
Interest	**(556,418,582)**	(572,622,868)	(653,180,267)
Debt issue costs (Note 15)	**(76,029,099)**	(16,315,791)	–
Swap termination costs (Notes 23 and 27)	**–**	(175,000,000)	–
Net cash flows from (used in) financing activities	**4,027,137,210**	(1,416,908,167)	(1,728,262,574)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**(1,006,086)**	1,393,248	–
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**1,451,831,492**	(1,175,948,827)	1,557,081,768
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR (Note 6)	**1,502,050,102**	2,677,998,929	1,120,917,161
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 6)	**₱2,953,881,594**	₱1,502,050,102	₱2,677,998,929

See accompanying Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS

1. Corporate Information

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

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

The Project consists of three phases as follows:

Phase I	Rehabilitation and expansion of approximately 84 kilometers (km) of the existing NLEX and an 8.5-km stretch of a Greenfield expressway that connects Tipo in Hermosa, Bataan to Subic
Phase II	Construction of the northern parts of the 17-km circumferential road C-5 which connects the current C-5 expressway to the NLEX and the 5.85-km road from McArthur to Letre
Phase III	Construction of the 57-km Subic arm of the NLEX to Subic Expressway

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

In accordance with the Memorandum of Agreement (MOA) dated March 6, 1995 among MPTDC, (then FPIDC), SBMA and BCDA, MPTDC undertook the immediate construction of the Subic - Tipo Road (Segment 7). Under the MOA, SBMA authorized MPTDC to charge and collect certain amount of entry fees from the motoring public for the use of Segment 7.

On April 5, 1997, a Provisional Operating and Maintenance Agreement was signed to initiate the collection process in Segment 7 under the terms and conditions of the Supplemental Toll Operation Agreement (STOA) as discussed in Note 2.

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

The construction of Phase I was substantially completed in January 2005. On January 27, 2005, the Toll Regulatory Board (TRB) issued the Toll Operation Permit (TOP) for the operation and maintenance of Phase I consisting of Segments 1, 2, 3 and including Segment 7 in favor of the Company. Thereafter, the Company took over the NLEX from PNCC and commenced its tollway operations on February 10, 2005.

On June 5, 2010, Segment 8.1, a portion of Phase II, which is a 2.7 km-road designed to link Mindanao Avenue to the NLEX, had officially commenced tollway operation. In May 2013, Segment 9, a portion of Phase II, which is a 2.4 km-road connecting NLEX to the McArthur Highway, had officially commenced construction and is expected to be completed within the first quarter of 2015. The estimated cost of construction of Segment 9 is ₱1.1 billion. In May 2014, Segment 10, a portion of Phase II, which is a 5.6 km four-lane, elevated expressway that will start from the terminal of Segment 9 in Valuenzuela City going to C-3 Road in Caloocan City above the alignment of Philippine National Railway tracks, had commenced construction and is expected to be completed in 2016. The estimated cost of construction of Segment 10 is approximately ₱10.0 billion. The remaining portion of Phase II is under pre-construction works while Phase III of the Project has not yet been started as at February 12, 2015.

MPTDC, the Parent Company, is a wholly owned subsidiary of Metro Pacific Tollways Corporation (MPTC). MPTC is 99.9% owned by Metro Pacific Investments Corporation (MPIC). MPIC is a publicly listed Philippine corporation and is 55.8% owned by Metro Pacific Holdings, Inc. (MPHI). MPHI is a Philippine corporation whose stockholders are Enterprise Investment Holdings, Inc. (EIH) (60.0%), Intalink B.V. (26.7%) and First Pacific International Limited (13.3%). First Pacific Company Limited (FPC), a company incorporated in Bermuda and listed in Hong Kong, through its subsidiaries, holds 40.0% equity interest in EIH and an investment financing, which under Hong Kong Generally Accepted Accounting Principles require FPC to account for the results and assets and liabilities of EIH and its subsidiaries as FPC group companies in Hong Kong.

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

The financial statements as at December 31, 2014 and 2013 and for each of the three years in the period ended December 31, 2014 were authorized for issuance by the Company's Board of Directors (BOD) on February 12, 2015, as reviewed and recommended for approval by the Company's Audit Committee.

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

By virtue of Presidential Decree (PD) No. 1113 issued on March 31, 1977 as amended by PD No. 1894 issued on December 22, 1983, PNCC was granted the franchise for the construction, operation and maintenance of toll facilities in the NLEX, South Luzon Expressway (SLEX) and Metro Manila Expressway. PNCC executed a Toll Operation Agreement (TOA) with the Government of the Republic of the Philippines (ROP), by and through the TRB.

Pursuant to the JVA entered into by PNCC and MPTDC (then FPIDC) on August 29, 1995, PNCC assigned its rights, interests and privileges under its franchise to construct, operate and maintain toll facilities in the NLEX in favor of MNTC, including the design, funding and rehabilitation of the NLEX, and installation of the appropriate collection system therein. MPTDC (then FPIDC) in turn assigned all its rights, interests and privileges to Segment 7, as defined in the Memorandum of Agreement dated March 6, 1995, to MNTC, which assumed all the rights and obligations as a necessary and integral part of the Project. The assignment of PNCC's usufructuary rights, interests and privileges under its franchise, to the extent of the portion pertaining to the NLEX, was approved by the then President of the ROP. On October 10, 1995, the Department of Justice issued Opinion No. 102, Series of 1995, noting the authority of the TRB to grant authority to operate a toll facility and to issue the necessary Toll Operation Certificate (TOC). On November 24, 1995, in a letter by the then Secretary of Justice to the then Secretary of Public Works and Highways, the Secretary of Justice reiterated and affirmed the authority of the TRB to grant authority to operate a toll facility and to issue the necessary TOC in favor of PNCC and its joint venture partner for the proper and orderly construction, operation and maintenance of the NLEX as a toll road during the concession period.

In April 1998, the ROP (Grantor), acting by and through the TRB, PNCC (Franchisee) and MNTC (Concessionaire) executed the STOA for the Manila-North Expressway, whereby the ROP granted MNTC the rights, obligations and privileges including the authority to finance, design, construct, operate and maintain the project roads as toll roads (the "Concession") commencing upon the date the STOA comes into effect until December 31, 2030 or 30 years after the issuance of the TOP for the last completed phase, whichever is earlier, unless further extended pursuant to the STOA.

The PNCC franchise expired on May 1, 2007. Pursuant to the STOA, the TRB issued the necessary TOC for the NLEX in order to allow the continuation of the Concession. As further discussed in Note 14, the Company pays a certain amount to PNCC.

Also, under the STOA, the Company shall pay for the Grantor's project overhead expenses based on certain percentages of total construction costs or of periodic maintenance works on the project roads. TRB has not billed for any project overhead expenses in 2014, 2013 and 2012.

Upon expiry of the concession period, MNTC shall hand-over the project roads to the Grantor without cost, free from any and all liens and encumbrances and fully operational and in good working condition, including any and all existing land required, works, toll road facilities and equipment found therein directly related to and in connection with the operation of the toll road facilities.

In October 2008, in consideration of the construction of Segment 8.1, TRB approved the Company's proposal to extend the concession period for Phase I and Segment 8.1 of the Project until December 31, 2037, subject to certain conditions.

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

3. Basis of Preparation and Summary of Significant Accounting Policies

Basis of Preparation

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

Statement of Compliance

The financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRS) as 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 voluntary change in accounting policy and adoption of new and amended PFRSs which were adopted as at January 1, 2014.

Change in amortization method of the service concession asset. Beginning January 1, 2014, the service concession asset of the Company is amortized on a unit-of-production (UOP) basis. The Company determined that it is more appropriate to use the UOP basis for amortizing the service concession asset as the economic benefit of this asset is more closely aligned with the traffic volume and kilometers travelled for the segments of the toll road using an "open toll collection system" and "closed toll collection system", respectively. This change in accounting policy resulted in an increase in net income by ₱84.5 million for the year ended December 31, 2014.

Under the UOP basis, the amortization expense is expected to decrease in the earlier period and increase in the later period of the concession term compared to straight-line method of amortization. The calculation of the UOP amortization is subject to other variables such as additional capital expenditures and re-estimation of projected traffic, and actual traffic volume during the year. Given that the projected and actual traffic volume fluctuate, it is not practicable to estimate the impact for the succeeding periods.

Adoption of new and amended standards and interpretations. The Company applied the following PFRS, Philippine Interpretations and amendments to existing standards effective January 1, 2014.

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

- Philippine Accounting Standard (PAS) 32, *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities* (Amendments). These amendments clarify the meaning of "currently has a legally enforceable right to set-off" and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting and are applied retrospectively. The amendments affect presentation only and have no impact on the Company's financial position or performance.

- PAS 36, *Impairment of Assets, Recoverable Amount Disclosures for Non-Financial Assets* (Amendments). These amendments remove the unintended consequences of PFRS 13, *Fair Value Measurement*, 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 an impairment loss has been recognized or reversed during the period. The application of these amendments has no material impact on the disclosures in the Company's financial statements.

- PAS 39, *Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting* (Amendments). These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria and retrospective application is required. These amendments have no impact on the Company as the Company has not novated its derivatives during the current or prior periods.

- Investment Entities (Amendments to PFRS 10, *Consolidated Financial Statements,* PFRS 12, *Disclosure of Interests in Other Entities* and PAS 27, *Separate Financial Statements*). These amendments 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. The amendments must be applied retrospectively, subject to certain transition relief. The amendments have no impact to the Company.

- 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. Retrospective application is required for IFRIC 21. This interpretation has no significant impact on the Company's financial position or performance.

- Annual Improvements to PFRSs (2010-2012 cycle). This improvement cycle includes an amendment to PFRS 13, *Fair Value Measurement*. The amendment to PFRS 13 is effective immediately and it clarifies that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial. This amendment has no significant impact on the Company.

- Annual Improvements to PFRSs (2011-2013 cycle). This improvement cycle includes an amendment to PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards– First-time Adoption of PFRS*. The amendment to PFRS 1 is effective immediately. It clarifies that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first PFRS financial statements. This amendment has no impact on the Company as it is not a first time PFRS adopter.

<u>Current versus Noncurrent Classification of Assets and Liabilities</u>
The Company presents assets and liabilities in the balance sheets based on current/noncurrent classification. An asset as current when it is:
- Expected to be realized or intended to be sold or consumed in normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realized within twelve months after the reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as noncurrent.

A liability is current when:
- It is expected to be settled in normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Company classifies all other liabilities as noncurrent.

Deferred tax assets and liabilities are classified as noncurrent assets and liabilities.

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

Financial Assets and Liabilities

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

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

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

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

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

a. Financial Assets and Liabilities at FVPL

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

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

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

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognizing gains or losses on them on a different basis;

- the assets or liabilities are part of financial assets or financial liabilities, or both financial assets and liabilities, which are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or

- the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

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

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

As at December 31, 2014 and 2013, there are no financial assets and liabilities at FVPL.

b. Loans and Receivables

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

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

c. HTM Investments

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

The Company has no HTM investments as at December 31, 2014 and 2013.

d. AFS Financial Assets

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

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

As at December 31, 2014 and 2013, the Company’s AFS financial assets consist of investments in fixed rate retail treasury bonds and notes of the ROP; fixed rate corporate bonds of Manila Electric Company (Meralco), Philippine Long Distance Telephone Company (PLDT) and First Metro Investment Corporation (FMIC); unit investment trust funds (UITFs) and long-term negotiable certificate of deposits (LTNCDs) (see Note 11).

e. Loans and Borrowings

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

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

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

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

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

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

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

a. Financial Assets Carried at Amortized Cost

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

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

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

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

b. AFS Financial Assets

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

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

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

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

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

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

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

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

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

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

Derivatives and Hedge Accounting

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

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

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

In cash flow hedges, changes in the fair value of a hedging instrument that qualifies as highly effective cash flow hedge are included in equity under "Other comprehensive income reserve" account, net of related deferred tax. The ineffective portion is immediately recognized in the statement of income.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Fair Value Measurement

The Company measures financial instruments such as derivatives and AFS financial assets at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortized cost are disclosed in Note 27.

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

- In the principal market for the asset or liability
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Company.

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

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

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

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

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

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

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

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

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

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

Service Concession Arrangement
The Company accounts for its concession arrangement under the intangible asset model as it receives the right (license) to charge users of public service.

In addition, the Company recognizes and measures construction revenue in accordance with PAS 11, *Construction Contracts*, and PAS 18, *Revenue,* for the services it performs.

When the Company provides construction or upgrade services, the consideration received or receivable by the Company is recognized at its fair value. The revenue and cost from these services are recognized based on the percentage of completion measured principally on the basis of estimated completion of a physical proportion of the contract works, and by reference to the actual costs incurred to date over the estimated total cost of the project.

The Company also recognizes its contractual obligations to restore the toll roads to a specified level of serviceability in accordance with PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, as the obligations arise which is as a consequence of the use of the toll roads and therefore it is proportional to the number of vehicles using the toll roads and increasing in measurable annual increments.

Service Concession Asset. The service concession asset is recognized initially at the fair value of the construction services. Following initial recognition, the service concession asset is carried at cost less accumulated amortization and any impairment losses.

Prior to 2014, the service concession asset is amortized using the straight-line method over the concession term. Effective January 1, 2014, the service concession asset is amortized using the unit-of-production method. The annual amortization of the service concession asset is calculated by applying the ratio of actual traffic volume of the underlying toll expressways compared to the total expected traffic volume of the underlying toll expressways over the respective remaining concession periods to the net carrying value of the assets. The expected traffic volume is estimated by management with reference to the traffic projection reports.

The amortization expense is recognized under the "Cost of services" account in the statement of comprehensive income.

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

Property and Equipment

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

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

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

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

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

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

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

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

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

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

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

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

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

Retained earnings represent the accumulated earnings net of dividends declared, adjusted for the effects of changes in accounting policies as may be required by PFRS' transitional provisions.

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

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

Revenue Recognition
Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the amount of the revenue can be measured reliably, regardless of when the payment is made. Revenue is measured at fair value of the consideration received or receivable, taking into account contractually defined terms of payment, excluding value-added tax (VAT), discounts and rebates. The Company has concluded that it is acting as principal in all of its revenue arrangements since it is the primary obligor in all the revenue arrangements, has pricing latitude and is also exposed to inventory and credit risks.

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

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

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

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

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

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

- Other income is recognized when there is an incidental economic benefit, other than the usual business operations, that will flow to the Company through an increase in asset or reduction in liability that can be measured reliably. This includes reversal of allowance for doubtful accounts.

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

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

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

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

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

Company as Lessee. Leases where the lessor retains substantially all the risks and benefits of ownership of the assets are classified as operating leases. Operating lease payments are recognized as an expense in the statement of income on a straight-line basis over the term of the lease.

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

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

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

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

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

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

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

Defined benefit costs comprise the following:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Taxes

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

Current tax relating to items recognized directly in equity is recognized in equity and not in the statement of income. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

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

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

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

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

Deferred tax relating to items recognized directly in equity is recognized in equity and not in the statement of income. Deferred tax items are recognized in correlation to the underlying transaction either in OCI or directly in equity.

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

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

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

b. when receivables and payables are stated with the amount of VAT included.

The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of other current assets or as part of payables in the balance sheet.

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

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

4. Future Changes in Accounting Policies

The Company has not applied the following PFRS, Philippine Interpretations and amendments to existing standards which are not yet effective as at December 31, 2014:

- PFRS 9, *Financial Instruments – Classification and Measurement (2010 version)*. PFRS 9 (2010 version) reflects the first phase on the replacement of PAS 39 and applies to the classification and measurement of financial assets and liabilities as defined in PAS 39. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at fair value through profit or loss. All equity financial assets are measured at fair value either through OCI or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward into PFRS 9, including the embedded derivative separation rules and the criteria for using the FVO. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Company's financial assets, but will potentially have no impact on the classification and measurement of financial liabilities.

PFRS 9 (2010 version) is effective for annual periods beginning on or after January 1, 2015. This mandatory adoption date was moved to January 1, 2018 when the final version of PFRS 9 was adopted by the FRSC. Such adoption, however, is still for approval by the Board of Accountancy.

- 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. Adoption of the interpretation when it becomes effective will not have any impact on the financial statements of the Company.

The following new standards and amendments issued by the IASB were already adopted by the FRSC but are still for approval by the Board of Accountancy.

Effective January 1, 2015

- PAS 19, *Employee Benefits - Defined Benefit Plans: Employee Contributions* (Amendments). PAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognize such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after January 1, 2015. It is not expected that this amendment would be relevant to the Company, since none of the entities within the Company has defined benefit plans with contributions from employees or third parties.

- *Annual Improvements to PFRS (2010-2012 cycle)*. The Annual Improvements to PFRSs (2010-2012 cycle) are effective for annual periods beginning on or after January 1, 2015 and are not expected to have a material impact on the Company.

  - PFRS 2, *Share-based Payment – Definition of Vesting Condition*. This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:

    a. A performance condition must contain a service condition
    b. A performance target must be met while the counterparty is rendering service
    c. A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group
    d. A performance condition may be a market or non-market condition
    e. If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied.

  - PFRS 3, *Business Combinations – Accounting for Contingent Consideration in a Business Combination*. The amendment clarifies that a 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 (or PFRS 9, if early adopted). 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 are applied retrospectively and clarify that:

  a. An entity must disclose the judgments made by management in applying the aggregation criteria in the standard, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'.
  b. The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

- PAS 16, *Property, Plant and Equipment*, and PAS 38, *Intangible Assets – Revaluation Method – Proportionate Restatement of Accumulated Depreciation and Amortization*. The amendment is applied retrospectively and clarifies in PAS 16 and PAS 38 that the asset may be revalued by reference to the observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortization is the difference between the gross and carrying amounts of the asset.

- PAS 24, *Related Party Disclosures – Key Management Personnel*. The amendment is applied retrospectively and clarifies that a management entity, which is an entity that provides key management personnel services, is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.

- *Annual Improvements to PFRS (2011-2013 cycle)*. The Annual Improvements to PFRS (2011-2013 cycle), effective for annual periods beginning on or after January 1, 2015 and are applied prospectively, contain non-urgent but necessary amendments to the following standards and are not expected to have a significant impact on the Company:

  - PFRS 3, *Business Combinations – Scope Exceptions for Joint Arrangements*. The amendment is applied prospectively and clarifies the following regarding the scope exceptions within PFRS 3:

    a. Joint arrangements, not just joint ventures, are outside the scope of PFRS 3

    b. This scope exception applies only to the accounting in the financial statements of the joint arrangement itself

  - PFRS 13, *Fair Value Measurement – Portfolio Exception*. The amendment clarifies that the portfolio exception in PFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of PAS 39 (or PFRS 9, as applicable).

  - PAS 40, *Investment Property*. The amendment clarifies that PFRS 3, and not the description of ancillary services in PAS 40, is used to determine if the transaction is the purchase of an asset or business combination. The description of ancillary services in PAS 40 only differentiates between investment property and owner-occupied property (i.e., property, plant and equipment).

Effective January 1, 2016

- PAS 16, *Property, Plant and Equipment*, and PAS 38, *Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortization* (Amendments). These amendments clarify the principle in PAS 16 and PAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets. The amendments are effective prospectively for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact to the Company given that the Company has not used a revenue-based method to depreciate its non-current assets.

- PAS 16, *Property, Plant and Equipment*, and PAS 41, *Agriculture – Bearer Plants* (Amendments). The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of PAS 41. Instead, PAS 16 will apply. After initial recognition, bearer plants will be measured under PAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of PAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, PAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, will apply. The amendments are retrospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact to the Company as the Company does not have any bearer plants.

- PAS 27, *Separate Financial Statements – Equity Method in Separate Financial Statements* (Amendments). The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying PFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of PFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to PFRS. The amendments are effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments will not have any impact on the Company's financial statements.

- PFRS 10, *Consolidated Financial Statements*, and PAS 28, *Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*. These amendments address an acknowledged inconsistency between the requirements in PFRS 10 and those in PAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. These amendments are effective from annual periods beginning on or after January 1, 2016. These amendments are not expected to have any impact to the Company.

- PFRS 11, *Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operations* (Amendments). The amendments to PFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant PFRS 3, *Business Combinations*, principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to PFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

  The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact to the Company.

- PFRS 14, *Regulatory Deferral Accounts*. PFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of PFRS. Entities that adopt PFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of income and OCI. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. PFRS 14 is effective for annual periods beginning on or after January 1, 2016. Since the Company is an existing PFRS preparer, this standard would not apply.

- *Annual Improvements to PFRSs (2012-2014 cycle).* The Annual Improvements to PFRSs (2012-2014 cycle) are effective for annual periods beginning on or after January 1, 2016 and are not expected to have a material impact on the Company.

  - PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations – Changes in Methods of Disposal*. The amendment is applied prospectively and clarifies that changing from a disposal through sale to a disposal through distribution to owners and vice-versa should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in PFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification.

  - PFRS 7, *Financial Instruments: Disclosures – Servicing Contracts*. PFRS 7 requires an entity to provide disclosures for any continuing involvement in a transferred asset that is derecognized in its entirety. The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance in PFRS 7 in order to assess whether the disclosures are required. The amendment is to be applied such that the assessment of which servicing contracts constitute continuing involvement will need to be done retrospectively. However, comparative disclosures are not required to be provided for any period beginning before the annual period in which the entity first applies the amendments.

- PFRS 7 - *Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements*. This amendment is applied retrospectively and clarifies that the disclosures on offsetting of financial assets and financial liabilities are not required in the condensed interim financial report unless they provide a significant update to the information reported in the most recent annual report.

- PAS 19, *Employee Benefits – Regional Market Issue regarding Discount Rate*. This amendment is applied prospectively and clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.

- PAS 34, *Interim Financial Reporting – Disclosure of Information 'Elsewhere in the Interim Financial Report'*. The amendment is applied retrospectively and clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report).

Effective January 1, 2018

- PFRS 9, *Financial Instruments – Hedge Accounting and amendments to PFRS 9, PFRS 7, Financial Instruments: Disclosures and PAS 39 (2013 version)*. PFRS 9 (2013 version) already includes the third phase of the project to replace PAS 39 which pertains to hedge accounting. This version of 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 derivative instrument as the hedging instrument and accounted for as costs of hedging. PFRS 9 also requires more extensive disclosures for hedge accounting.

  PFRS 9 (2013 version) has no mandatory effective date. The mandatory effective date of January 1, 2018 was eventually set when the final version of PFRS 9 was adopted by the FRSC. The adoption of the final version of PFRS 9, however, is still for approval by the Board of Accountancy.

  The adoption of PFRS 9 will have an effect on the classification and measurement of the Company's financial assets but will have no impact on the classification and measurement of the Company's financial liabilities. The adoption will also have an effect on the Company's application of hedge accounting. The Company is currently assessing the impact of adopting this standard.

- PFRS 9, *Financial Instruments (2014 or final version)*. In July 2014, the final version of PFRS 9, was issued. PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of PFRS 9 is permitted if the date of initial application is before February 1, 2015.

The adoption of PFRS 9 will have an effect on the classification and measurement of the Company's financial assets and impairment methodology for financial assets, but will have no impact on the classification and measurement of the Company's financial liabilities. The adoption will also have an effect on the Company's application of hedge accounting. The Company is currently assessing the impact of adopting this standard.

The following new standard issued by the IASB has not yet been adopted by the FRSC:

- International Financial Reporting Standards (IFRS) 15, *Revenue from Contracts with Customers*. IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2017 with early adoption permitted. IFRS 15 was not yet adopted by FRSC. The Company is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date once adopted locally.

5. Significant Accounting Judgments, Estimates and Assumptions

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

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

Judgments

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

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

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

The Company has made a judgment that the STOA for the Manila-North Expressway qualifies under the intangible asset model, wherein the service concession asset is recognized as an intangible asset in accordance with PAS 38, *Intangibles*. Prior to 2014, the service concession asset is amortized using the straight-line method over the life of the concession agreement. Effective January 1, 2014, the service concession asset is amortized using unit-of-production method. The amortization of the service concession asset is calculated based on the ratio of actual traffic volume of the underlying toll expressways compared to the total expected traffic volume of the underlying toll expressways over the remaining concession periods of the concession agreement. Adjustments may need to be made to the carrying amounts of the service concession asset should there be a material difference between the total expected traffic volume and the actual results. The Company's management has reviewed the total expected traffic volume and made appropriate adjustments to the assumptions of the expected traffic volume with reference to the latest traffic studies. The management of the Company considers that these are calculated by reference to the best estimates of the total expected traffic volumes of the underlying toll expressways. The carrying value of service concession asset amounted to ₱16,867.6 million and ₱14,925.9 million as at December 31, 2014 and 2013, respectively (see Note 8).

The Company also recognizes construction revenues and costs in accordance with PAS 11, *Construction Contracts*. It measures contract revenue at the fair value of the consideration received or receivable. Given that MNTC has subcontracted the construction to outside contractors, the construction revenue recognized is equal to the construction costs. Construction revenue and costs recognized in statements of income amounted to ₱2,425.3 million, ₱341.6 million and ₱224.8 million for the years ended December 31, 2014, 2013 and 2012, respectively.

The Company also recognizes its contractual obligations to restore the toll roads to a specified level of serviceability starting January 1, 2008 following the final turnover of the Phase I of the Project from the contractor in October 2007. The Company recognizes a provision following PAS 37, as the obligation arises which is a consequence of the use of the toll roads and therefore it is proportional to the number of vehicles using the toll roads and increasing in measurable annual increments. Provision for heavy maintenance amounted to ₱167.9 million and ₱205.9 million as at December 31, 2014 and 2013, respectively (see Note 13).

<u>Estimates and Assumptions</u>
The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below. The Company based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

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

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

Allowance for Doubtful Accounts. Allowance for doubtful accounts is maintained at a level considered adequate to provide for potentially uncollectible receivables. The level of allowance is based on past collection experience and other factors that may affect collectibility. An evaluation of the receivables using specific method, designed to identify potential charges to the allowance, is performed on a continuous basis throughout the year. There were no provisions under collective assessment in 2014 and 2013.

Receivables amounted to ₱683.2 million and ₱237.7 million as at December 31, 2014 and 2013, respectively. Allowance for doubtful accounts amounted to ₱9.9 million and ₱5.5 million as at December 31, 2014 and 2013, respectively (see Note 7).

Due from related parties amounted to ₱12.5 million and ₱4.8 million as at December 31, 2014 and 2013, respectively (see Note 14).

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

No impairment loss was recognized in 2014, 2013 and 2012. The carrying values of AFS financial assets, including short-term deposits, amounted to ₱6,727.6 million and ₱3,516.7 million as at December 31, 2014 and 2013, respectively (see Note 11).

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

There was no write-down of inventories recognized in the financial statements for the years ended December 31, 2014, 2013 and 2012. Inventories amounted to ₱47.8 million and ₱50.3 million as at December 31, 2014 and 2013, respectively.

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

Effective January 1, 2014, amortization of service concession asset is calculated based on the ratio of actual traffic volume of the underlying toll expressways compared to the total expected traffic volume of the underlying toll expressways over the remaining concession periods of the concession agreement. Adjustments may need to be made to the carrying amounts of service concession asset should there be a material difference between the total expected traffic volume and the actual results.

As at December 31, 2014, the Company's management has reviewed the total expected traffic volume and made appropriate adjustments to the assumptions of the expected traffic volume with reference to the latest traffic studies. In 2014, the Company reported amortization of service concession asset amounting to ₱483.6 million. The management of the Company considers that these are calculated by reference to the best estimates of the total expected traffic volumes of the underlying toll expressways.

There were no changes in the estimated useful lives property and equipment and intangible assets in 2014 and 2013. The carrying values of the Company's nonfinancial assets as at December 31, 2014 and 2013 are as follows:

	2014	2013
Service concession asset (see Note 8)	**₱16,867,583,654**	₱14,925,938,094
Property and equipment (see Note 9)	**129,502,464**	117,870,398
Other intangible assets (see Note 10)	**22,169,763**	9,989,150

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

There was no impairment loss recognized in the financial statements for the years ended December 31, 2014, 2013 and 2012. There was no impairment testing performed for the years ended December 31, 2014, 2013 and 2012 as there were no indicators of impairment. The carrying values of the Company's nonfinancial assets as at December 31, 2014 and 2013 are as follows:

	2014	2013
Service concession asset (see Note 8)	**₱16,867,583,654**	₱14,925,938,094
Property and equipment (see Note 9)	**129,502,464**	117,870,398
Other intangible assets (see Note 10)	**22,169,763**	9,989,150

Recognition of Deferred Tax Assets. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow or part of the deferred tax assets to be utilized. The Company's assessment on the recognition of deferred tax assets on deductible temporary differences is based on the expected future results of operations.

Deferred tax assets amounted to ₱107.5 million and ₱110.8 million as at December 31, 2014 and 2013, respectively (see Note 24).

Share-based Payments. The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payments requires determining the most appropriate valuation model for a grant of equity instruments, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payments are disclosed in Note 20.

Total cost arising from share-based payments recognized by the Company, included in salaries and employee benefits under "General and administrative expenses" account in the statements of income, amounted to ₱2.3 million, ₱0.6 million and ₱1.9 million for the years ended December 31, 2014, 2013 and 2012, respectively (see Notes 18 and 20).

Retirement Costs. The cost of defined benefit retirement plan and the present value of the defined benefit obligation are determined using actuarial valuations. The actuarial valuations involve making various assumptions about discount rates, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each balance sheet date. Further details about the assumptions used are given in Note 19.

Pension asset amounted to ₱2.6 million and ₱1.8 million as at December 31, 2014 and 2013, respectively (see Note 19).

Long-Term Incentives Benefits. The LTIP for key executives of MPTC and its subsidiaries (includes the Company) was approved by MPTC's BOD and is based on profit targets for the covered performance cycle. The cost of LTIP is determined using the projected unit credit method based on prevailing discount rates and profit targets. While management's assumptions are believed to be reasonable and appropriate, significant differences in actual results or changes in assumptions may materially affect the Company's long-term incentives benefits.

LTIP payable, included in "Accounts payable and other current liabilities" amounted to ₱120.0 million as at December 31, 2014 (see Notes 12 and 19). LTIP payable amounted to ₱64.8 million as at December 31, 2013 (see Note 19).

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

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

Provisions (current and noncurrent) amounted to ₱258.0 million and ₱304.5 million as at December 31, 2014 and 2013, respectively (see Note 13).

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

6. Cash and Cash Equivalents

This account consists of:

	2014	2013
Cash on hand and in banks	**₱905,227,627**	₱270,455,446
Short-term deposits as cash equivalents	**2,048,653,967**	1,231,594,656
	₱2,953,881,594	₱1,502,050,102

Cash in banks earn interest at the prevailing bank deposit rates. Short-term deposits as cash equivalents 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 earned from cash and cash equivalents amounted to ₱11.1 million, ₱43.6 million and ₱81.1 million for the years ended December 31, 2014, 2013 and 2012, respectively (see Note 21).

7. Receivables

This account consists of:

	2014	2013
Trade receivables (see Note 14)	**₱464,262,735**	₱146,292,473
Advances to officers and employees (see Note 14)	**8,883,113**	9,713,288
Interest receivables	**13,512,861**	4,198,922
Other receivables	**206,462,075**	83,009,599
	693,120,784	243,214,282
Less allowance for doubtful accounts	**9,883,197**	5,544,087
	₱683,237,587	₱237,670,195

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

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

Interest receivables are collectible within three months.

Other receivables are noninterest-bearing and are collectible within a year. As at December 31, 2014 and 2013, other receivables include those receivables from motorists who caused accidental damage to NLEX property from day-to-day operations amounting to ₱30.2 million and ₱28.9 million, respectively. Other receivables also include the advances made to Department of Public Works and Highways (DPWH) amounting to ₱173.7 million and ₱52.9 million as at December 31, 2014 and 2013, respectively. Pursuant to the Reimbursement

Agreement entered into by the Company with DPWH in 2013, DPWH requested these advances in order to fast track the acquisition of right-of-way for the construction of Phase II Segment 9.

Movements in the allowance for individually assessed impaired receivables in 2014 and 2013 are as follows:

	2014		
	Trade Receivables	**Other Receivables**	**Total**
Balance at beginning of year	**₱–**	**₱5,544,087**	**₱5,544,087**
Provision for doubtful accounts (see Note 18)	**2,238,191**	**2,100,919**	**4,339,110**
Balance at end of year	**₱2,238,191**	**₱7,645,006**	**₱9,883,197**

	2013		
	Trade Receivables	Other Receivables	Total
Balance at beginning of year	₱5,259,500	₱–	₱5,259,500
Provision for doubtful accounts (see Note 18)	–	5,544,087	5,544,087
Reversals during the year (see Note 23)	(5,259,500)	–	(5,259,500)
Balance at end of year	₱–	₱5,544,087	₱5,544,087

8. **Service Concession Asset**

The movements in this account follow:

	2014	2013
Cost:		
Balance at beginning of year	**₱20,380,318,478**	₱20,038,672,262
Additions	**2,425,272,471**	341,646,216
Balance at end of year	**22,805,590,949**	20,380,318,478
Accumulated amortization:		
Balance at beginning of year	**5,454,380,384**	4,854,448,792
Amortization (see Note 17)	**483,626,911**	599,931,592
Balance at end of year	**5,938,007,295**	5,454,380,384
Net book value	**₱16,867,583,654**	₱14,925,938,094

Additions during 2014 pertain mainly to civil works construction on Segments 9 and 10 and fixed operating equipment (FOE) design, supply and installation for the toll collection system (TCS) migration on Segment 8.1 and Phase I of the Project. Additions also include the pre-construction of Segment 8.2 of the Phase II of the Project.

Additions during 2013 pertain mainly to the civil works construction on Segment 9 and FOE design, supply and installation for the TCS migration on Segment 8.1 and Phase I of the Project. Additions also include the pre-construction costs of Segments 8.2 and 10 of Phase II of the Project.

Borrowing costs capitalized amounted to ₱335.9 million and ₱11.4 million for the years ended December 31, 2014 and 2013, respectively. The interest rates used to determine the amount of borrowing costs eligible for capitalization ranges from 5.0% to 5.8% in 2014 and 2013.

The concession term for fully operational Phase I and Segment 8.1 of Phase II of the Project is until December 31, 2037. As at December 31, 2014 and 2013, the remaining concession term is 23 years and 24 years, respectively.

9. Property and Equipment

The movements in this account follow:

	Building, Building Improvements and Leasehold Improvements	Transportation Equipment	Office Equipment and Others	Total
Cost:				
At January 1, 2013	₱91,840,173	₱60,110,611	₱88,000,928	₱239,951,712
Additions	1,270,140	13,473,357	27,689,684	42,433,181
Disposals	(20,882)	(9,229,643)	(3,492,021)	(12,742,546)
At December 31, 2013	93,089,431	64,354,325	112,198,591	269,642,347
Additions	330,400	16,986,321	26,564,893	43,881,614
Disposals	(498,288)	(10,151,786)	(753,501)	(11,403,575)
At December 31, 2014	**₱92,921,543**	**₱71,188,860**	**₱138,009,983**	**₱302,120,386**
Accumulated depreciation:				
At January 1, 2013	₱24,254,525	₱36,375,146	₱73,351,315	₱133,980,986
Depreciation (see Note 18)	3,588,918	10,344,980	14,947,805	28,881,703
Disposals	–	(7,603,055)	(3,487,685)	(11,090,740)
At December 31, 2013	27,843,443	39,117,071	84,811,435	151,771,949
Depreciation (see Note 18)	4,296,499	9,908,799	16,758,684	30,963,982
Disposals	(498,288)	(8,866,220)	(753,501)	(10,118,009)
At December 31, 2014	**₱31,641,654**	**₱40,159,650**	**₱100,816,618**	**₱172,617,922**
Net book value:				
At December 31, 2014	**₱61,279,889**	**₱31,029,210**	**₱37,193,365**	**₱129,502,464**
At December 31, 2013	65,245,988	25,237,254	27,387,156	117,870,398

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

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

Proceeds from the sale of property and equipment amounted to ₱1.6 million, ₱2.6 million and ₱5.9 million in 2014, 2013 and 2012, respectively. Gain on disposal of property and equipment amounted to ₱0.4 million and ₱0.9 million for the years ended December 31, 2014 and 2013, respectively. Loss on disposal of property and equipment amounted to ₱0.2 million for the year ended December 31, 2012 (see Note 23).

The gross carrying amounts of fully depreciated property and equipment that are still in use amounted to ₱99.6 million and ₱85.7 million as at December 31, 2014 and 2013, respectively.

10. **Other Intangible Assets**

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

	2014	2013
Cost:		
Balance at beginning of year	**₱75,330,354**	₱71,151,772
Additions	**18,237,565**	4,178,582
Balance at end of year	**93,567,919**	75,330,354
Accumulated amortization:		
Balance at beginning of year	**65,341,204**	57,233,144
Amortization (see Note 18)	**6,056,952**	8,108,060
Balance at end of year	**71,398,156**	65,341,204
Net book value	**₱22,169,763**	₱9,989,150

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

Details of AFS financial assets are shown below:

	Interest	**2014**		2013	
Maturity Date	Rate	**Fair Value**	**Principal Amount**	Fair Value	Principal Amount
UITF*					
Short-term	–	**₱4,789,522,429**	**₱4,730,364,789**	₱1,995,120,215	₱1,990,364,790
ROP Retail Treasury Bonds					
March 12, 2015	5.00%	**50,767,000**	**50,000,000**	–	–
August 19, 2015	5.88%	**204,824,000**	**200,000,000**	214,720,000	200,000,000
March 3, 2016	6.00%	**156,741,000**	**150,000,000**	164,997,000	150,000,000
August 15, 2023	3.25%	**544,095,233**	**565,100,000**	553,594,564	562,524,166
		956,427,233	**965,100,000**	933,311,564	912,524,166
Fixed Rate Treasury Notes					
April 25, 2016	1.63%	**49,584,500**	**50,000,000**	–	–
May 23, 2018	2.13%	**390,360,495**	**399,260,000**	388,867,262	393,634,047
		439,944,995	**449,260,000**	388,867,262	393,634,047
LTNCD					
PNB - June 12, 2020	4.13%	**50,000,000**	**50,000,000**	–	–
Metrobank - November 21, 2021	4.25%	**50,000,000**	**50,000,000**	–	–
		100,000,000	**100,000,000**	–	–
Corporate Bonds					
FMIC - August 10, 2019	5.75%	**51,114,500**	**50,000,000**	–	–
Meralco - December 12, 2020	4.38%	**192,254,000**	**200,000,000**	199,402,000	200,000,000
PLDT - February 6, 2021	5.23%	**198,372,000**	**200,000,000**	–	–
		441,740,500	**450,000,000**	199,402,000	200,000,000
		₱6,727,635,157	**₱6,694,724,789**	₱3,516,701,041	₱3,496,523,003

* *Presented as "Short-term deposits" in the balance sheets.*

UITFs are ready-made investments that allow the pooling of funds from different investors with similar investment objectives. These UITFs are managed by professional fund managers and are invested in various financial instruments such as money market securities, bonds and equities, which are normally available to bigger investors only. A UITF uses the mark-to-market method in valuing the fund's securities. It is a valuation method which calculates the Net Asset Value (NAV) based on the estimated fair market value of the assets of the fund based on prices supplied by independent sources.

The movements in this account follow:

	2014	2013
Balance at beginning of year	**₱3,516,701,041**	₱640,316,000
Additions	**4,049,816,145**	4,011,901,065
Maturity	**–**	(50,600,000)
Sale of AFS financial assets	**(860,000,000)**	(1,065,378,062)
Gain (loss) on AFS financial asset during the year	**21,117,971**	(19,537,962)
Balance at end of year	**₱6,727,635,157**	₱3,516,701,041
Current	**₱5,045,113,429**	₱1,995,120,215
Noncurrent	**1,682,521,728**	1,521,580,826
	₱6,727,635,157	₱3,516,701,041

The fair value is based on the quoted market price of the financial instruments as at December 31, 2014 and 2013. The movements in the net unrealized gain on fair value change in AFS financial assets under "Other comprehensive income reserve" account for the years ended December 31, 2014, 2013 and 2012 follow:

	2014	2013	2012
Balance at beginning of year	**₱20,178,038**	₱39,716,000	₱27,121,750
Changes in fair value during the year	**27,759,214**	(5,427,561)	12,594,250
Reclassification to profit or loss*	**(6,641,243)**	(14,110,401)	–
Balance at end of year	**41,296,009**	20,178,038	39,716,000
Tax effects of items taken directly in equity (see Note 24)	**(2,826,741)**	(8,915,100)	(11,914,800)
	₱38,469,268	₱11,262,938	₱27,801,200

* *Includes gain on sale of UITF amounting to ₱5,472,050 in 2014 that was deducted from borrowing costs capitalized to service concession asset.*

12. Accounts Payable and Other Current Liabilities

This account consists of:

	2014	2013
Trade payables (see Note 14)	**₱735,625,201**	₱595,157,652
Accrued expenses (see Note 14)	**946,662,930**	524,611,595
Retention payable	**141,287,463**	77,956,052
Long-term incentive plan payable (see Note 19)	**120,000,012**	–
Output value-added tax	**108,610,052**	89,410,214
Withholding taxes payable	**87,599,960**	87,664,021
Interest payable	**23,838,668**	23,699,544
Others	**12,166,175**	12,518,081
	₱2,175,790,461	₱1,411,017,159

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

Accrued expenses consist of:

	2014	2013
Operator's fee (see Note 14)	**₱419,551,367**	₱323,285,740
Construction costs	**302,730,298**	15,015,763
PNCC fee (see Note 14)	**47,899,188**	42,112,144
Salaries and employee benefits	**43,203,819**	39,000,967
Advertising and marketing expenses	**36,960,176**	7,262,000
Outside services	**24,292,771**	9,487,937
Repairs and maintenance	**7,405,068**	45,347,588
Professional fees	**6,544,196**	12,046,079
Toll collection and medical services	**1,334,270**	2,413,740
Others	**56,741,777**	28,639,637
	₱946,662,930	₱524,611,595

Interest payable is settled within six months.

13. **Provisions**

The movements in this account follow:

	Heavy Maintenance	Others	Total
At January 1, 2012	₱336,743,324	₱164,399,859	₱501,143,183
Additions (see Notes 17 and 18)	187,579,364	13,256,981	200,836,345
Accretion (see Note 22)	8,094,216	–	8,094,216
Payments	(326,540,042)	(79,045,461)	(405,585,503)
At December 31, 2013	205,876,862	98,611,379	304,488,241
Additions (see Notes 17 and 18)	251,612,341	13,840,182	265,452,523
Accretion (see Note 22)	11,978,840	–	11,978,840
Payments	(301,616,361)	(22,326,990)	(323,943,351)
At December 31, 2014	**₱167,851,682**	**₱90,124,571**	**₱257,976,253**
At December 31, 2014:			
Current	**₱69,522,031**	**₱76,284,389**	**₱145,806,420**
Noncurrent	**98,329,651**	**13,840,182**	**112,169,833**
	₱167,851,682	**₱90,124,571**	**₱257,976,253**
At December 31, 2013:			
Current	₱121,240,135	₱98,611,379	₱219,851,514
Noncurrent	84,636,727	–	84,636,727
	₱205,876,862	₱98,611,379	₱304,488,241

As discussed in Note 5, provision for heavy maintenance pertains to the present value of the estimated contractual obligations of the Company to restore the service concession asset to a specified level of serviceability during the service concession term and to maintain the same assets in good condition prior to turnover of the assets to the Grantor. The amount of provision is reduced by the actual obligations paid for heavy maintenance of the service concession asset.

Other provisions include estimated liabilities for losses on claims by a third party. The information usually required by PAS 37 is not disclosed as it may prejudice the Company's negotiation with the third party.

14. **Related Party Disclosures**

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

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

Related Party			Management Fees (see Note 18)	Operator's Fee (see Note 17)	PNCC Fee (see Note 17)	Outside Services (see Notes 17 and 18)	Repairs and Maintenance (see Note 17)	Other Income (see Note 23)
MPTC	Intermediate Parent Company	**2014**	**₱44,832,143**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**
		2013	44,832,143	–	–	–	–	–
		2012	26,116,074	–	–	–	–	–
MPTDC	Parent Company	**2014**	**–**	**–**	**–**	**–**	**–**	**–**
		2013	–	–	–	–	–	–
		2012	26,116,069	–	–	–	–	–
PNCC / ROP	Stockholder	**2014**	**–**	**–**	**442,714,079**	**–**		**–**
		2013	–	–	418,087,772	–	–	–
		2012	–	–	399,859,153	–	–	–
TMC	Other Related Party	**2014**	**–**	**1,710,956,357**	**–**	**–**	**3,230,823**	**–**
		2013	–	1,532,066,430	–	–	1,405,511	–
		2012	–	1,492,527,064	–	–	–	–
Easytrip Services Corp. (ESC)	Other Related Party	**2014**	**–**	**–**	**–**	**54,442,444**	**–**	**620,000**
		2013	–	–	–	44,393,941	–	1,311,900
		2012	–	–	–	31,531,621	–	273,420
Egis Projects Philippines, Inc. (EPPI)	Other Related Party	**2014**	**–**	**–**	**–**	**–**	**19,035,127**	**–**
		2013	–	–	–	–	11,549,271	–
		2012	–	–	–	–	14,923,509	–
Smart Communications Inc. (Smart)	Other Related Party	**2014**	**–**	**–**	**–**	**–**	**–**	**58,819,608**
		2013	–	–	–	–	–	59,277,500
		2012	–	–	–	–	–	38,524,392
PLDT	Other Related Party	**2014**	**–**	**–**	**–**	**–**	**–**	**1,889,481**
		2013	–	–	–	–	–	1,760,749
		2012	–	–	–	–	–	1,849,518

(Forward)

Related Party			Management Fees (see Note 18)	Operator's Fee (see Note 17)	PNCC Fee (see Note 17)	Outside Services (see Notes 17 and 18)	Repairs and Maintenance (see Note 17)	Other Income (see Note 23)
Digital Mobile Philippines, Inc. (Digitel)	Other Related Party	**2014**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱10,880,000**
		2013	–	–	–	–	–	8,448,000
		2012	–	–	–	–	–	1,148,000
Total		**2014**	**₱44,832,143**	**₱1,710,956,357**	**₱442,714,079**	**₱54,442,444**	**₱22,265,950**	**₱72,209,089**
		2013	44,832,143	1,532,066,430	418,087,772	44,393,941	12,954,782	70,798,149
		2012	52,232,143	1,492,527,064	399,859,153	31,531,621	14,923,509	41,795,330

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

Name	Relationship		Advances to Contractors and Consultants	Receivables (see Note 7)	Due from Related Parties(1)	Accounts Payable and Other Current Liabilities(2) (see Note 12)	Dividends Payable(3) (see Note 16)	Due to Related Parties	Terms	Conditions
MPTC	Intermediate Parent Company	**2014**	**₱–**	**₱–**	**₱2,696,473**	**₱36,960,176**	**₱–**	**₱–**	On demand; noninterest-bearing	Unsecured; no impairment
		2013	–	50,529	3,138,362	24,334,816	–	–		
MPTDC	Parent Company	**2014**	–	–	**8,274**	**5,825,468**	**847,365,120**	–	(1) (2) On demand; noninterest-bearing (3) 20-45 days; noninterest-bearing	Unsecured; no impairment
		2013	–	170,241	–	–	–	97,549		
PNCC / ROP	Stockholder	**2014**	–	–	–	**450,219,930**	**29,836,800**	–	(2) On demand; noninterest-bearing (3) 20–45 days; noninterest-bearing	Unsecured
		2013	–	–	–	45,383,204	31,080,000	–		
TMC	Affiliate	**2014**	**15,000**	–	**9,354,793**	**436,291,284**	–	–	(1) On demand; noninterest-bearing (2) 30 days; noninterest-bearing	Unsecured; no impairment
		2013	–	–	1,599,220	336,673,650	–	–		
Cavitex Infrastructure Corp. (CIC)	Affiliate	**2014**	–	–	**335,647**	–	–	–	(1) On demand; noninterest-bearing	Unsecured; no impairment
		2013	–	–	–	–	–	–		
ESC	Affiliate	**2014**	–	**404,242,172**	**99,000**	**44,151,770**	–	–	On demand; noninterest-bearing	Unsecured; no impairment
		2013	–	94,530,177	99,000	29,865,264	–	–		
EPPI	Affiliate	**2014**	**12,349,209**	–	–	**2,823,666**	–	–	On demand; noninterest-bearing	Unsecured; no impairment
		2013	19,209,306	–	–	3,909,673	–	–		
Egis Projects, SA (Egis)	Stockholder	**2014**	–	–	–	–	**119,347,200**	–	20-45 days; noninterest-bearing	Unsecured
		2013	–	–	–	–	172,804,800	–		
Global Fund Holdings, Inc. (GFHI)	Stockholder	**2014**	–	–	–	–	**49,230,720**	–	20-45 days; noninterest-bearing	Unsecured
		2013	–	–	–	–	51,282,000	–		
BDO	Stockholder	**2014**	–	–	–	–	**147,692,160**	–	20-45 days; noninterest-bearing	Unsecured
		2013	–	–	–	–	153,846,000	–		
Smart	Affiliate	**2014**	–	**42,732,473**	–	**245,574**	–	–	On demand; noninterest-bearing	Unsecured; no impairment
		2013	–	22,899,033	–	204,325	–	–		
PLDT	Affiliate	**2014**	–	**478,297**	–	**358,644**	–	–	On demand; noninterest-bearing	Unsecured; no impairment
		2013	–	478,297	–	178,288	–	–		
Digitel	Affiliate	**2014**	–	**4,297,440**	–	**3,532**	–	–	On demand; noninterest-bearing	Unsecured; no impairment
		2013	–	4,425,120	–	3,532	–	–		
		2014	**₱12,364,209**	**₱451,750,382**	**₱12,494,187**	**₱976,880,044**	**₱1,193,472,000**	**₱–**		
		2013	19,209,306	122,553,397	4,836,582	440,552,752	409,012,800	97,549		

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

Transactions with MPTC

- MPTC performs managerial and financial advisory services for the Company in 2014, 2013 and 2012. On January 1, 2014, the Company and MPTC entered into a Management Services Agreement where the Company shall pay MPTC a fixed monthly fee of ₱3.7 million (exclusive of VAT) for the services rendered by MPTC. The agreement is effective January 1, 2014, and shall remain in effect for twelve (12) months. As at February 12, 2015, the Company and MPTC are in the process of renewing the Management Services Agreement.

Transactions with Stockholders

MPTDC

- In 2014, MPTDC billed the Company for various expenses paid in behalf of the Company.
- In 2013, the Company claimed reimbursements from MPTDC for certain expenses incurred in behalf of MPTDC.
- MPTDC performed managerial and financial advisory services for the Company in 2012.

PNCC

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

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

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

  On April 12, 2011, the SC issued a resolution directing MNTC to remit PNCC's share in the net income from toll revenues to the National Treasury and the TRB, with the assistance of the Commission on Audit (COA), was directed to prepare and finalize the implementing rules and guidelines relative to the determination of the net income remittable by PNCC to the National Treasury.

In accordance with the TRB directive, 90% of the PNCC fees and dividends payable are to be remitted to the TRB, while the balance of 10% to PNCC.

Transactions with Other Related Parties

TMC

- TMC, an associate of MPTDC, provides services to the Company as operator to the Phase I of the NLEX, Segment 7 and Segment 8.1 under the Operations and Management Agreement (O&M). The O&M contains the terms and conditions for the operation and maintenance by TMC of Phase I of the NLEX and subsequently, of Segment 7, and sets forth the scope of its services. Under the O&M, the Company pays TMC a minimum fixed annual amount of ₱605.4 million for the NLEX and ₱38.8 million for Segment 7, to be escalated on a quarterly basis plus a variable component, which took effect upon start of commercial operations. The O&M, which also provides for certain bonuses and penalties as described in the O&M, shall be effective for the entire concession term.

  MPTDC (then FPIDC) and Egis Road Operation (collectively known as "Guarantors") guaranteed the liability of TMC under the O&M pursuant to the Agreements on the shareholders' corporate guarantee executed by the Guarantors with MNTC. The guarantee agreement was terminated effective January 1, 2014.

  On May 27, 2010, pursuant to the O&M and the TRB's approval to integrate the operations period of Phase I and Segment 8.1, portion of Phase II of the Project, and to extend the concession term, MNTC and TMC agreed to extend the O&M to cover Segment 8.1 from June 1, 2010 until December 31, 2037. Consequently, MNTC agreed to pay TMC an annual base fee for the operations and maintenance of Segment 8.1 in the amount of ₱33.6 million effective in June 2010.

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

  In 2012, the Company also added the new Bocaue North Bound Plaza to the scope of TMC's operations and maintenance contract at the proposed annual fee of ₱7.7 million but the terms are still being formalized as at February 12, 2015.

  On January 22, 2014, in view of the latest publication of the National Statistics Office (NSO) for consumer price index (CPI) values issued in July 2011, with different commodity grouping compared with those stipulated in the O&M, MNTC and TMC agreed to amend the base fee as follows:
  - ₱1,470.1 million for the Phase 1 of the NLEX;
  - ₱94.3 million for Segment 7;
  - ₱7.8 million for Dau Interchange; and
  - ₱36.9 million for Segment 8.1.

All compensations payable to TMC shall be escalated in accordance with the O&M Agreement with a new Base Date of January 1, 2012. MNTC and TMC further agree that in order to reflect the new commodity grouping for the indices published by the NSO in July 2011, the definition of CPI in the O&M was likewise amended.

On August 8, 2014, MNTC and TMC entered into another O&M side letter to amend the Base Fee in view of the VAT inclusion in the revised O&M Base Fee, which should be VAT exclusive, effective January 9, 2012 as follows:

- ₱1,312.6 million for the Phase 1 of the NLEX;
- ₱84.2 million for Segment 7;
- ₱6.9 million for Dau Interchange; and
- ₱32.9 million for Segment 8.1.

ESC

- On December 5, 2007, the Company engaged the services of ESC, a joint venture of MPTDC, to assist the Company in increasing the usage of the electronic toll collection (ETC) facility along the NLEX which ended on April 30, 2010. On November 24, 2010, the Company and ESC signed the Supplemental Agreement to the Service Agreement extending the services of ESC as ETC service provider for another eight years effective on May 1, 2010 with a five year extension. In accordance with the Supplemental Agreement, MNTC will pay ESC an annual fixed fee of ₱14.0 million for Class 1 vehicles and annual fixed fee of ₱5.0 million for Class 2 and Class 3 vehicles, which are to be maintained and escalated every year for labor index and consumer price index (CPI). MNTC shall also pay for variable fees of ₱0.75 or ₱2.5 per transaction for Class 1 vehicles depending on the number of transactions achieved during the year compared with prior year; and ₱3.0 and ₱4.0 per transactions for Class 2 and Class 3, respectively, which are also to be maintained and escalated every year for labor index and CPI.

  Pursuant to the Service Agreement, amounts due to MNTC arising from the use of Easytrip tags in the NLEX shall be remitted by ESC to the designated MNTC bank accounts within seven (7) days immediately following the date when any vehicle using the Easytrip tags pass through the electronic payment lane of the NLEX. Any amount due to ESC arising from the reloading of the Easytrip tags in the NLEX shall be remitted by MNTC to the designated ESC bank accounts within seven days immediately following the date of reloading.

EPPI

- In September 2007, the Company entered into a contract with EPPI, a wholly owned subsidiary of Egis, for FOE second line maintenance services. This contract pertains to services beyond the primary maintenance obligations of TMC under the O&M. The contract amount up to September 2010 is €1.2 million. On December 3, 2010, the Company and EPPI entered into a Supplemental Agreement for NLEX and Phase II Segment 8.1 FOE second line maintenance services to extend the term for another three years starting in September 2010. The contract amount up to September 2013 is €1.2 million. The contract has not been extended after September 2013.

- In October 2011, the Company entered into an agreement with EPPI for the design, supply and installation of FOE at Dau, Mabalacat and Tipo Toll Plazas with the objective of having a single toll collection system for both the NLEX and Subic-Clark-Tarlac Expressway (SCTEx). Total contract price amounted to €2.6 million, a fixed lump sum price, inclusive of VAT, and valid for 425 days from the Base Date. Unapplied mobilization advances to EPPI, included as part of “Advances to contractor and consultants” account in the balance sheet amounted to €0.2 million (₱9.0 million) as at December 31, 2014 and 2013. The installation of the FOE has not yet been started as at February 12, 2015 (see Note 25).

- On December 27, 2012, the Company entered into a Contract Agreement with EPPI and Indra Philippines, Inc. (Indra) Consortium for the FOE Design, Supply and Installation for the TCS Migration Project of Phase I and Segment 8.1. The total contract price of €6.2 million (₱365.3 million) shall be fixed lump sum, inclusive of VAT. The migration was completed in August 2014.

  Total unapplied mobilization advances to EPPI and Indra Consortium, included as part of “Advances to Contractor and Consultants” in the balance sheet, amounted to ₱7.2 million and ₱22.7 million as at December 31, 2014 and 2013, respectively.

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

  Total unapplied mobilization advances to EPPI and Indra Consortium, included as part of “Advances to Contractor and Consultants” in the balance sheet, amounted to ₱4.2 million and ₱10.5 million as at December 31, 2014 and 2013, respectively.

- The Company purchased spare parts inventories from EPPI. Total purchases amounted to ₱17.5 million in 2014, ₱15.9 million in 2013 and ₱21.1 million in 2012.

PLDT, Smart and Digitel

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

- On March 17, 2010, MNTC and PLDT entered into an agreement with respect to the commercial aspect of the Utility Facilities Contract for the Fiber Optic Overlay along Phase I of the NLEX, the contract of which was signed on February 18, 2013. Pursuant to the agreement, PLDT shall pay the Company an annual fee of ₱1.3 million starting in the year 2010 which shall then be escalated annually by 9% on the succeeding years. The contract shall be effective for a period of 20 years from April 15, 2010 and may be renewed or extended upon mutual agreement by the Company and PLDT.

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

- On March 26, 2012, MNTC and Smart agreed on the terms of the grant to Smart of exclusive rights to name the NLEX-Mindanao Avenue Cloverleaf as a Smart Connect Interchange and put up outdoor advertising structures near the interchange. The annual package is based on a predetermined timetable of when the official road signs are progressively built. The base price is from ₱175.0 million to ₱228.2 million and may increase depending on the final features and characteristics of the cloverleaf.

- In 2014, 2013 and 2012, MNTC and Digitel (a subsidiary of PLDT) entered into an advertising arrangements related to various advertising mediums which include rental, material production, installation and maintenance at several locations along NLEX.

Other Transactions

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

	2014	2013	2012
Short-term employee benefits	**₱96,765,803**	₱97,828,770	₱103,930,143
Retirement costs (see Note 19)	**9,726,985**	8,848,409	11,280,472
Executive stock option expense (see Note 20)	**2,345,037**	622,422	1,937,988
Long-term incentive plan payable (see Note 19)	**55,171,612**	32,414,200	32,414,200
	₱164,009,437	₱139,713,801	₱149,562,803

- The Company acts as a surety or co-obligor with certain Company officers for the payment of valid corporate expenses through the use of corporate credit cards at specified approved amounts ranging from ₱0.04 million to ₱0.4 million.

- The Company paid directors fees amounting to ₱0.7 million, ₱0.6 million and ₱0.7 million in 2014, 2013 and 2012, respectively, recorded under "General and administrative expenses" account in the statements of income (see Note 18).

- Advances to officers and employees has an outstanding balance of ₱8.9 million and ₱9.7 million as at December 31, 2014 and 2013, respectively (see Note 7).

15. Long-term Debt

This account consists of:

	2014	2013
Peso-denominated Notes, Loans and Bonds:		
Series A Notes	**₱6,023,923,925**	₱6,086,026,234
Term Loan Facilities	**3,000,000,000**	3,000,000,000
Philippine National Bank (PNB) Loan	**892,500,000**	1,785,000,000
Fixed-rate Bonds	**7,000,000,000**	–
	16,916,423,925	10,871,026,234
Less unamortized debt issue costs	**170,354,436**	125,004,006
	16,746,069,489	10,746,022,228
Less current portion of long-term debt - net of unamortized debt issue costs of ₱22,092,362 in 2014 and ₱23,228,185 in 2013	**932,509,947**	931,374,123
	₱15,813,559,542	₱9,814,648,105

The unamortized debt issue costs incurred in connection with the availment of long-term debt amounting to ₱170.4 million and ₱125.0 as at December 31, 2014 and 2013, respectively, were deducted against the long-term debt. The movements in debt issue costs are as follows:

	2014	2013
Balance at beginning of year	**₱125,004,006**	₱132,160,218
Amortization during the year* (see Note 22)	**(30,678,669)**	(23,472,003)
Debt issue costs incurred during the year	**76,029,099**	16,315,791
Balance at end of year	**₱170,354,436**	₱125,004,006

* *Includes amortization of debt issue costs capitalized to service concession assets amounting to ₱6,936,155 and ₱138,554 in 2014 and 2013, respectively.*

Series A Notes
On April 15, 2011, the Company entered into a Corporate Notes Facility Agreement with various local financial institutions for fixed-rate unsecured notes amounting to ₱6.2 billion, with tenors ranging from 5 years, 7 years and 10 years ("Series A Notes"). Weighted average fixed interest rate on the Series A Notes is 7.22% per annum. Debt issue costs incurred in the availment of the Series A Notes amounted to ₱141.9 million in 2011.

PNB Loan
On March 16, 2009, MNTC entered into a seven-year term loan agreement for a facility amount of ₱2.1 billion with PNB to finance the project cost of Segment 8.1. Interest rate on the PNB Loan is initially fixed at 9.61% per annum. On November 22, 2010, the interest rate of the PNB Loan was amended from fixed to floating rate based on the six-month Philippine Dealing System Treasury Fixing (PDST-F) rate plus a spread of 0.50%.

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

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

On December 28, 2012, MNTC issued a notice for early termination of the interest rate swap transaction with PNB effective December 15, 2012. The early termination payment amounted to ₱175.0 million (see Note 27).

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

On October 8, 2013, the Company entered into a Term Loan Facility Agreement with Sun Life of Canada (Philippines) Inc. for a fixed-rate loan amounting to ₱800.0 million payable in lump sum after 10 years. The fixed interest rate on the loan is 5.30% per annum. Debt issue costs incurred in the availment of the loan amounted to ₱6.5 million.

On November 26, 2013, MNTC entered into Term Loan Facility Agreement with Insular for a ₱200.0 million fixed-rate loan payable in lump sum after 10 years. The fixed interest rate on the loan is 5.03% per annum. Debt issue costs incurred in the availment of the loan amounted to ₱1.6 million.

On December 5, 2013, MNTC entered into a Term Loan Facility Agreement with Philam for a ₱1.0 billion fixed-rate loan payable in lump sum after 15 years. The fixed interest rate on the loan is 5.80% per annum. Debt issue costs incurred in the availment of the loan amounted to ₱8.2 million.

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

Fixed-rate Bonds
On March 31, 2014, the Company issued ₱4.4 billion principal amount of fixed-rate bonds with terms of seven years at 5.07% per annum and ₱2.6 billion principal amount of bonds with terms of ten years at 5.50% per annum, for public distribution and sale in the Philippines. Interest payments are payable quarterly in arrears on March 31, June 30, September 30 and December 31 starting on June 30, 2014. Total debt issue costs incurred in the availment of the loan amounted to ₱76.0 million.

The bonds will be payable with bullet payment at the end of 7-year/10-year maturity periods. The proceeds will be used by the Company to partially fund the construction cost of Segment 10.1 of the NLEX Project which will connect the MacArthur Highway in Valenzuela City to C-3 Road in Caloocan City.

Compliance with Loan Covenants
As at December 31, 2014 and 2013, the Company is in compliance with the required financial ratios and other loan covenants. The Company's long-term debts are unsecured as at December 31, 2014 and 2013.

16. **Equity**

Capital Stock
Details of common shares of the Company as at December 31, 2014 and 2013 follow:

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

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

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

On November 12, 2009, LIL and GFHI executed a Share Purchase Agreement and a Deed of Absolute Sale whereby GFHI purchased from LIL 2,930,400 common shares of the Company or 16.5% of the Company's outstanding capital stock for and in consideration of US$40.0 million. Likewise on the same date, an Accession to Shareholders Agreement was executed between GFHI, MPTDC, PNCC, Egis, LIL and MNTC, whereby GFHI agreed to accede to the ARSA and assume all the obligation of LIL as a shareholder under the ARSA.

On October 4, 2010, GFHI and BDO executed a Share Purchase Agreement and a Deed of Absolute Sale, whereby BDO purchased from GFHI 2,197,800 common shares of the Company, equivalent to 12.4% of the Company's outstanding capital stock in consideration of ₱1,405.1 million. Likewise on the same date, an Accession to Shareholders Agreement was executed among BDO, GFHI, MPTDC, PNCC, Egis, and MNTC, whereby BDO agreed to accede to the ARSA and assume all the obligation of GFHI as a shareholder of 2,197,800 common shares under the ARSA.

On September 25, 2013, PNCC executed a Deed of Assignment of Stock in favor of the ROP, with respect to PNCC's shares in the Company.

On January 10, 2014, Egis and MPTDC executed a Share Purchase Agreement whereby MPTDC purchased from Egis 692,640 common shares of the Company, which constitutes 3.9% of the Company's outstanding capital stock.

On July 18, 2014, Egis and Egis Investment Partners Philippines, Inc. (EIPPI) executed a Share Purchase Agreement whereby EIPPI purchased from Egis 1,776,000 common shares of the Company, equivalent to 10.0% of the Company's outstanding common stock.

As a result of the above transactions, the revised equity participation is as follows: MPTDC - 71.0%; BDO - 12.38%; EIPPI - 10.0%; GFHI - 4.12%; and ROP - 2.5%.

<u>Cash Dividends</u>
The Company's BOD declared the following cash dividends in 2014 and 2013:

Declaration Date	Record Date	Payment Date	Cash Dividend per Share	Total
July 31, 2014	**July 21, 2014**	**August 20, 2014**	**₱55.0**	**₱976,800,000**
December 17, 2014	**December 7, 2014**	**January 6, 2015**	**67.2**	**1,193,472,000**
July 24, 2013	July 24, 2013	August 31, 2013	46.0	816,960,000
December 18, 2013	December 18, 2013	January 31, 2014	70.0	1,243,200,000
July 26, 2012	July 26, 2012	September 15, 2012	49.0	870,240,000
December 18, 2012	December 18, 2012	January 31, 2012	47.0	834,720,000

Unpaid dividends amounted to ₱1,193.5 million and ₱409.0 million as at December 31, 2014 and 2013, respectively (see Note 14).

Other Comprehensive Income Reserve

	Cash Flow Hedge	Income Tax Related to Cash Flow Hedge	AFS Financial Assets	Income Tax Related to AFS Financial Assets	Re-measurement of Defined Benefit Plan	Income Tax Related to Defined Benefit Plan	Total
Balance at January 1, 2014	**(₱12,710,899)**	**₱3,813,270**	**₱20,178,038**	**(₱8,915,100)**	**₱8,226,938**	**(₱2,468,082)**	**₱8,124,165**
Net movement in cash flow hedge (see Note 27)	**8,935,147**	**(2,680,544)**	**–**	**–**	**–**	**–**	**6,254,603**
Change in fair value of AFS (see Note 11)	**–**	**–**	**21,117,971**	**6,088,359**	**–**	**–**	**27,206,330**
Remeasurement loss (see Note 19)	**–**	**–**	**–**	**–**	**(3,054,067)**	**916,220**	**(2,137,847)**
Balance at December 31, 2014	**(₱3,775,752)**	**₱1,132,726**	**₱41,296,009**	**(₱2,826,741)**	**₱5,172,871**	**(₱1,551,862)**	**₱39,447,251**
Balance at January 1, 2013	(₱23,219,515)	₱6,965,854	₱39,716,000	(₱11,914,800)	₱11,846,715	(₱3,554,015)	₱19,840,239
Net movement in cash flow hedge (see Note 27)	10,508,616	(3,152,584)	–	–	–	–	7,356,032
Change in fair value of AFS (see Note 11)	–	–	(19,537,962)	2,999,700	–	–	(16,538,262)
Remeasurement loss (see Note 19)	–	–	–	–	(3,619,777)	1,085,933	(2,533,844)
Balance at December 31, 2013	(₱12,710,899)	₱3,813,270	₱20,178,038	(₱8,915,100)	₱8,226,938	(₱2,468,082)	₱8,124,165
Balance at January 1, 2012	(₱33,728,171)	₱10,118,451	27,121,750	(₱8,136,525)	(19,230,454)	₱5,769,136	(₱18,085,813)
Net movement in cash flow hedge (see Note 27)	10,508,656	(3,152,597)	–	–	–	–	7,356,059
Change in fair value of AFS (see Note 11)	–	–	12,594,250	(3,778,275)	–	–	8,815,975
Remeasurement gain (see Note 19)	–	–	–	–	31,077,169	(9,323,151)	21,754,018
Balance at December 31, 2012	(₱23,219,515)	₱6,965,854	₱39,716,000	(₱11,914,800)	₱11,846,715	(₱3,554,015)	₱19,840,239

17. Cost of Services

This account consists of:

	2014	2013	2012
Toll operation and maintenance costs	**₱2,662,852,174**	₱2,338,440,774	₱2,169,706,413
Amortization of service concession asset (see Note 8)	**483,626,911**	599,931,592	597,358,217
Cost of inventories	**6,675**	3,370	7,673
	₱3,146,485,760	₱2,938,375,736	₱2,767,072,303

Toll operation and maintenance costs consist of:

	2014	2013	2012
Operator’s fee (see Note 14)	**₱1,710,956,357**	₱1,532,066,430	₱1,492,527,064
PNCC fee (see Note 14)	**442,714,079**	418,087,772	399,859,153
Provision for heavy maintenance (see Note 13)	**224,653,876**	167,481,570	107,142,857
Repairs and maintenance (see Note 14)	**108,050,774**	108,859,648	105,502,279
Outside services (see Note 14)	**54,442,444**	44,393,941	–
Insurance	**48,781,314**	43,673,719	42,971,970
Toll collection and medical services	**15,612,000**	17,988,000	20,223,090
Others	**57,641,330**	5,889,694	1,480,000
	₱2,662,852,174	₱2,338,440,774	₱2,169,706,413

18. General and Administrative Expenses

This account consists of:

	2014	2013	2012
Salaries and employee benefits (see Notes 14, 19 and 20)	**₱203,587,291**	₱207,912,356	₱212,098,864
Advertising and marketing expenses	**93,756,686**	48,945,056	66,952,441
Taxes and licenses	**51,740,610**	56,820,919	52,259,250
Management fees (see Note 14)	**44,832,143**	44,832,143	52,232,143
Depreciation of property and equipment (see Note 9)	**30,963,982**	28,881,703	23,685,415
Outside services (see Note 14)	**26,072,527**	16,331,803	43,672,982
Representation and travel	**22,064,000**	20,673,614	20,417,363
Professional fees	**17,718,074**	52,144,556	36,152,514
Provisions (see Note 13)	**13,840,182**	13,256,981	108,313,713
Communication, light and water	**10,472,969**	8,484,186	7,650,455
Repairs and maintenance	**6,430,205**	8,974,739	5,365,714
Amortization of other intangible assets (see Note 10)	**6,056,952**	8,108,060	7,547,442
Office supplies	**5,807,068**	3,811,919	3,156,577
Provision for doubtful accounts (see Note 7)	**4,339,110**	5,544,087	–
Training and development costs	**3,997,548**	3,299,894	4,022,767
Directors' fees (see Note 14)	**680,000**	590,000	710,000
Rentals	**–**	75,224	75,224
Provision for potential losses on claim for refund	**–**	–	11,060,341
Collection charges	**–**	–	127,758
Miscellaneous	**9,722,740**	7,949,223	10,240,695
	₱552,082,087	₱536,636,463	₱665,741,658

19. Employee Benefits

LTIP

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

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

The total cost of the LTIP recognized by the Company in 2014, 2013 and 2012 included in "Salaries and employee benefits" account under "General and administrative expenses" in the statements of income amounted to ₱55.2 million, ₱32.4 million and ₱32.4 million, respectively (see Notes 14 and 18). Total long-term incentive plan payable amounted to ₱120.0 million (see Note 12) and ₱64.8 million as at December 31, 2014 and 2013, respectively.

Retirement Costs

The Company has a funded noncontributory defined benefit retirement plan covering all of its regular and full time employees. The plan provides for a lump sum benefit payment upon retirement. Contributions and costs are determined in accordance with the actuarial study made for the plan which is normally obtained every two years. The most recent actuarial valuation of plan assets and the present value of the defined benefit obligation was carried out as at December 31, 2014 by a certified actuary.

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

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

Changes in pension asset in 2014 are as follows:

	Present value of Defined Benefit Obligation	**Fair Value of Plan Assets**	**Pension Asset**
At January 1, 2014	**(₱113,327,192)**	**₱115,165,038**	**₱1,837,846**
Net benefit income (cost) in statement of income:			
Current service cost	**(12,881,458)**	**–**	**(12,881,458)**
Net interest	**(4,283,768)**	**4,353,238**	**69,470**
	(17,165,226)	**4,353,238**	**(12,811,988)**
Benefits paid	**4,257,778**	**(4,257,778)**	**–**
Remeasurement gain (loss) in other comprehensive income:			
Return on plan assets (excluding amount included in net interest)	**–**	**(2,469,408)**	**(2,469,408)**
Actuarial changes arising from changes in financial assumptions	**2,769,968**	**–**	**2,769,968**
Actuarial changes due to experience adjustment	**(3,354,627)**	**–**	**(3,354,627)**
	(584,659)	**(2,469,408)**	**(3,054,067)**
Contributions	**–**	**16,602,194**	**16,602,194**
At December 31, 2014	**(₱126,819,299)**	**₱129,393,284**	**₱2,573,985**

Changes in pension asset in 2013 are as follows:

	Present value of Defined Benefit Obligation	Fair Value of Plan Assets	Pension Asset
At January 1, 2013	(₱104,780,939)	₱121,667,967	₱16,887,028
Net benefit income (cost) in statement of income:			
Current service cost	(12,202,831)	–	(12,202,831)
Net interest	(4,798,967)	5,572,393	773,426
	(17,001,798)	5,572,393	(11,429,405)
Benefits paid	15,088,771	(15,088,771)	–
Remeasurement gain (loss) in other comprehensive income:			
Return on plan assets (excluding amount included in net interest)	–	3,013,449	3,013,449
Actuarial changes arising from changes in financial assumptions	(6,196,967)	–	(6,196,967)
Actuarial changes due to experience adjustment	(436,259)	–	(436,259)
	(6,633,226)	3,013,449	(3,619,777)
At December 31, 2013	(₱113,327,192)	₱115,165,038	₱1,837,846

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

	Present Value of Defined Benefit Obligation	Fair Value of Plan Assets	Pension Asset (Accrued Retirement Costs)
At January 1, 2012	(₱125,405,769)	₱77,472,555	(₱47,933,214)
Net benefit income (cost) in statement of income:			
Current service cost	(15,479,076)	–	(15,479,076)
Net interest	(6,947,480)	4,291,980	(2,655,500)
	(22,426,556)	4,291,980	(18,134,576)
Benefits paid	14,741,123	(14,741,123)	–
Remeasurement gain (loss) in other comprehensive income:			
Return on plan assets (excluding amount included in net interest)	–	2,766,906	2,766,906
Actuarial changes arising from changes in financial assumptions	32,681,135	–	32,681,135
Actuarial changes due to experience adjustment	(4,370,872)	–	(4,370,872)
	28,310,263	2,766,906	31,077,169
Contributions	–	51,877,649	51,877,649
At December 31, 2012	(₱104,780,939)	₱121,667,967	₱16,887,028

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

The actual return on plan assets amounted to ₱1.9 million, ₱8.6 million and ₱7.1 million in 2014, 2013 and 2012, respectively.

The Company expects to contribute ₱16.0 million in 2015.

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

	2014	2013	2012
Investments in:			
Government securities	**60.11%**	71.37%	67.27%
Debt securities	**24.18%**	24.85%	15.39%
Equity securities	**0.00%**	0.00%	5.10%
Cash and cash equivalents	**11.24%**	0.27%	7.21%
Loans/notes receivable	**2.01%**	2.24%	4.29%
Receivables and others	**2.46%**	1.27%	0.74%
	100.00%	100.00%	100.00%

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

	2014	2013	2012
Investments in:			
Government securities	**₱77,778,679**	₱82,194,575	₱81,849,549
Debt securities	**31,283,347**	28,628,225	18,720,266
Equity securities	**–**	–	6,210,000
Cash and cash equivalents	**14,546,546**	310,498	8,770,923
Loans/notes receivables	**2,600,000**	2,574,000	5,220,402
Receivables and others	**3,184,712**	1,457,740	896,827
	₱129,393,284	₱115,165,038	₱121,667,967

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

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 2.30% to 9.42% per annum in 2014 and 3.58% to 9.42% per annum in 2013 and 2012 and have maturities from 2015 to 2037.

- Investments in debt instruments consist of quoted, unsecured, long-term corporate bonds and subordinated notes, which bear interest ranging from 4.63% to 6.27% per annum in 2014, 2013 and 2012 and have maturities from 2017 to 2024.

- Cash and cash equivalents include regular savings and time deposits, which bear interest of 2.5% per annum in 2014 and ranging from 1.25% to 4.10% per annum in 2013 and 2012.

- Loans and notes receivables consist of unsecured fixed-rate corporate notes (FXCNs) of PLDT, a related party, amounting to ₱2.4 million and unsecured subordinated note of an unaffiliated company amounting to ₱2.6 million as at December 31, 2012. The PLDT FXCNs and the subordinated note bear interest of 6.57% and 6.73% per annum, respectively. Both notes are due in 2016. The PLDT FXCNs were disposed of in 2013. Thus, as at December 31, 2014 and 2013, loan and receivables consist only of the unsecured subordinated note of an unaffiliated company amounting to ₱2.6 million, which bears interest of 6.73% per annum.

- Investments in equity securities include investment in perpetual non-voting preferred shares of FPHC amounting to ₱6.2 million as at December 31, 2012. Dividend income from these investments amounted to ₱0.5 million for the year ended December 31, 2012. The carrying amounts of investments in equity securities also approximate their fair values since they are marked-to-market. These investments were disposed of in 2013.
- Other financial assets held by the plan are primarily accrued interest income from cash and cash equivalents, UITFs, and investments in debt securities.

The principal assumptions used to determine accrued retirement costs as at December 31, 2014 and 2013 are as follows:

	2014	2013	2012
Discount rate	**4.09%**	3.78%	4.58%
Salary increase rate	**7.00%**	7.00%	7.00%

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, 2014, assuming if all other assumptions were held constant:

			Amount
Discount rate	(Actual + 1.00%)	5.09%	₱118,660,522
	(Actual - 1.00%)	3.09%	136,216,002
Salary increase rate	(Actual + 1.00%)	8.00%	135,562,239
	(Actual - 1.00%)	6.00%	119,016,823

The management performed an Asset-Liability Matching Study (ALM) annually. The overall investment policy and strategy of the Company's defined benefit plan is guided by the objective of achieving an investment return which, together with contributions, ensures that there will be sufficient assets to pay pension benefits as they fall due while also mitigating the various risk of the plans. The Company's current strategic investment strategy consists of 99.59% of debt instruments and 0.41% cash.

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

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

	2014	2013
Less than 1 year	**₱57,111,370**	₱51,707,273
More than 1 year to 5 years	**24,588,490**	19,667,067
More than 5 years to 10 years	**71,777,735**	58,071,484
More than 10 years to 15 years	**72,095,603**	59,213,098
More than 15 years to 20 years	**91,287,113**	103,105,731
More than 20 years	**177,153,803**	174,637,842

20. **Share-based Payment Plan**

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

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

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

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

On October 14, 2013, MPIC has granted options in respect of 120,000,000 common shares of MPIC to its directors and senior management officers of MPIC and to selected management committee members of MPTC and subsidiaries (includes the Company). Of the total shares granted, 14,000,000 common shares were allocated to MPTC and subsidiaries. The stock options will expire on October 15, 2018. With respect to the stock options granted to MPIC subsidiaries, said stock options will vest as follows: 50% on October 14, 2014 and 50% on October 14, 2015.

A summary of the Company's stock option activity received from MPIC and related information for the years ended December 31, 2014, 2013 and 2012 follows:

	2010 Grant		**2013 Grant**	
	Number of Shares	**Exercise Price**	**Number of Shares**	**Exercise Price**
Outstanding at January 1, 2012	6,500,000	₱2.73	–	₱–
Exercised during the year	(1,670,000)	2.73	–	–
Outstanding at December 31, 2012	4,830,000	2.73	–	–
Granted during the year	–	–	4,000,000	4.60
Exercised during the year	(4,345,000)	2.73	–	–
Outstanding at December 31, 2013	485,000	2.73	4,000,000	4.60
Exercised during the year	(485,000)	2.73	–	–
Outstanding at December 31, 2014	**–**	**₱–**	**4,000,000**	**₱4.60**

	Number of Shares	Exercise Price	Number of Shares	Exercise Price
Exercisable at:				
December 31, 2014	**–**	**₱–**	**2,000,000**	**₱4.60**
December 31, 2013	485,000	2.73	–	–
December 31, 2012	2,135,000	2.73	–	–

The weighted average remaining contractual life for the 2010 share options outstanding as at December 31, 2014 and 2013 is 0.5 years and 1.5 years, respectively. The weighted average remaining contractual life for the 2013 share options outstanding as at December 31, 2014 and 2013 is 3.8 years and 4.8 years, respectively.

The fair value of the options granted is estimated at the date of grant using Black-Scholes-Merton formula, taking into account the terms and conditions upon which the options were granted.

The following tables list the inputs to the model used for the ESOP in 2013:

	50% Vesting on October 14, 2014	50% Vesting on October 14, 2015
Grant date	October 14, 2013	
Spot price	₱4.59	₱4.59
Exercise price	₱4.60	₱4.60
Risk-free rate	0.66%	2.40%
Expected volatility*	35.23%	33.07%
Term to vesting (in days)	365	730
Call price	₱0.63	₱0.89

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

The following tables list the inputs to the model used for the ESOP in 2010:

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

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

Executive stock options expense, recognized by the Company in “Salaries and employee benefits” account under “General and administrative expenses” in the statement of income amounted to ₱2.3 million, ₱0.6 million and ₱1.9 million in 2014, 2013 and 2012, respectively (see Notes 14 and 18).

Carrying value of the ESOP, recognized under “Other reserve” in the statement of changes in equity, amounted to ₱10.5 million, ₱8.2 million and ₱7.6 million as at December 31, 2014, 2013 and 2012, respectively.

21. Interest Income

Sources of interest income follow:

	2014	2013	2012
Cash and cash equivalents (see Note 6)	**₱11,129,626**	₱43,609,422	₱81,138,506
AFS financial assets (see Note 11)	**50,136,496**	38,587,263	34,944,625
Others	**–**	366,431	518,706
	₱61,266,122	₱82,563,116	₱116,601,837

22. Interest Expense and Other Finance Costs

Sources of interest expense and other finance costs follow:

	2014	2013	2012
Interest expense on:			
Loans (see Notes 15 and 27)	**₱563,162,098**	₱584,348,880	₱659,466,103
Provision for heavy maintenance (see Note 13)	**11,978,840**	8,094,216	–
Finance costs:			
Amortization of debt issue costs (see Note 15)	**23,742,514**	23,333,449	22,453,191
Lenders' fees	**1,793,373**	1,500,062	956,694
Bank charges	**537,382**	1,105,665	1,178,239
	₱601,214,207	₱618,382,272	₱684,054,227

23. Other Income and Other Expense

Details of other income follow:

	2014	2013	2012
Income from advertising (see Note 14)	**₱95,112,651**	₱64,226,382	₱45,002,103
Income from TSF	**21,540,542**	21,126,460	17,277,992
Income from utility facilities (see Note 14)	**2,354,089**	2,074,249	1,926,304
Gain on sale of AFS financial assets (see Note 11)	**1,169,267**	11,780,746	–
Reversal of allowance for doubtful accounts (see Note 7)	**–**	5,259,500	–
Others (see Note 9)	**1,610,028**	2,130,513	4,390,775
	₱121,786,577	₱106,597,850	₱68,597,174

Details of other expenses in 2012 follow:

Mark-to-market loss on derivatives (see Note 27)	₱44,844,434
Loss on sale of property and equipment	176,481
	₱45,020,915

24. **Income Taxes**

The provisions for current income tax for the years ended December 31, 2014, 2013 and 2012 are as follows:

	2014	2013	2012
Regular corporate income tax (RCIT)	**₱742,156,676**	₱724,348,235	₱781,694,037
Final tax on interest income from banks	**10,611,174**	16,815,145	23,194,589
	₱752,767,850	₱741,163,380	₱804,888,626

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

	2014	2013
Deferred tax assets:		
Accrued expenses and provisions	**₱48,961,150**	₱40,153,723
Provision for heavy maintenance	**46,134,929**	55,935,211
Unamortized past service cost	**9,630,966**	10,913,971
Allowance for doubtful accounts	**1,301,733**	–
Fair value changes on derivatives deferred in equity	**1,132,725**	3,813,270
Unrealized foreign exchange loss	**301,826**	–
	107,463,329	110,816,175
Deferred tax liabilities:		
Difference in amortization of service concession asset	**(625,760,012)**	(540,764,578)
Unamortized realized foreign exchange losses capitalized	**(20,483,486)**	(21,374,072)
Fair value changes on AFS financial assets	**(2,826,741)**	(8,915,100)
Pension asset	**(772,195)**	(551,354)
	(649,842,434)	(571,605,104)
Deferred tax liabilities - net	**(₱542,379,105)**	(₱460,788,929)

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

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

	2014	2013	2012
Income before income tax	**₱3,404,123,118**	₱3,205,222,206	₱2,808,889,399
Income tax computed at statutory tax rate of 30%	**1,021,236,935**	961,566,662	842,666,820
Add (deduct) the tax effects of:			
Effect of optional standard deduction	**(175,204,186)**	(126,299,566)	–
Interest income already subjected to final tax	**(18,379,836)**	(24,768,935)	(34,824,939)
Nondeductible expenses and others	**417,974**	–	14,345,099
Final tax on interest income	**10,611,174**	16,815,145	23,194,589
Write-off of deferred tax assets relating to allowance for doubtful accounts and provision for potential losses on claim for refund	**–**	–	4,169,922
Provision for income tax	**₱838,682,061**	₱827,313,306	₱849,551,491

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

The Company opted to avail of the OSD for the taxable years 2014 and 2013 while this was not availed for taxable year 2012.

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

	2014	2013	2012
Balance at beginning of year	**₱460,788,929**	₱375,572,052	₱314,655,164
Provision for income tax during the year recognized in the statements of income	**85,914,211**	86,149,926	44,662,865
Income tax effect during the year recognized in the statements of comprehensive income	**(4,324,035)**	(933,049)	16,254,023
Balance at end of year	**₱542,379,105**	₱460,788,929	₱375,572,052

25. Significant Contracts and Commitments

SCTEx Agreements

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

On July 20, 2011, the Company and BCDA signed a Business and Operating Agreement (BOA) under which BCDA granted the Company all its usufructuary rights, interests and obligations under its Toll Operating Agreement with the TRB relating to the management, operation and maintenance of the 94-km SCTEX, including the exclusive right to possess and use the SCTEx toll road and facilities and the right to collect toll. The BOA requires the satisfaction of certain conditions precedent including the necessary Philippine Government approvals such as the approval of the President of the Republic of the Philippines and the execution of a STOA by and among the Company, BCDA and ROP, through the TRB. The term of the BOA shall be from the Effective Date until October 30, 2043. At the end of the contract term or upon termination of the Agreement, the SCTEx shall be turned over to BCDA or its successor-in-interest conformably with law, and in all cases in accordance with and subject to the terms and conditions of the STOA, in relation to SCTEx.

The BOA and the STOA were favorably endorsed for Presidential approval via a joint letter of BCDA and TRB dated October 5, 2011.

On January 30, 2015, BCDA conducted the price challenge as set out in the "Invitation for Price Challenge on the Privatization of SCTEX Tollway" in relation to the BOA executed between BCDA and MNTC in 2011 and the most improved offer for the management, operation and maintenance of SCTEX. On the said date, none of the interested proponents submitted eligibility documents and financial proposals to BCDA.

On February 9, 2015, MNTC received the Notice of Award from the BCDA for the management, operation and maintenance of the 94-kilometer SCTEX subject to compliance with specific conditions. The Notice of Award was issued by BCDA following the results of the Price Challenge held last January 30, 2015.

On February 5, 2015, MNTC and BCDA signed the NLEX-SCTEx Integration Agreement relating to the TCS integration that will feature a common transit ticket system for both NLEX's closed system and that of the SCTEX. The project is expected to be completed within 2015.

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

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

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

On January 10, 2014, MNTC and MPTDC entered into a letter agreement with PNCC, as shareholder of MNTC, and joint venture partner of MPTDC for the NLEX Project, confirming the agreement to implement Segment 10.2 as an extension or linkage of Phase II Segment 10 of the NLEX Project pursuant to PD No. 1894, and as an integral portion of NLEX subject to prior approval of the TRB of the investment proposal submitted by MNTC on November 20, 2013. Conformably to the provisions of the JVA and the ARSA, and upon TRB approval of the implementation of Segment 10.2, PNCC will be entitled (a) to receive 6% of the gross toll revenue collected by MNTC from the operation and maintenance of Segment 10.2 upon its completion in addition to its share in the gross toll revenues collected by MNTC from the toll roads as provided in the ARSA, and (b) to all dividends accruing on its shares of stock in MNTC.

However, on July 7, 2014, the Department of Justice (DOJ) issued an opinion which stated, among others, that the NEDA Board approval dated September 11, 2013 to implement Connector Road Project by way of an amendment or extension of the existing joint venture of PNCC under PD 1894 appears to have been issued beyond its powers and without justification. Hence, it should be interpreted as merely recommendatory. In addition, it stated that the DPWH, under the BOT Law, could proceed with the consideration of the Unsolicited Proposal for the Connector Road Project.

Consequently, the TRB advised MNTC on August 8, 2014 that it will desist from processing Segment 10.2 Project under the joint venture mode and give DPWH a free hand as implementing agency of the Unsolicited Proposal. While MPTDC continued discussions with DPWH as the Original Proponent of the Unsolicited Proposal under the BOT Law, it was advised that the ROP intends to clarify the legal framework to implement the project under the joint venture mode.

Considering that the Connector Road Project can be implemented faster and the benefits that the road users will derive from a considerable reduction in toll rates if the Connector Road Project will be implemented as Segment 10.2 of the NLEX, MPTDC and MNTC sent a letter to DOTC/TRB dated October 29, 2014, stating that they prefer the implementation of the Connector Road Project as a Joint Venture (JV) through an amendment or extension of the NLEX STOA under PD 1894 following the NEDA Board approval via ad referendum.

As at February 12, 2015, MPTDC and MNTC are still awaiting the ROP information on the implementation mode for the Connector Road Project.

Construction of Segment 9 of Phase II of the Project
On May 3, 2013, MNTC, under a competitive bidding, has awarded the Civil Works contract to EEI Corporation. The Civil Works Construction Agreement was executed by MNTC and EEI Corporation in relation to the construction of the 2.4 km Segment 9 (part of Phase II of Project), a four-lane expressway that links the SMART Connect Interchange to McArthur Highway. Total civil works construction contract was set at ₱1,145.4 million, as may be adjusted from time to time pursuant to the terms of the agreement.

The Construction Notice to Proceed was issued by MNTC to EEI Corporation in May 2013 and mobilization works commenced in May 2013. The construction works are expected to be completed by first quarter of 2015.

Unapplied mobilization advances to EEI Corporation, included as part of "Advances to contractors and consultants" in the balance sheets, amounted to ₱71.0 million and ₱140.0 million as at December 31, 2014 and 2013, respectively.

Construction of Segment 10, part of Phase II of the Project
On April 28, 2014, MNTC signed a target cost construction contract with Leighton Contractors (Asia) Ltd. (LCAL) for the construction of NLEX Segment 10. The target cost is approximately ₱10.0 billion (inclusive of VAT), with a completion period of 24 months from start date. The contract structure is collaborative in nature and provides a pain-sharing or gain-sharing mechanism if the actual construction cost exceeds or falls below the agreed target. LCAL's performance obligation under the contract are backed up by: (i) a bank-issued irrevocable stand-by letter of credit, (ii) cash retention, and (iii) a parent company guarantee issued by Leighton Asia Limited.

On May 8, 2014, MNTC issued the notice to proceed to LCAL, signaling the start of the pre-construction activities. Pursuant to the contract, MNTC placed a reserve amount of ₱889.0 million in an escrow account on July 28, 2014, which is recognized under "Other non-current assets" account, to cover payment default leading to suspension of works.

26. Financial Risk Management Objectives and Policies

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

The Company also enters into derivative transactions, particularly interest rate swaps and cross currency swaps, to manage the interest rate and foreign currency risks arising from its operations and sources of finances.

The main risks arising from the Company's financial instruments are interest rate, credit, foreign currency and liquidity risks which are discussed in detail below. The BOD reviews and approves policies of managing each of these risks and they are enumerated below:

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to interest rate risk relates primarily to the Company's long-term debt with floating interest rates. In accordance with its interest rate management policy, the Company converted its outstanding loans into fixed-rate debt, effectively locking in the interest rate on its loan obligations and reducing exposure to interest rate fluctuations.

To further reduce its cash flow interest rate risk exposure, the Company entered into a series of derivative transactions, in particular, interest rate swaps. The Company also constantly monitors fluctuation of interest rates in order to manage interest rate risks.

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

		December 31, 2014				
	Interest Rate	**Within the Year ('000)**	**2–3 Years ('000)**	**4–5 Years ('000)**	**More than 5 Years ('000)**	**Total ('000)**
Cash and cash equivalents	0.25%–2.50%	**₱2,916,206**	**₱–**	**₱–**	**₱–**	**₱2,916,206**
AFS financial assets	1.63%–6.00%	**250,000**	**200,000**	**449,260**	**1,065,100**	**1,964,360**
Short-term investments[a]	2.00%	**17,847**	–	–	–	**17,847**
Restricted cash[b]	1.00%	–	**889,000**	–	–	**889,000**
		₱3,184,053	**₱1,089,000**	**₱449,260**	**₱1,065,100**	**₱5,787,413**
Fixed-rate loans:						
Series A-5	6.54%	**₱10,000**	**₱960,000**	**₱–**	**₱–**	**₱970,000**
Series A-7	7.27%	**42,102**	**84,205**	**3,957,617**	–	**4,083,924**
Series A-10	7.70%	**10,000**	**20,000**	**20,000**	**920,000**	**970,000**
Term-loan facility	5.03% - 7.50%	–	–	–	**3,000,000**	**3,000,000**
Fixed-rate bonds	5.07% - 5.50%	–	–	–	**7,000,000**	**7,000,000**
		62,102	**1,064,205**	**3,977,617**	**10,920,000**	**16,023,924**
Floating-rate loan - PNB Loan	PDST-F + 0.50% Margin	**892,500**	–	–	–	**892,500**
		₱954,602	**₱1,064,205**	**₱3,977,617**	**₱10,920,000**	**₱16,916,424**

[a] *Included under "Other current assets" account in the balance sheet.*
[b] *Included under "Other noncurrent assets" account in the balance sheet.*

		December 31, 2013				
	Interest Rate	Within the Year ('000)	2–3 Years ('000)	4–5 Years ('000)	More than 5 Years ('000)	Total ('000)
Cash and cash equivalents	0.05%–3.88%	₱1,411,979	₱–	₱–	₱–	₱1,411,979
AFS financial assets	2.13%–6.00%	–	350,000	393,634	762,524	1,506,158
		₱1,411,979	₱350,000	₱393,634	₱762,524	₱2,918,137
Fixed-rate loans:						
Series A-5	6.54%	₱10,000	₱970,000	₱–	₱–	₱980,000
Series A-7	7.27%	42,102	84,205	3,999,719	–	4,126,026
Series A-10	7.70%	10,000	20,000	20,000	930,000	980,000
Term-loan facility	5.03% - 7.50%	–	–	–	3,000,000	3,000,000
		62,102	1,074,205	4,019,719	3,930,000	9,086,026
Floating-rate loan - PNB Loan	PDST-F + 0.50% Margin	892,500	892,500	–	–	1,785,000
		₱954,602	₱1,966,705	₱4,019,719	₱3,930,000	₱10,871,026

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

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

	Increase/Decrease in Basis Points	Effect on Income Before Income Tax
2014	+50	**(₱4,462,500)**
	-50	**4,462,500**
2013	+50	(8,925,000)
	-50	8,925,000

<u>Credit Risk</u>

Credit risk is the risk that the Company will incur a loss arising from customers, clients or counterparties that fail to discharge their contracted obligations. Exposure to credit risk is managed through a credit review where an analysis of the obligors to meet their obligations is considered.

Receivables arose mainly from ESC when Easytrip tag-motorists ply in NLEX and those non-toll revenues in the form of advertising services particularly from Smart. ESC, Smart and TMC are considered as low-risk counterparties as these are well-established companies. Moreover, the Company has payment obligations to TMC which far exceed the aggregate amount of receivables. Receivables also arose from motorists who cause accidental damage to NLEX property from day-to-day operations. Property damage claims are initially processed by TMC and are eventually turned over to MNTC. The Company also has advances to DPWH, a Philippine government entity, which is covered by a Reimbursement Agreement.

The Company also generates non-toll revenues in the form of service fees collected from business locators, generally called TSF, along the stretch of the NLEX. The collection of such fees is provided in the STOA and is based on the principle that these TSF derive benefit from offering goods and services to NLEX motorists. The fees range from one-time access fees to recurring fees calculated as a percentage of sales. The arrangements are backed by a service facility contract between the Company and the various locators. The credit risk on these arrangements is minimal because the fees are collected on a monthly basis mostly from well-established companies. The exposure is also limited given that the recurring amounts are not significant and there are adequate safeguards in the contract against payment delinquency. Nevertheless, the Company closely monitors receivables from the TSF.

The Company's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to carrying amount of these financial assets. The Company does not require collateral for its financial assets.

The Company's credit risk is concentrated on AFS financial assets (including short-term deposits) covering at least 81% and 94% of the Company's financial assets, except cash and cash equivalents, as at December 31, 2014 and 2013, respectively. The table below shows the maximum exposure to credit risk for the Company's financial assets, without taking account of any collateral, credit enhancements and other credit risk mitigation techniques.

	December 31, 2014	December 31, 2013
Cash and cash equivalents[a]	**₱2,916,206,125**	₱1,411,978,601
Short-term deposits	**4,789,522,429**	1,995,120,215
Receivables[b]	**674,354,474**	227,956,907
Due from related parties	**12,494,187**	4,836,582
Short-term investments[c]	**17,846,800**	–
AFS financial assets	**1,938,112,728**	1,521,580,826
Refundable deposits[d]	**3,694,561**	3,694,561
Restricted cash[d]	**889,000,000**	–
Total credit risk exposure	**₱11,241,231,304**	₱5,165,167,692

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

Cash and cash equivalents and AFS financial assets (including short-term deposits) are placed with reputable local and international banks and companies and Philippine Government which meet the standards of the Company's BOD.

As at December 31, 2014 and 2013, the aging analysis of past due but not impaired trade receivables follows. All other financial assets of the Company are neither past due nor impaired as at December 31, 2014 and 2013.

	Neither Past Due nor	**Past Due but not Impaired**						
Year	**Impaired**	**<31 Days**	**31–60 Days**	**61–90 Days**	**91–180 Days**	**181 Days – 1 Year**	**Total**	**Total**
2014	**₱423,907,069**	**₱756,560**	**₱22,550,213**	**₱3,438,431**	**₱844,454**	**₱10,527,817**	**₱38,117,475**	**₱462,024,544**
2013	129,698,331	599,390	1,756,982	1,596,237	2,890,054	9,751,479	16,594,142	146,292,473

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

	December 31, 2014			
	Neither Past Due nor Impaired - High-grade	**Past Due but not Impaired**	**Impaired**	**Total**
Cash and cash equivalents[a]	**₱2,916,206,125**	**₱–**	**₱–**	**₱2,916,206,125**
Short-term deposits	**4,789,522,429**	**–**	**–**	**4,789,522,429**
Receivables:				
Trade receivables	**423,907,069**	**38,117,475**	**2,238,191**	**464,262,735**
Interest receivables	**13,512,861**	**–**	**–**	**13,512,861**
Other receivables	**198,817,069**	**–**	**7,645,006**	**206,462,075**
Due from related parties	**12,494,187**	**–**	**–**	**12,494,187**
Short-term investments[b]	**17,846,800**	**–**	**–**	**17,846,800**
AFS financial assets	**1,938,112,728**	**–**	**–**	**1,938,112,728**
Refundable deposits[c]	**3,694,561**	**–**	**–**	**3,694,561**
Restricted cash[c]	**889,000,000**			**889,000,000**
	₱11,203,113,829	**₱38,117,475**	**₱9,883,197**	**₱11,251,114,501**

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

	December 31, 2013			
	Neither Past Due nor Impaired - High-grade	Past Due but not Impaired	Impaired	Total
Cash and cash equivalents[a]	₱1,411,978,601	₱–	₱–	₱1,411,978,601
Short-term deposits	1,995,120,215	–	–	1,995,120,215
Receivables:				
Trade receivables	129,698,331	16,594,142	–	146,292,473
Interest receivables	4,198,922	–	–	4,198,922
Other receivables	77,465,512	–	5,544,087	83,009,599
Due from related parties	4,836,582	–	–	4,836,582
AFS financial assets	1,521,580,826	–	–	1,521,580,826
Refundable deposits[b]	3,694,561	–	–	3,694,561
	₱5,148,573,550	₱16,594,142	₱5,544,087	₱5,170,711,779

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

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

Foreign Currency Risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. As at December 31, 2014 and 2013, the Company is not significantly exposed to foreign currency risk. The minimal exposure to foreign currency risk relates to the Company's foreign currency denominated cash and cash equivalents, short-term investments (included in "Other current assets" account in the balance sheet) and accounts payables as at December 31, 2014 and 2013.

Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. The Company is not exposed to significant liquidity risk because of the nature of its operations which provides daily inflows of cash from toll collections. The Company is able to build up sufficient cash from operating revenues prior to the maturity of its payment obligations. The Company arranged additional short-term lines to boost its ability to meet short-term liquidity needs. The Company has short-term credit lines amounting to ₱2,825.0 million and ₱1,450.0 million as at December 31, 2014 and 2013, respectively and cash and cash equivalents amounting to ₱2,953.9 million and ₱1,502.1 million as at December 31, 2014 and 2013, respectively, that are allocated to meet the Company's short-term liquidity needs.

The tables below summarize the maturity profile of the Company's financial assets and financial liabilities as at December 31, 2014 and 2013 based on undiscounted payments:

	December 31, 2014				
	Within the Year	**2–3 Years**	**4–5 Years**	**More than 5 Years**	**Total**
Financial Assets		–			
Cash and cash equivalents	**₱2,953,881,594**	**₱–**	**₱–**	**₱–**	**₱2,953,881,594**
Short-term deposits	**4,789,522,429**	–	–	–	**4,789,522,429**
Receivables (a)	**674,354,474**	–	–	–	**674,354,474**
Due from related parties	**12,494,187**	–	–	–	**12,494,187**
Short-term investments	**17,846,800**	–	–	–	**17,846,800**
AFS financial assets (b)	**323,135,616**	**309,742,588**	**541,944,099**	**1,161,449,790**	**2,336,272,093**
Refundable deposits	–	–	–	**3,694,561**	**3,694,561**
Restricted cash	–	**889,000,000**	–	–	**889,000,000**
	₱8,771,235,100	**₱1,198,742,588**	**₱541,944,099**	**₱1,165,144,351**	**₱11,677,066,138**
Financial Liabilities					
Accounts payable and other current liabilities (c)	**₱1,859,580,437**	**₱–**	**₱–**	**₱–**	**₱1,859,580,437**
Dividends payable	**1,193,472,000**	–	–	–	**1,193,472,000**
Long-term debt (d)	**1,965,071,070**	**2,935,102,716**	**5,332,703,887**	**12,982,003,289**	**23,214,880,962**
	₱5,018,123,507	**₱2,935,102,716**	**₱5,332,703,887**	**₱12,982,003,289**	**₱26,267,933,399**

(a) *Excluding advances to officers and employees.*
(b) *Including interest to be received.*
(c) *Excluding statutory liabilities and long-term incentive plan payable.*
(d) *Including interest to be paid.*

	December 31, 2013				
	Within the Year	2–3 Years	4–5 Years	More than 5 Years	Total
Financial Assets					
Cash and cash equivalents	₱1,502,050,102	₱–	₱–	₱–	₱1,502,050,102
Short-term deposits	1,995,120,215	–	–	–	1,995,120,215
Receivables (a)	233,500,994	–	–	–	233,500,994
Due from related parties	4,836,582	–	–	–	4,836,582
AFS financial assets (b)	61,686,723	481,435,841	463,532,168	859,225,621	1,865,880,353
Refundable deposits	–	–	–	3,694,561	3,694,561
	₱3,797,194,616	₱481,435,841	₱463,532,168	₱862,920,182	₱5,605,082,807

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

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

Capital Management

The primary objective of the Company's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximize shareholder value while complying with the financial covenants required by the lenders. These loan covenants were overhauled in April 2011. Under the loan agreements, MNTC is required a Maintenance Debt Service Coverage Ratio (DSCR) of not less than 1.15 times and maintain a Debt to Equity Ratio not exceeding 3.0 times for the first three years after the date of the loan agreement and not exceeding 2.5 times after such period. The loan agreement provides that MNTC may incur new loans or declare dividends as long as the Pro-forma DSCR for the relevant year is not less than 1.3 times.

The Company also ensures that its debt to equity ratio is in line with the requirements of the Board of Investments (BOI). BOI requires the Company to comply with a 75:25 debt to equity ratio as proof of capital build-up. The Company's long-term debt to equity ratio stood at only 69:31 and 60:40 as at December 31, 2014 and 2013, respectively, indicating that the Company has the capacity to incur additional long-term debt to build up its capital.

	2014	2013
Long-term debt	**₱16,746,069,489**	₱10,746,022,228
Total equity	**7,627,856,268**	7,199,019,088
Total capital	**₱24,373,925,757**	₱17,945,041,316
Debt to equity ratio	**69:31**	60:40

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

27. Financial Assets and Financial Liabilities

Fair Values
A comparison of carrying and fair values of all of the Company's financial instruments other than those with carrying amounts that reasonable approximate is of fair values, category as at December 31, 2014 and 2013 follows:

	2014		2013	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Financial Assets				
AFS financial assets:				
UITF*	**₱4,789,522,429**	**₱4,789,522,429**	₱1,995,120,215	₱1,995,120,215
Investment in treasury bonds and notes	**1,396,372,228**	**1,396,372,228**	1,322,178,826	1,322,178,826
Investment in corporate bonds	**441,740,500**	**441,740,500**	199,402,000	199,402,000
Investment in LTNCD	**100,000,000**	**100,000,000**	–	–
	₱6,727,635,157	**₱6,727,635,157**	₱3,516,701,041	₱3,516,701,041
Financial Liabilities				
Other financial liabilities:				
Long-term debt	**₱16,746,069,489**	**₱17,466,778,765**	₱10,746,022,228	₱11,811,159,171

* *Presented as "Short-term deposits" in the balance sheet.*

The management assessed that fair values of cash and cash equivalents, receivables, due from related parties, short-term investments, restricted cash, accounts payable and other current liabilities, dividends payable, and due to related parties approximate their carrying amounts largely due to the short-term maturities of these instruments.

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

AFS Financial Assets
The fair value of investment in treasury bonds and notes, corporate bonds and LTNCD is based on the quoted market price of the financial instruments as at December 31, 2014 and 2013. The fair value of the UITF is based on the estimated fair market value of the assets of the fund based on prices supplied by independent sources as at December 31, 2014 and 2013.

Long-term Debt
For both fixed rate and floating rate (repriceable every six months) peso-denominated notes and loans, except the fixed-rate bonds where the fair value is based on its quoted market price as at December 31, 2014, estimated fair value is based on the discounted value of future cash flows using the prevailing peso interest rates. In 2014 and 2013, the prevailing peso interest rates ranged from 3.1% to 6.2% and 1.1% to 7.7%, respectively.

Fair Value Hierarchy

As at December 31, 2014 and 2013, the Company held the following financial instruments measured at fair value:

	2014	**Level 1**	**Level 2**	**Level 3**
Assets measured at fair value				
AFS financial assets:				
UITF	**₱4,789,522,429**	**₱–**	**₱4,789,522,429**	**₱–**
Investment in treasury bonds and notes	**1,396,372,228**	**1,396,372,228**	**–**	**–**
Investment in corporate bonds	**441,740,500**	**441,740,500**	**–**	**–**
Investment in LTNCD	**100,000,000**	**100,000,000**		
	₱6,727,635,157	**₱1,938,112,728**	**₱4,789,522,429**	**₱–**
Liabilities for which fair values are disclosed				
Other financial liabilities-				
Long-term debt	**₱17,466,778,765**	**₱6,895,610,200**	**₱10,571,168,565**	**₱–**

	2013	Level 1	Level 2	Level 3
Assets measured at fair value				
AFS financial assets:				
UITF	₱1,995,120,215	₱–	₱1,995,120,215	₱–
Investment in treasury bonds and notes	1,322,178,826	₱1,322,178,826	–	–
Investment in corporate bonds	199,402,000	199,402,000	–	–
	₱3,516,701,041	₱1,521,580,826	₱1,995,120,215	₱–
Liabilities for which fair values are disclosed				
Other financial liabilities:				
Long-term debt	₱11,811,159,171	₱–	₱11,811,159,171	₱–

During the years ended December 31, 2014 and 2013, there were no transfers between Level 1 and Level 2 fair value measurements and no transfers into and out of Level 3 fair value measurements.

Derivative Instruments

PNB Term Loan

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

The swap was designated as cash flow hedge at trade date. As at June 30, 2011, the effectiveness ratio was only 58.05% and the hedging relationship failed to meet the 80% to 125% hedge effectiveness criterion of PAS 39. As a result, the hedge was de-designated by the Company. The ₱39.0 million (gross of ₱10.7 million tax) deferred in equity representing the negative fair value change of the swap up to March 31, 2011 (the last testing date when the hedge was still effective) is being amortized over the term of the hedged loan and recognized under “Interest expense and other finance costs" account. Fair value changes of the swap subsequent to March 31, 2011 is recognized in the "Mark-to-market loss" account included in "Other expense" account in the statement of income. As at December 31, 2011, the outstanding notional amount of the interest rate swap amounted to ₱1,995.0 million with a negative fair value of ₱130.2 million. As at December 31, 2014 and 2013, the unamortized amount deferred in equity amounted to ₱3.8 million (gross of ₱1.1 million tax) after amortization of ₱8.9 million, and ₱12.7 million (gross of ₱3.8 million tax) after amortization of ₱10.5 million, respectively.

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

As discussed in Note 15, this swap was pre-terminated on December 28, 2012.

Hedge Effectiveness of Cash Flow Hedges. Movements of the Company's cumulative translation adjustments on cash flow hedges under "Other comprehensive income reserve" account for the years ended December 31, 2014, 2013 and 2012 follow:

	2014	2013	2012
Balance at beginning of year	**(₱12,710,899)**	(₱23,219,515)	(₱33,728,171)
Transferred to statement of income:			
Interest expense*	**8,935,147**	10,508,616	10,508,656
Balance at end of year	**(3,775,752)**	(12,710,899)	(23,219,515)
Tax effects of items taken directly to equity	**1,132,726**	3,813,270	6,965,854
	(₱2,643,026)	(₱8,897,629)	(₱16,253,661)

* *Included in "Interest expense on long-term debt" under "Interest expense and other finance costs" account (see Note 22).*

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

Balance at beginning of year	(₱130,155,566)
Net changes in fair values of derivatives:	
Not designated as accounting hedges* (see Note 23)	(44,844,434)
	(175,000,000)
Fair value of settled instruments:	
Not designated as accounting hedges	175,000,000
Balance at end of year	₱–

* *In 2012, this is recorded as mark-to-market loss under "Other expense" account in the statement of income.*

There were no fair value changes on derivatives in 2014 and 2013.

28. Contingencies and Others

a. Value-Added Tax

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

The Company, together with other tollway operators, continued to discuss the issue of VAT with the concerned government agencies from 2005 to 2011. The BIR continuously upheld its position that the tollway operators are subject to VAT and issued several Revenue Memorandum Circulars (RMCs) for the imposition of the VAT. The BIR also continuously issued VAT assessments to the Company. On the other hand, the TRB continued to direct the tollway companies (including the Company) to defer the imposition of the VAT. To fully implement the imposition of the VAT on toll fees, the BIR issued RMC No. 63-2010 dated July 19, 2010, stating among others, that VAT shall be imposed on the gross receipts of tollway operators from all types of vehicles starting August 16, 2010 and that the accumulated input VAT account of the toll companies shall have a zero balance on August 16, 2010. Any input VAT that will thenceforth be reflected in the books of accounts and other accounting records of tollway operators should be for purchases of goods and services delivered/rendered and invoiced/receipted on or after August 16, 2010. More importantly, RMC No. 63-2010 allowed tollway operators with prior VAT assessments to apply for abatement of tax liability, surcharge, interest and penalties under Section 204 of the National Internal Revenue Code (NIRC).

Thus, on August 4, 2010, notwithstanding legal basis on its claim for VAT exemption, the Company, in accordance with RMC No. 63-2010, applied for abatement of alleged VAT liabilities for taxable years 2006 and 2007.

The BIR was not able to immediately resolve the application for abatement of the Company because of a temporary restraining order issued by the Supreme Court on August 13, 2010 on the imposition VAT on tollway operators. On July 19, 2011, however, the matter was resolved when the SC upheld the legality of RMC No. 63-2010 issued by the BIR on July 19, 2010, in relation to Section 108 of the NIRC that imposes VAT on all services for a fee.

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

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

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

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

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

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

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

- The BIR issued a Formal Letter of Demand on March 16, 2009 requesting the Company to pay deficiency VAT plus penalties amounting to ₱1,010.5 million for taxable year 2006. The Company filed a protest letter with the BIR in May 2009. In July of 2009, the Company filed a supplement to the protest letter stating that its May 2009 submission should be considered its complete submission of documents for the purpose of counting the BIR's 180-day period to decide the protest pursuant to NIRC. However, the BIR did not act upon the protest letter. In March 2012, the Company filed a position paper with the BIR regarding the treatment of deferred input VAT from the purchase of capital goods and services in relation to its above application for abatement. The BIR has yet to resolve the application for abatement of the Company.

- A Final Assessment Notice was received from the BIR dated November 15, 2009 assessing the Company deficiency VAT plus penalties amounting to ₱557.6 million for taxable year 2007. The Company filed a protest letter with the BIR in December 2009. In February 2010, the Company filed a supplement to the protest letter stating that its December 2009 submission should be considered as its complete submission of documents for the purpose of counting the BIR's 180-day period to decide the protest pursuant to the Tax Code. In March 2010, the Company received the decision of the BIR denying the protest (the "Disputed Decision"). Within 30 days from the receipt of the Disputed Decision or in April 2010, the Company filed a petition for review with the Court of Tax Appeals (CTA) to appeal the denial by the BIR of its protest. The Company filed its memorandum in July 2013 and a supplemental memorandum in August 2013. The case is now considered submitted for decision.

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

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

On April 3, 2014, the BIR accepted and approved the Company's application for abatement and issued a Certificate of Approval for the cancellation of the basic output tax, interest and compromise penalty amounting to ₱1,010.5 million and ₱584.6 million for taxable years 2006 and 2007, respectively.

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

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

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

On July 25, 2011, the Company received a copy of the decision of the RTC of Malolos, Bulacan dated July 7, 2011. The RTC dismissed the Company's complaint for lack of merit and upheld the imposition of taxes and further ordered the Company to settle the taxes upon finality of the decision. The Company filed its motion for reconsideration on August 9, 2011, which was denied by the RTC in an order dated October 6, 2011. A proffer of excluded evidence and a petition for review with the RTC of Malolos, Bulacan and CTA, respectively, were filed on November 9, 2011 by the Company. The CTA, in a decision dated December 3, 2012, partially granted the Company's petition for review. The CTA modified the RTC of Malolos, Bulacan's decision dated July 7, 2011 and order dated October 6, 2011. The CTA cancelled and set aside for lack of basis the notice of assessment dated 2008 issued against the Company for ₱67.4 million LBT for the years 2005 to 2007. However, the CTA ordered the Company to pay the municipality of Guiguinto the ₱2.3 million mayor's permit and other regulatory fees assessment for the years 2004 to 2008, inclusive of surcharges and penalties. The municipality of Guiguinto subsequently filed with the CTA a motion for reconsideration. The CTA, in a resolution dated April 25, 2013, denied the motion for reconsideration filed by the municipality of Guiguinto. The decision and resolution of the CTA have not been appealed and have thus become final, inappealable, and executory.

On September 3, 2013, an agreement was signed between the Company and the Municipality of Guiguinto to finally reconcile past collections and settle any remaining obligations to keep the Company's accounts with Guiguinto current. The parties agreed that (a) all of the Company's previous payments of ₱10.0 million should be deemed advance payments for any liability for LBT and regulatory fees; and (b) the Company shall pay ₱8.0 million to cover remaining LBT and regulatory fees up to the fourth quarter of 2013. The parties agreed that the payments made or to be made under the agreement shall constitute full and sufficient payment by the Company of any and all liability for LBT, regulatory fees, surcharges, interests, and penalties for the years 2004 to 2013 to Guiguinto, and the Company is therefore released, free, and clear from any and all such liabilities for the stated period.

On April 23, 2010, the Bureau of Local Government Finance (BLGF) issued a ruling that the toll fees collected by each toll booth of the Company shall be recorded thereat and that the LBT payable to local government unit (LGU) shall be solely based on 100% of the gross receipts of the toll booths located in said LGU and that the foregoing LBT allocation shall be applied prospectively. On September 23, 2010, the Company requested for a partial reconsideration and reiterated that the Company's gross receipts may be allocated among all LGUs where the toll roads traverse. On March 4, 2011, BLGF reaffirmed its original position that the Company shall be classified as a contractor for purposes of local taxation and that

LBT should be paid based only to LGUs that host toll plazas, thus, no LBT should be due to municipalities with no established toll plazas.

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

Real Property Tax (RPT)
On July 15, 2008, the Company filed a petition for review under Section 226 of the Local Government Code (“LGC”) with the Local Boards of Assessment Appeals (LBAA) to annul and set aside the action of the provincial assessor of the province of Bulacan, in *motu proprio* issuing five (5) assailed tax declarations under the name of the Company as administrator/ beneficial user and classifying and categorizing the NLEX as a commercial property subject to RPT. In August 2008, the respondent provincial assessor filed its answer with motion to dismiss. In September 2008, the Company filed the corresponding reply with opposition. The LBAA scheduled an ocular inspection of the subject real properties on May 7, 2009 to determine whether said properties in fact covers portions of the NLEX, which the Company argues are part of public land exempt from RPT. The ocular inspection however was reset due to the unavailability of some of the members of the LBAA. The LBAA has yet to re-schedule the ocular inspection as at February 12. 2015. The case is still pending before the LBAA of the Province of Bulacan.

In April 2013, the Company filed a petition for review under Section 226 of the LGC with the LBAA to declare as null and void the assailed assessment and the assailed thirty-four (34) tax declarations *motu proprio* issued by the provincial assessor of the province of Bulacan in the name of the Company as owner of the NLEX and categorizing the NLEX as a commercial property, subject to RPT, and the corresponding notice of assessment dated January 10, 2013 for RPT against the Company over the said properties pursuant to Section 204 of the LGC. In June 2013, the LBAA issued an order denying due course to the petition. In July 2013, the Company filed a motion for reconsideration praying that the order be reconsidered and that the Company’s petition be given due course. In September 2013, the Company received an order from the LBAA setting the date for the hearing on the Company’s motion for reconsideration on September 25, 2013. In September 2013, the Company received the province of Bulacan’s comment to the Company’s motion for reconsideration. Since the Company learned of the September 25, 2013 hearing only after it received the order on September 26, 2013, the Company filed a manifestation and motion praying that (i) the Company be given until October 16, 2013 within which to file its reply to the comment, and (ii) the hearing on the motion for reconsideration be reset to October 22, 2013. During the hearing on November 20, 2013, the province requested for time to file its rejoinder. The LBAA also ordered the Respondents to submit samples of the tax declarations in question. The LBAA then set another hearing on December 11, 2013. The LBAA submitted the Motion for Reconsideration for resolution during the December 11, 2013 hearing. As at February 12, 2015, the LBAA has not yet resolved the motion.

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

The outcome of the claims on RPT cannot be presently determined. Management believes that these claims will not have a significant impact on the Company's financial statements. Management and its legal counsel also believes that the STOA also provides the Company with legal recourse in order to protect its lawful interests in case there is a change in existing laws which makes the performance by the Company of its obligations materially more expensive.

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

29. Operating Segment Information

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

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

EBITDA is measured as net income excluding amortization of service concession asset and other intangible assets, depreciation of property and equipment, provision for heavy maintenance and other provisions, asset impairment on noncurrent assets, interest expense and other finance costs, interest income, net foreign exchange gain (loss), gain (loss) on derivative financial instruments, provision for (benefit from) income tax and other nonrecurring income and expenses. Nonrecurring items represent income and expenses that, through occurrence or size, are not considered usual operating items. EBITDA margin pertains to EBITDA divided by net toll revenues.

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

Core income margin pertains to core income divided by net toll revenues. Net income margin pertains to net income divided by net toll revenues.

The revenues, net income, assets, liabilities, and other information of the Company's operations as at and for the years ended December 31, 2014, 2013 and 2012 are as follows:

	2014	2013	2012
Net toll revenues	**₱7,516,586,901**	₱7,101,436,578	₱6,784,126,258
Other income	**120,227,103**	89,374,089	64,481,882
Total revenues	**7,636,814,004**	7,190,810,667	6,848,608,140
Operating and maintenance costs	**(2,438,204,973)**	(2,170,962,574)	(2,062,571,229)
Operating expenses	**(501,220,971)**	(468,541,570)	(502,648,736)
EBITDA	**4,697,388,060**	4,551,306,523	4,283,388,175
Financing costs	**(504,337,927)**	(498,549,148)	(557,685,131)
Core income before depreciation, amortization and provisions	**4,193,050,133**	4,052,757,375	3,725,703,044
Depreciation, amortization and provisions*	**(1,609,093,962)**	(1,646,328,751)	(1,610,590,387)
Core income	**2,583,956,171**	2,406,428,624	2,115,112,657
Nonrecurring items	**(18,515,114)**	(28,519,724)	(155,774,749)
Net income	**₱2,565,441,057**	₱2,377,908,900	₱1,959,337,908
EBITDA margin for the year	**62%**	64%	63%
Core income margin for the year	**34%**	34%	31%
Net income margin for the year	**34%**	33%	29%
Total assets	**₱28,715,035,254**	₱20,788,302,893	₱19,036,549,929
Total liabilities	**21,087,178,986**	13,589,283,805	12,144,186,089
Total equity	**7,627,856,268**	7,199,019,088	6,892,363,840
Other disclosures:			
Capital expenditure (consists of additions to service concession asset, property and equipment and other intangible assets)	**₱2,485,927,545**	₱388,119,425	₱260,474,342

** Includes provision for current and deferred taxes.*

The following table shows the reconciliation of EBITDA to net income for the years ended December 31, 2014, 2013 and 2012.

	2014	2013	2012
EBITDA	**₱4,697,388,060**	₱4,551,306,523	₱4,283,388,175
Interest expense and other finance costs (see Note 22)	**(601,214,207)**	(618,382,272)	(684,054,227)
Amortization of service concession asset (see Note 17)	**(483,626,911)**	(599,931,592)	(597,358,217)
Interest income (see Note 21)	**61,266,122**	82,563,116	116,601,837
Provision for heavy maintenance (see Note 17)	**(224,653,876)**	(167,481,570)	(107,142,857)
Depreciation of property and equipment (see Note 18)	**(30,963,982)**	(28,881,703)	(23,685,415)
Amortization of other intangible assets (see Note 18)	**(6,056,952)**	(8,108,060)	(7,547,442)
Nonrecurring items:			
Provisions (see Note 18)	**(13,840,182)**	(13,256,981)	(108,313,713)
Foreign exchange gain (loss) - net	**4,260,215**	8,015,606	1,447,608

(Forward)

	2014	2013	2012
Mark-to-market loss on derivatives – net (see Note 23)	**₱–**	₱–	(₱44,844,434)
Provision for potential losses on claim for refund (see Note 18)	**–**	–	(11,060,341)
Other nonrecurring items	**1,564,831**	(620,861)	(8,541,575)
Income before income tax	**3,404,123,118**	3,205,222,206	2,808,889,399
Provision for income tax (see Note 24):			
Current	**752,767,850**	741,163,380	804,888,626
Deferred	**85,914,211**	86,149,926	44,662,865
	838,682,061	827,313,306	849,551,491
Net income for the year	**₱2,565,441,057**	₱2,377,908,900	₱1,959,337,908

The following table shows the reconciliation of the core income to the net income for the years ended December 31, 2014, 2013 and 2012.

	2014	2013	2012
Core income for the year	**₱2,583,956,171**	₱2,406,428,624	₱2,115,112,657
Provisions (see Note 18)	**(13,840,182)**	(13,256,981)	(108,313,713)
Foreign exchange gain (loss) - net	**4,260,215**	8,015,606	1,447,608
Mark-to-market loss on derivatives – net (see Note 23)	**–**	–	(44,844,434)
Provision for potential losses on claim for refund (see Note 18)	**–**	–	(11,060,341)
Other nonrecurring items	**(8,935,147)**	(23,278,349)	6,996,131
Net income for the year	**₱2,565,441,057**	₱2,377,908,900	₱1,959,337,908

30. Supplementary Information Required Under Revenue Regulations 15-2010

In compliance with the requirements set forth by RR No. 15-2010 hereunder are the information on taxes and license fees paid as at and for the year ended December 31, 2014.

Value-added Tax (VAT)

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

a. Net Sales/Receipts and Output VAT declared in the Company's VAT returns filed in 2014

	Net Sales/ Receipts	Output VAT
Sales of services:		
Vatable receipts	₱7,547,402,399	₱905,688,288
Zero-rated	128,017	–
Sale to Government	36,000	4,320
	₱7,547,566,416	₱905,692,608

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

Sales from services represent collections received from such sales which for the year amounted to ₱7,547.5 million, of which ₱7,449.1 million pertains to toll collections which are under “Operating revenues” account in the statements of income and ₱98.3 million pertains to collections from TSF and others which are recorded in “Other income” account in the statements of income.

The Company has zero-rated sales amounting to ₱0.1 million pursuant to the provisions of National Internal Revenue Code Section 106 (A) (2) (a) (5) which states that those considered export sales under Executive Order No. 226, otherwise known as the Omnibus Investment Code of 1987, and other special laws shall be subject to zero percent rate.

b. Input VAT declared in the Company’s VAT returns filed for 2014 are as follows:

Balance at beginning of year:	
Carried over from previous period	₱–
Input VAT deferred on capital goods exceeding ₱1.0 million from previous period	2,454,109
Current year’s importations of goods other than capital goods	1,811,324
Current year’s domestic purchases/payments for:	
Goods other than for resale or manufacture	6,851,487
Domestic purchase of services:	
Services lodged under cost of service	464,655,153
Services lodged under other accounts	483,886
Capital goods not subject to amortization	170,099
Capital goods subject to amortization	3,020,577
Input VAT claimed against output VAT	(475,065,035)
Balance at end of year	₱4,381,600

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

Taxes, Duties and License Fees
This includes all other taxes, local and national, including real estate taxes, licenses and permit fees for the year ended December 31, 2014:

a. Local taxes

Local Business Taxes	₱46,892,219
Real Property Taxes*	10,073,293
License and Permit Fees	805,898
Filing, registration and notarial fees	379,533
	₱58,150,943

b. National taxes

Documentary stamp taxes**	₱35,000,576
Fringe benefits taxes	3,662,382
	₱38,662,958

**Presented as part of “Cost of services”.*
***Documentary stamp tax on issuance of fixed rate bonds in 2014 amounting to ₱35.0 million was capitalized as debt issue cost in long-term debt.*

Withholding Taxes
Details of withholding tax payments for the year ended December 31, 2014 are as follows:

Expanded withholding taxes	₱237,740,684
Withholding taxes on compensation and benefits	52,338,339
Final withholding taxes	53,026,940
	₱343,105,963

Tax Assessments and Litigations

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

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

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

On August 4, 2010, MNTC, in accordance with RMC No. 63-2010, applied for abatement of alleged VAT liabilities for taxable years 2006 and 2007. On April 3, 2014, the BIR accepted and approved the Company's application for abatement and issued a Certificate of Approval for the cancellation of the basic output tax, interest and compromise penalty amounting to ₱1,010.5 million and ₱584.6 million for taxable years 2006 and 2007, respectively.

Real Property Tax Assessment. On July 15, 2008, MNTC received five (5) assailed tax declarations under the name of MNTC as administrator/beneficial user and classifying and categorizing the NLEX as a commercial property subject to RPT. In August 2008, the respondent provincial assessor filed its answer with motion to dismiss. In September 2008, MNTC filed the corresponding reply with opposition. The LBAA scheduled an ocular inspection of the subject real properties on May 7, 2009 to determine whether said properties in fact covers portions of the NLEX, which MNTC argues are part of public land exempt from RPT. The ocular inspection however was reset due to the unavailability of some of the members of the LBAA. The LBAA has yet to re-schedule the ocular inspection as at February 12, 2015. The case is still pending before the LBAA of the Province of Bulacan.

In April 2013, MNTC received assailed thirty-four (34) tax declarations *motu proprio* issued by the provincial assessor of the province of Bulacan in the name of MNTC as owner of the NLEX and categorizing the NLEX as a commercial property, subject to RPT, and the corresponding notice of assessment dated January 10, 2013 for RPT against MNTC over the said properties pursuant to Section 204 of the LGC. In June 2013, the LBAA issued an order denying due course to the petition. In July 2013, MNTC filed a motion for reconsideration praying that the order be reconsidered and that MNTC's petition be given due course. In September 2013, MNTC received an order from the LBAA setting the date for the hearing on MNTC's motion for reconsideration on September 25, 2013. In September 2013, MNTC received the province of Bulacan's comment to MNTC's motion for reconsideration. Since MNTC learned of the September 25, 2013 hearing only after it received the order on September 26, 2013, MNTC filed a manifestation and motion praying that (i) MNTC be given until October 16, 2013 within which to file its reply to the comment, and (ii) the hearing on the motion for reconsideration be reset to October 22, 2013. During the hearing on November 20, 2013, the province requested for time to file its rejoinder. The LBAA also ordered the Respondents to submit samples of the tax declarations in question. The LBAA then set another hearing on December 11, 2013. The LBAA submitted the Motion for

Reconsideration for resolution during the December 11, 2013 hearing. As at February 12, 2015, the LBAA has not yet resolved the motion.

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