Tollways Management Corporation

Financial Statements
December 31, 2014 and 2013

and

Independent Auditors' Report

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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
Tollways Management Corporation

Report on the Financial Statements

We have audited the accompanying financial statements of Tollways Management Corporation, which comprise the balance sheets as at December 31, 2014 and 2013, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Tollways Management Corporation as at December 31, 2014 and 2013, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

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

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

SYCIP GORRES VELAYO & CO.

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February 12, 2015

TOLLWAYS MANAGEMENT CORPORATION
BALANCE SHEETS

	December 31	
	2014	2013
ASSETS		
Current Assets		
Cash and cash equivalents (Note 4)	**₱242,124,617**	₱299,978,269
Receivables (Notes 5 and 11)	**626,798,344**	455,846,658
Inventories	**6,345,204**	8,550,896
Other current assets (Note 6)	**49,931,120**	43,691,767
Total Current Assets	**925,199,285**	808,067,590
Noncurrent Assets		
Property and equipment (Note 7)	**64,877,282**	67,826,274
Deferred income tax assets (Note 17)	**23,190,201**	19,915,978
Deposits and other noncurrent assets (Note 8)	**34,303,742**	26,738,456
Total Noncurrent Assets	**122,371,225**	114,480,708
	₱1,047,570,510	₱922,548,298

LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and other current liabilities (Notes 9 and 11)	**₱485,015,165**	₱436,225,851
Provisions (Notes 10 and 11)	**112,048,825**	64,663,889
Income tax payable	**67,607,477**	20,197,060
Retention payable	**9,212,762**	4,890,651
Total Current Liabilities	**673,884,229**	525,977,451
Noncurrent Liability		
Accrued retirement cost (Note 15)	**10,038,453**	9,966,602
Total Liabilities	**683,922,682**	535,944,053
Equity		
Capital stock - ₱100 par value		
Authorized, issued and outstanding - 380,000 shares	**38,000,000**	38,000,000
Other comprehensive loss	**(20,728,233)**	(12,775,827)
Retained earnings (Note 12)	**346,376,061**	361,380,072
Total Equity	**363,647,828**	386,604,245
	₱1,047,570,510	₱922,548,298

See accompanying Notes to Financial Statements.

TOLLWAYS MANAGEMENT CORPORATION
STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2014	2013
SERVICE REVENUES (Note 11)	**₱2,086,013,694**	₱1,889,781,865
COST OF SERVICES (Notes 11 and 13)	**962,693,296**	917,115,983
GROSS PROFIT	**1,123,320,398**	972,665,882
GENERAL AND ADMINISTRATIVE EXPENSES (Notes 11 and 14)	**273,966,899**	241,762,934
OTHER INCOME (EXPENSES)		
Provisions for claims and losses (Note 10)	**(82,583,293)**	(4,884,328)
Reversal of provisions and accruals (Notes 5 and 10)	**24,670,831**	47,434,814
Gain on disposal of property and equipment (Note 7)	**2,659,671**	6,521,602
Interest income (Note 4)	**931,453**	3,593,578
Foreign exchange gain - net	**171,194**	105,060
Bank charges	**(23,129)**	(1,347)
Guarantee fees (Note 11)	**–**	(36,763,263)
Other income (Note 16)	**42,080,488**	35,795,672
	(12,092,785)	51,801,788
INCOME BEFORE INCOME TAX	**837,260,714**	782,704,736
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 17)		
Current	**212,852,901**	182,434,390
Deferred	**(1,188,176)**	59,942,196
	211,664,725	242,376,586
NET INCOME	**625,595,989**	540,328,150
OTHER COMPREHENSIVE LOSS		
Items that will not be reclassified subsequently to profit or loss:		
Remeasurement loss on defined benefit plan (Note 15)	**(10,038,453)**	(17,257,149)
Income tax effect (Note 17)	**2,086,047**	2,360,778
	(7,952,406)	(14,896,371)
TOTAL COMPREHENSIVE INCOME	**₱617,643,583**	₱525,431,779

See accompanying Notes to Financial Statements.

TOLLWAYS MANAGEMENT CORPORATION
STATEMENTS OF CHANGES IN EQUITY

	Years Ended December 31	
	2014	2013
CAPITAL STOCK	**₱38,000,000**	₱38,000,000
OTHER COMPREHENSIVE INCOME (LOSS) (Note 15)		
Balance at beginning of year	**(12,775,827)**	2,120,544
Remeasurement loss on defined benefit plan - net	**(7,952,406)**	(14,896,371)
Balance at end of year	**(20,728,233)**	(12,775,827)
RETAINED EARNINGS (Note 12)		
Balance at beginning of year	**361,380,072**	348,632,348
Net income	**625,595,989**	540,328,150
Dividends declared	**(640,600,000)**	(527,580,426)
Balance at end of year	**346,376,061**	361,380,072
	₱363,647,828	₱386,604,245

See accompanying Notes to Financial Statements.

TOLLWAYS MANAGEMENT CORPORATION
STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱837,260,714**	₱782,704,736
Adjustments for:		
Provision for claims and losses (Note 10)	**82,583,293**	4,884,328
Depreciation (Notes 7, 13 and 14)	**33,422,922**	32,727,914
Reversal of provisions and accruals (Notes 5 and 10)	**(24,670,831)**	(47,434,814)
Retirement benefits cost (Note 15)	**12,092,889**	8,267,053
Provision for inventory obsolescence (Note 14)	**2,786,121**	–
Gain on disposal of property and equipment (Note 7)	**(2,659,671)**	(6,521,602)
Interest income (Note 4)	**(931,453)**	(3,593,578)
Operating income before working capital changes	**939,883,984**	771,034,037
Decrease (increase) in:		
Receivables	**(170,951,686)**	69,635,388
Other current assets	**(47,677,773)**	(12,268,988)
Inventories - at cost	**(580,429)**	519,887
Increase (decrease) in:		
Accounts payable and other current liabilities	**65,572,652**	(73,478,495)
Provisions	**(10,527,526)**	(10,813,966)
Retention payable	**4,322,111**	1,623,372
Cash generated from operations	**780,041,333**	746,251,235
Income tax paid	**(124,004,064)**	(183,149,515)
Net cash provided by operating activities	**656,037,269**	563,101,720
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to property and equipment (Note 7)	**(31,260,319)**	(30,104,913)
Decrease (increase) in deposits and other noncurrent assets	**(24,348,624)**	17,595,940
Retirement plan asset contribution (Note 15)	**(22,059,491)**	(8,707,320)
Proceeds from disposal of property and equipment	**3,446,060**	12,109,275
Interest received	**931,453**	3,593,578
Net cash used in investing activities	**(73,290,921)**	(5,513,440)
CASH FLOWS FROM A FINANCING ACTIVITY		
Dividends paid (Note 12)	**(640,600,000)**	(527,580,426)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(57,853,652)**	30,007,854
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR (Note 4)	**299,978,269**	269,970,415
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	**₱242,124,617**	₱299,978,269

See accompanying Notes to Financial Statements.

TOLLWAYS MANAGEMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS

1. General Information

Corporate Information

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

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

The Company, under an Operation and Maintenance Agreement (O&M Agreement) with Manila North Tollways Corporation (MNTC), a subsidiary of MPTDC, is the operator of Phase I consisting of Segments 1, 2, 3 and 7 and Segment 8.1, a portion of Phase II of the North Luzon Expressway (NLEX) Project of MNTC. The Phase I of the NLEX Project includes an 84-km stretch of road extending from Metro Manila to Sta. Inez Exit, Mabalacat, Pampanga, and an 8.8-km stretch of road linking Tipo, Hermosa, Bataan to Subic. Segment 8.1, a portion of Phase II, is a 2.7-km stretch of road linking NLEX to Mindanao Avenue. The O&M Agreement is effective until December 31, 2037. In 2012, TMC was engaged by MNTC to operate and maintain the new Plaridel Bypass Interchange, a 1.5-km stretch connecting Plaridel to NLEX. The Company was also engaged by MNTC to operate the Bocaue North Bound Plaza in which the engagement for the operations and maintenance is still being formalized as at February 12, 2015.

The Company, Egis, and First Philippine Holdings Corporation (FPHC) have a joint venture agreement (JVA) for the interim operation and maintenance of the Subic-Clark-Tarlac Expressway (SCTEX) (the Project) of Bases Conversion and Development Authority (BCDA). On November 13, 2008, FPHC and Metro Pacific Investments Corporation (MPIC) executed a letter pursuant to Share Purchase Agreement whereby FPHC granted to MPIC an assignable option (the "SCTEX Option") to acquire all the rights and interests of FPHC under the JVA, in consideration for the assumption by MPIC or its assignee of all of the obligations of FPHC under all the SCTEX Agreements. MPIC exercised the SCTEX Option on February 11, 2009. The Project which had been extended several times from an initial period of six (6) months can be extended on a monthly basis but any extension should not exceed six (6) months. The contract extension expiring in April 2015 is still being finalized as at February 12, 2015.

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

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

Authorization for Issuance of the Financial Statements
The accompanying financial statements were authorized for issue by the Board of Directors (BOD) on February 12, 2015.

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

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

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

Changes in Accounting Policies and Disclosures
The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended PFRSs which were adopted as at January 1, 2014.

The standards that have been adopted did not have significant impact in the Company's financial statements, unless otherwise indicated.

- PAS 32, *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities* (Amendments), became effective for annual periods beginning on or after January 1, 2014.

- PAS 36, *Impairment of Assets, Recoverable Amount Disclosures for Non-Financial Assets* (Amendments), became effective for annual periods beginning on or after January 1, 2014.

- PAS 39, *Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting* (Amendments), became effective for annual periods beginning on or after January 1, 2014.

- Investment entities (amendments to PFRS 10, *Consolidated Financial Statements*, PFRS 12, *Disclosure of Interests in Other Entities* and PAS 27, *Separate Financial Statements*), became effective for annual periods beginning on or after January 1, 2014.

- Philippine Interpretation IFRIC 21, *Levies*, became effective for annual periods beginning on or after January 1, 2014.

- *Annual Improvements to PFRSs (2010-2012 cycle)*
  PFRS 13, *Fair Value Measurement* (Amendments). 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 impact on the Company.

- *Annual Improvements to PFRSs (2011-2013 cycle)*
  PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards–First-time Adoption of PFRS* (Amendments). 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.

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

- 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 other comprehensive income (OCI) or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward into PFRS 9, including the embedded derivative separation rules and the criteria for using the FVO. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Company's financial assets, but will potentially have no impact on the classification and measurement of financial liabilities.

  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 (BOA).

- 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 BOA.

- 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.

- PFRS 10 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.

- 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.

- 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 profit or loss and other comprehensive income. 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.

- PFRS 15, *Revenue from Contracts with Customers*. PFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under PFRS 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 PFRS 15 provide a more structured approach to measuring and recognising revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under PFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2017 with early adoption permitted. PFRS 15 was not yet adopted by FRSC. The Company is currently assessing the impact of PFRS 15 and plans to adopt the new standard on the required effective date once adopted locally.

- 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 19, *Employee Benefits - Defined Benefit Plans: Employee Contributions* (Amendments). These amendments require 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.

- 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.

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

<u>Annual Improvements to PFRS (2011-2013 cycle)</u>
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).

<u>Annual Improvements to PFRSs (2012-2014 cycle)</u>
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).

Standard with No Mandatory Effectivity
- 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 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.

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

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

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

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

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their best economic interest.

A fair value measurement of a nonfinancial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

Assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

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

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

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

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Company determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

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

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

<u>Financial Instruments</u>

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

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

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

The Company has no financial assets and financial liabilities at FVPL, HTM investments and AFS investments as at December 31, 2014 and 2013.

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

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

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

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

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

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

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

Derecognition of Financial Assets and Liabilities

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

- the right to receive cash flows from the asset has expired;

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

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

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

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

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

Impairment of Financial Assets
The Company assesses, at each balance sheet date, whether there is an objective evidence that a financial asset or a group of financial asset is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred '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 observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial Assets Carried at Amortized Cost. For financial assets carried at amortized cost, the Company first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognized in the statement of profit or loss. Interest income (recorded as finance income in the statement of profit or loss) continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans 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, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to finance costs in the statement of profit or loss.

Offsetting of Financial Instruments

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

Inventories

Inventories, which consist of transit tickets, cleaning supplies, construction supplies and spare parts, are valued at the lower of cost and net realizable value (NRV). Cost includes purchase cost and import duties and is determined primarily on a first-in, first-out method. NRV for the supplies is the current replacement cost.

Property and Equipment

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

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

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

	Number of Years
Transportation equipment	3–5
Office furniture, fixtures and equipment	3
Leasehold improvements	10 years or lease whichever is shorter
Tools, construction and engineering equipment	2–3

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

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

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

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

Impairment of Nonfinancial Assets

The carrying values of property and equipment and other nonfinancial assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying value exceeds the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. An asset's recoverable amount is higher of an asset's cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. Where the carrying value amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Any impairment loss is recognized in the statement of comprehensive income.

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

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

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

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

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

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

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

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

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

Retirement Costs

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

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

Defined benefit costs comprise the following:

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

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

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

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

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

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

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

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

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

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

Income Taxes

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

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

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

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

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

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

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

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

- receivables and payables that are stated with the amount of tax included.

The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of "Other current assets" and "Accounts payable and other current liabilities" accounts in the balance sheet.

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

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

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

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

3. Significant Accounting Judgments, Estimates and Assumptions

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

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

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

Contingencies. The Company is a party to certain lawsuits or claims arising from the ordinary course of business. However, the Company's management and legal counsel believe that given the recognition of certain provisions, the eventual liabilities under these lawsuits or claims, if any, will no longer have a material effect on the Company's financial statements.

Estimates and Assumptions

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

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

Bad debts expense recognized in 2014 and 2013 amounted to nil and ₱2.9 million, respectively (see Notes 5 and 14). Allowance for doubtful account amounted to ₱91.4 million as at December 31, 2014 and 2013. The carrying value of receivables amounted to ₱626.8 million and ₱455.8 million as at December 31, 2014 and 2013, respectively (see Note 5).

The carrying value of refundable deposits amounted to ₱9.2 million and ₱9.7 million as at December 31, 2014 and 2013, respectively (see Note 8).

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

Provision for inventory obsolescence in 2014 and 2013 amounted to ₱2.8 million and nil, respectively (see Note 14). The carrying value of inventories amounted to ₱6.3 million and ₱8.6 million as at December 31, 2014 and 2013, respectively.

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

There were no changes in the estimated useful lives of property and equipment as at December 31, 2014 and 2013. The carrying value of the Company's property and equipment as at December 31, 2014 and 2013 amounted to ₱64.9 million and ₱67.8 million, respectively (see Note 7).

Estimating Impairment of Property and Equipment. The Company determines whether items of its property and equipment are impaired whenever events or circumstances indicate that the carrying amount of the asset may not be recoverable. Determining the fair value of assets requires the estimation of cash flows, expected to be generated from the continued and ultimate disposition of such assets.

There were no impairment loss recognized in 2014 and 2013. The carrying value of property and equipment amounted to ₱64.9 million and ₱67.8 million as at December 31, 2014 and 2013, respectively (see Note 7).

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

The Company recognized retirement benefits cost in the profit or loss amounting to ₱12.1 million and ₱8.3 million in 2014 and 2013, respectively (see Note 15). The Company recognized remeasurements of actuarial losses in the other comprehensive income, net of tax, amounting to ₱8.0 million and ₱14.9 million in 2014 and 2013, respectively (see Notes 15 and 17).

The Company's accrued retirement cost amounted to ₱10.0 million as at December 31, 2014 and 2013.

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

As at December 31, 2014 and 2013, the Company recognized deferred tax assets for all temporary differences amounting to ₱23.2 million and ₱19.9 million, respectively (see Note 17).

4. **Cash and cash equivalents**

	2014	2013
Cash on hand and in banks	**₱192,124,617**	₱207,674,409
Short-term deposits	**50,000,000**	92,303,860
	₱242,124,617	₱299,978,269

Cash in banks earn interest at the respective bank deposit rates. Short-term deposits are made for varying periods of up to three months depending on the immediate cash requirements of the Company and earn interest at the respective short-term deposit rates.

Interest income earned from cash in banks and short-term deposits amounted to ₱0.9 million and ₱3.6 million in 2014 and 2013, respectively.

5. Receivables

	2014	2013
Trade		
Related parties (see Note 11)	**₱302,076,454**	₱300,572,266
Third party	**407,417,709**	244,362,212
Others		
Related parties (see Note 11)	**7,942,085**	2,181,724
Third party	**738,315**	106,675
	718,174,563	547,222,877
Less allowance for doubtful accounts	**91,376,219**	91,376,219
	₱626,798,344	₱455,846,658

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

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

The individually assessed impaired receivable amounted to ₱91.4 million as at December 31, 2014 and 2013.

The movements in allowance for doubtful accounts are as follows:

	2014	2013
Balance at beginning of year	**₱91,376,219**	₱117,442,594
Bad debt expense (see Note 14)	–	2,933,501
Reversal of provision	–	(28,999,876)
Balance at end of year	**₱91,376,219**	₱91,376,219

6. Other Current Assets

	2014	2013
Advances to contractors and suppliers	**₱21,316,723**	₱19,422,449
Creditable withholding taxes - VAT	**14,124,640**	12,960,293
Prepaid expense	**9,340,030**	7,942,322
Others	**5,149,727**	3,366,703
	₱49,931,120	₱43,691,767

Others include advances to employees and car plan loan receivable.

7. Property and Equipment

The movements in this account are as follows:

	2014				
	Transportation Equipment	**Office Furniture, Fixtures and Equipment**	**Leasehold Improvements**	**Tools, Construction and Engineering Equipment**	**Total**
Cost:					
Balance at beginning of year	**₱197,444,844**	**₱77,501,401**	**₱26,041,038**	**₱106,155,625**	**₱407,142,908**
Additions	**23,292,446**	**4,611,316**	**–**	**3,356,557**	**31,260,319**
Disposals	**(13,841,294)**	**–**	**–**	**–**	**(13,841,294)**
Balance at end of year	**206,895,996**	**82,112,717**	**26,041,038**	**109,512,182**	**424,561,933**
Accumulated depreciation:					
Balance at beginning of year	**156,799,744**	**69,504,980**	**11,114,630**	**101,897,280**	**339,316,634**
Depreciation for the year (see Notes 13 and 14)	**21,858,080**	**4,707,394**	**2,648,368**	**4,209,080**	**33,422,922**
Disposals	**(13,054,905)**	**–**	**–**	**–**	**(13,054,905)**
Balance at end of year	**165,602,919**	**74,212,374**	**13,762,998**	**106,106,360**	**359,684,651**
Net book value	**₱41,293,077**	**₱7,900,343**	**₱12,278,040**	**₱3,405,822**	**₱64,877,282**

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

Gain on disposal of property and equipment in 2014 and 2013 amounted to ₱2.7 million and ₱6.5 million, respectively.

Fully depreciated assets that are still in use in the Company's operations amounted to ₱318.5 million and ₱266.4 million as at December 31, 2014 and 2013, respectively. The Company has no temporary idle property and equipment as at December 31, 2014 and 2013.

8. Deposits and Other Noncurrent Assets

	2014	2013
Deferred input VAT	**₱25,134,573**	₱16,783,338
Deposits	**9,169,169**	9,704,182
Others	**–**	250,936
	₱34,303,742	₱26,738,456

9. Accounts Payable and Other Current Liabilities

	2014	2013
Trade	**₱25,480,970**	₱48,734,993
Accrued expenses (see Note 11):		
Outside services	**156,357,914**	135,400,447
Personnel expenses	**144,620,385**	118,862,892
Interest and guarantee fee	**24,305,708**	34,185,051
Output VAT – net	**63,306,304**	29,573,928
Payable to related parties (see Note 11)	**38,323,576**	36,963,184
Withholding taxes	**23,702,351**	25,359,556
Others	**8,917,957**	7,145,800
	₱485,015,165	₱436,225,851

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

Others consist mainly of accrued purchases.

10. Provisions

	2014	2013
Provision for claims and losses (see Note 11)	**₱25,112,095**	₱21,993,058
Other provisions	**86,936,730**	42,670,831
	₱112,048,825	₱64,663,889

Movements in provision as at December 31 are presented below:

	2014	2013
Balance at beginning of year	**₱64,663,889**	₱89,028,466
Provisions	**82,583,293**	4,884,328
Payments	**(10,527,526)**	(10,813,967)
Reversal	**(24,670,831)**	(18,434,938)
Balance at the end of year	**₱112,048,825**	₱64,663,889

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

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

In 2014 and 2013, reversals of provision, which is included under "Reversal of provisions and accruals" in the statement of comprehensive income, amounted to ₱24.7 million and ₱18.4 million, respectively.

11. **Related Party Transactions**

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

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

O&M Agreement. The Company provides services to MNTC as operator to the NLEX and Segment 7 under the O&M. The O&M contains the terms and conditions for the operation and maintenance by the Company of Phase I of the NLEX and subsequently of Segment 7, and sets forth the scope of its services. Under the O&M, MNTC pays the Company a minimum fixed annual amount of ₱637.1 million for the NLEX and ₱40.6 million for Segment 7, to be escalated on a quarterly basis plus a variable component, which will take effect upon start of commercial operations. The O&M, which also provides for certain bonuses and penalties as described in the O&M, shall be effective for the entire concession period.

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

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

In 2012, TMC was engaged by MNTC to operate and maintain the new Plaridel Bypass Interchange, effective on June 25, 2012 until December 31, 2037. MNTC agreed to pay TMC an annual base fee of ₱17.5 million for the operations and maintenance of the said Plaridel Bypass Interchange. TMC was also engaged by MNTC to operate the Bocaue North Bound Plaza at the proposed annual fee of ₱7.7 million. The engagement for the operations and maintenance of the Bocaue North Bound Plaza is still being formalized as at February 12, 2015.

On October 29, 2013, the BOD passed and approved the amendment of O&M Agreement dated July 6, 2011 for the rebasing of O&M fees and other such fees subject to escalation in order to be consistent with updated consumer price index values as published by the National Statistics Office in July 2011. The Base Fee was amended as ₱1,312.6 million for Phase 1 of NLEX, ₱84.2 million for Segment 7, ₱6.9 million for Dau Interchange and ₱32.9 million for Segment 8.1. The foregoing was formalized through a Side Letter Agreement executed by MNTC and TMC on August 8, 2014.

Guarantee Agreement. The guarantee fees were paid in consideration of the guarantee issued by MPTDC and Egis in favor of MNTC to secure the Corporation's performance of its obligations under the operating agreement covering the NLEX. While the guarantee was issued in compliance with the requirements of MNTC's lenders under certain financial agreements, such requirement is no longer applicable. Thus, the Corporation no longer has the obligation to pay such guarantee fees to MPTDC and Egis as at January 1, 2014.

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

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

			Outstanding balances					
Related Party	**Year**	**Amount/ Volume of Transactions**	**Receivables** (see Note 5)	**Payable to related parties** (see Note 9)	**Accrued expenses** (see Note 9)	**Provision for claims and losses** (see Note 10)	**Terms**	**Conditions**
MPTDC								
Management fees expense (see Note 14)	**2014**	**₱20,827,769**	**₱–**	**₱32,129,840**	**₱20,827,770**	**₱–**	Noninterest-bearing	Unsecured
	2013	28,214,902	–	–	58,984,350	–		
Guarantee fees expense	**2014**	–	–	–	**19,894,558**	–	Noninterest-bearing	Unsecured
	2013	24,263,754	–	–	23,927,393	–		
Dividends declared	**2014**	**294,676,000**	–	–	–	–	Noninterest-bearing	Unsecured
	2013	242,686,996	–	–	–	–		
Recoverable cost	**2014**	–	–	–	–	–	Noninterest-bearing	Unsecured; no impairment
	2013	30,769,447	296,793	36,769,448	–	–		
EGIS								
Guarantee fees expense	**2014**	–	–	–	**4,074,789**	–	Noninterest-bearing	Unsecured
	2013	12,499,509	–	–	6,325,587	–		
Dividends declared	**2014**	**217,804,000**	–	–	–	–	Noninterest-bearing	Unsecured
	2013	179,377,345	–	–	–	–		
EGIS Projects Philippines Inc. [(a)]								
Outside and technical service (see Note 13)	**2014**	**7,142,857**	–	**6,000,000**	–	–	Noninterest-bearing	Unsecured
	2013	17,142,857	–	–	10,285,714	–		
Reimbursement of expenses	**2014**	–	–	–	–	–	Noninterest-Bearing	Unsecured
	2013	1,919,549	–	–	–	–		
Stockholder								
Dividends declared	**2014**	**128,120,000**	–	–	–	–	Noninterest-bearing	Unsecured
	2013	105,516,085	–	–	–	–		
MNTC [(a)]								
Operator's fee	**2014**	**1,685,468,918**	**302,076,454**	–	–	–	Noninterest-bearing	Unsecured; ₱0.2 million impairment in 2012
	2013	1,514,241,266	293,856,917	–	–	–		
Reimbursement of expenses	**2014**	–	–	**193,736**	–	–	Noninterest-bearing	Unsecured; no impairment
	2013	2,164,501	1,884,931	193,736	–	–		
Additional services	**2014**	**29,659,652**	**7,942,085**	–	–	–	Noninterest-bearing	Unsecured; no impairment
	2013	27,541,694	6,715,349	–	–	–		
Accrued interest	**2014**	–	–	–	**336,361**	–	Noninterest-bearing	Unsecured
	2013	–	–	–	336,361	–		
Provision for claims and losses (see Note 10)	**2014**	**11,465,531**	–	–	–	**25,112,095**	Noninterest-bearing	Unsecured
	2013	1,686,863	–	–	–	21,993,058		
MPTC [(b)]								
Management fees expense (see Note 14)	**2014**	**34,969,126**	–	–	**21,269,126**	–	Noninterest-bearing	Unsecured
	2013	27,400,000	–	–	27,400,000	–		
Reimbursement of expenses	**2014**	–	–	–	–	–	Noninterest-bearing	Unsecured
	2013	17,375,000	–	–		–		

(Forward)

Related Party	Year	Amount/ Volume of Transactions	Outstanding balances: Receivables (see Note 5)	Payable to related parties (see Note 9)	Accrued expenses (see Note 9)	Provision for claims and losses (see Note 10)	Terms	Conditions
CIC								
Additional Services	**2014**	**₱839,132**	**₱–**	**₱–**	**₱–**	**₱–**	Noninterest-bearing	Unsecured
	2013	–	–	–	–	–		
Reimbursement of expenses	**2014**	**23,961**	–	–	–	–	Noninterest-bearing	Unsecured
	2013	–	–	–		–		
	2014		**₱310,018,539**	**₱38,323,576**	**₱66,402,604**	**₱25,112,095**		
	2013		302,753,990	36,963,184	127,259,405	21,993,058		

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

<u>Other Transactions</u>
Compensation of key management personnel of the Company are as follows:

	2014	2013
Short-term employee benefits	**₱69,822,317**	₱53,040,044
Retirement benefits costs	**2,542,485**	1,785,000
	₱72,364,802	₱54,825,044

12. Retained Earnings

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

As at December 31, 2014 and 2013, the Company's retained earnings is in excess of 100% of its paid-up capital. The Company intends to use the excess in retained earnings for future dividend declaration pursuant to the SEC Memorandum, Circular No. 11 series of 2008 on December 5, 2008, which provides guidance on retained earnings available for dividend declaration.

On February 13, 2014, the BOD declared cash dividends totaling ₱334.3 million or ₱879.74 per share to stockholders of record as at February 13, 2014. In addition, on July 31, 2014, the BOD declared cash dividends totaling ₱306.3 million or ₱806.05 per share to stockholders of record as at July 31, 2014. These dividends were already paid in full as at December 31, 2014.

On February 20, 2013, the BOD declared cash dividends totaling ₱256.1 million or ₱673.9 per share to stockholders of record as at February 20, 2013. In addition, on July 24, 2013, the BOD declared cash dividends totaling ₱271.5 million or ₱714.5 per share to stockholders of record as at July 24, 2013. These dividends were already paid in full as at December 31, 2013.

13. **Cost of Services**

	2014	2013
Personnel expenses:		
Salaries and wages	**₱385,716,778**	₱344,949,656
Other personnel expenses (see Note 15)	**52,352,385**	44,994,347
Outside services	**283,750,303**	282,081,494
Communications, light and water	**82,394,411**	79,653,946
Repairs and maintenance	**55,402,631**	52,058,457
Transportation and travel	**43,898,817**	44,765,534
Depreciation (see Note 7)	**28,641,648**	28,444,480
Supplies	**18,036,798**	15,797,370
Technical services (see Note 11)	**7,142,857**	17,142,857
Entertainment, amusement and recreation	**849,624**	820,595
Taxes and licenses	**688,877**	1,030,606
Others	**3,818,167**	5,376,641
	₱962,693,296	₱917,115,983

14. **General and Administrative Expenses**

	2014	2013
Personnel expenses:		
Salaries and wages	**₱95,332,603**	₱68,983,387
Other personnel expenses (see Note 15)	**25,381,134**	21,577,346
Outside services (see Note 11)	**83,383,480**	82,510,033
Taxes and licenses	**22,062,134**	19,585,469
Transportation and travel	**13,833,140**	13,168,619
Depreciation (see Note 7)	**4,781,274**	4,283,434
Entertainment, amusement and recreation	**3,965,670**	4,598,733
Communications, light and water	**2,842,211**	2,934,354
Provision for inventory obsolescence	**2,786,121**	–
Supplies	**2,173,994**	2,167,493
Advertising and promotions	**1,953,066**	1,912,544
Repairs and maintenance	**3,807,689**	3,065,000
Bad debt expense (see Note 5)	**–**	2,933,501
Others	**11,664,383**	14,043,021
	₱273,966,899	₱241,762,934

Others pertain mainly to insurance, meetings and conferences expenses.

15. **Retirement Plan**

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

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

The following tables summarize the components of retirement cost included in personnel expenses under "Cost of services" and "General and administrative expenses" accounts in the statement of comprehensive income and "Accrued retirement cost" accounts in the balance sheet, which are based on the 2014 and 2013 actuarial valuations:

Changes in accrued retirement costs in 2014 are as follows:

	Present Value of Defined Benefit Obligation	**Fair Value of Plan Assets**	**Accrued Retirement Costs**
At January 1, 2014	**(₱85,815,873)**	**₱75,849,271**	**(₱9,966,602)**
Net benefit income (cost) in profit or loss:			
Current service cost	**(11,625,456)**	**–**	**(11,625,456)**
Net interest	**(4,024,764)**	**3,557,331**	**(467,433)**
	(15,650,220)	**3,557,331**	**(12,092,889)**
Benefits paid	**3,205,678**	**(3,205,678)**	**–**
Contributions	**–**	**22,059,491**	**22,059,491**
Remeasurement loss in other comprehensive income:			
Actuarial changes due to experience adjustment	**(7,555,234)**	–	**(7,555,234)**
Actuarial changes arising from changes in financial assumptions	**(2,328,049)**	–	**(2,328,049)**
Return on plan assets (excluding amount included in net interest)	–	**(155,170)**	**(155,170)**
	(9,883,283)	**(155,170)**	**(10,038,453)**
At December 31, 2014	**(₱108,143,698)**	**₱98,105,245**	**(₱10,038,453)**

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

	Present Value of Defined Benefit Obligation	Fair Value of Plan Assets	Pension Asset (Accrued Retirement Costs)
At January 1, 2013	(₱63,461,700)	₱79,019,300	₱15,557,600
Net benefit cost in profit or loss:			
Current service cost	(9,211,400)	–	(9,211,400)
Net interest	(3,852,125)	4,796,472	944,347
	(13,063,525)	4,796,472	(8,267,053)
Benefits paid	1,887,048	(1,887,048)	–
Remeasurement gain (loss) in other comprehensive income			
Return on plan assets (excluding amount included in net interest)	–	(6,079,453)	(6,079,453)
Actuarial changes arising from changes in demographic assumptions	2,631,604	–	2,631,604

(Forward)

	Present Value of Defined Benefit Obligation	Fair Value of Plan Assets	Pension Asset (Accrued Retirement Costs)
Actuarial changes arising from changes in financial assumptions	(₱13,890,686)	₱–	(₱13,890,686)
Actuarial changes due to experience adjustment	81,386	–	81,386
	(11,177,696)	(6,079,453)	(17,257,149)
At December 31, 2013	(₱85,815,873)	₱75,849,271	(₱9,966,602)

The actual return on plan assets amounted to ₱3.4 million and (₱1.3 million) in 2014 and 2013, respectively.

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

	2014	2013
Investments in:		
Government securities/bonds	**51%**	49%
Stocks	**27**	29
Debt instruments and other securities	**11**	8
Deposit in banks	**34**	9
Loans/notes receivable	**5**	4
Other receivables	**1**	1

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

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

	2014	2013
Investments in:		
Government securities/bonds	**₱39,009,399**	₱37,166,143
Stocks	**20,842,246**	21,996,289
Debt securities	**8,692,230**	6,067,942
Deposit in banks	**25,678,267**	6,826,434
Loans/notes receivables	**3,430,300**	3,033,971
Other receivables	**452,803**	758,492
	₱98,105,245	₱75,849,271

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

As at December 31, 2014 and 2013, 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 2.13% to 11.14% and 4.80% to 11.14% per annum in 2014 and 2013, respectively and have maturities from 2015 to 2022.

- Investments in debt instruments consist of quoted, unsecured, long-term corporate bonds and subordinated notes, which bear interest ranging from 5.23% to 6.8% and 5.75% to 8.46% per annum in 2014 and 2013, respectively, and have maturities from 2017 to 2025.
- Cash and cash equivalents include regular savings and time deposits, which bear 2.50% and 2.00% interest in 2014 and 2013, respectively.
- Loans and notes receivables consist of unsecured debt securities classified as loans that bear interest ranging from 5.64% to 6.26% per annum and will mature in 2022.

The Company and the pension plan have no specific matching strategies between the pension plan assets and define benefit asset or obligation under the pension plan.

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

	2014	2013
Discount rate	**4.50%**	4.69%
Rate of compensation increase	**4.00%**	4.00%

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as at December 31, 2014 assuming if all other assumptions were held constant:

	Increase (Decrease)	Increase (Decrease) in Defined Benefit Obligation
Discount rate	1.00%	(₱11,464,075)
	(1.00%)	13,531,210
Salary increase rate	1.00%	13,441,676
	(1.00%)	(11,677,353)

The average duration of the defined benefit obligation is 16 years and 19 years in 2014 and 2013, respectively.

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

	December 31, 2014	December 31, 2013
Less than 1 year	**₱11,404,130**	₱4,470,288
More than 1 year to 5 years	**27,291,855**	18,559,261
More than 5 years to 10 years	**37,708,608**	51,473,020
More than 10 years	**129,807,633**	457,931,589

The Company expects to contribute ₱22.9 million to its defined benefit retirement plan in 2015.

Defined Contribution Plan. The Company also has a funded, contributory defined contribution plan covering all of its regular and full-time employees. The plan provides for retirement benefit payment equal to the accumulated fund in the hands of the trustee. The Company made contributions to the plan amounting to ₱11.6 million and ₱8.7 million in 2014 and 2013, respectively.

16. **Other income**

	2014	2013
Additional services	**₱16,740,572**	₱15,403,198
Scrap sales	**11,245,874**	9,643,870
Advertising	**275,000**	1,577,940
Others	**13,819,042**	9,170,664
	₱42,080,488	₱35,795,672

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

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

17. **Income Taxes**

The components of income tax expense for the year ended December 31, 2014 and 2013 are as follows:

Profit or loss:

	2014	2013
Current income tax change	**₱212,852,901**	₱182,434,390
Deferred income tax relating to origination and reversal of temporary difference	**(1,188,176)**	59,942,196
	₱211,664,725	₱242,376,586

Other comprehensive income:

	2014	2013
Deferred tax change directly to equity during the year - Benefit from remeasurement loss on defined benefit plan	**₱2,086,047**	₱2,360,778

The Company's provision for current income tax in 2014 and 2013 represents regular corporate income tax (RCIT).

The components of the Company's net deferred income tax assets as at December 31, 2014 and 2013 are as follows:

	2014	2013
Deferred income tax assets on temporary differences arising from:		
Accrued expenses and provisions	**₱19,122,049**	₱17,034,423
Accrued retirement cost	**1,463,607**	1,568,628
Unamortized past service costs	**2,531,195**	1,239,577
Allowance for impairment on inventory	**73,350**	73,350
	₱23,190,201	₱19,915,978

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

	2014	2013
Income tax computed at statutory tax rate	**₱251,178,214**	₱234,811,421
Add (deduct) the tax effects of:		
Benefit from availment of Optional standard Deduction (OSD)	**(39,234,053)**	(23,591,304)
Interest income subjected to final tax	**(279,436)**	(1,078,073)
Change in rate in recognition of deferred tax to OSD	**–**	30,998,959
Nondeductible expenses	**–**	1,235,583
	₱211,664,725	₱242,376,586

Pursuant to the implementing terms of Revenue Regulations No. 16-2008 on Republic Act (R.A.) No. 9504, the Company opted to use the OSD instead of the itemized deductions for the year ended December 31, 2014 and 2013 in the computation of RCIT.

18. Financial Assets and Liabilities

Fair Value Information
The carrying values of cash and cash equivalents, receivables, accounts payable and other current liabilities, provisions and retention payable approximate fair values primarily due to the relatively short-term maturities of these financial instruments.

The carrying value of deposits (included as part of “Deposits and other noncurrent assets” account in the balance sheet) approximates fair value as at December 31, 2014 and 2013 due to unavailability of information as to the repayment date that would provide a reasonable basis for the fair value measurement.

Fair Value Hierarchy
The Company has no financial instruments measured at fair value using valuation technique as at December 31, 2014 and 2013.

19. Financial Risk Management Objectives and Policies

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

The main risks arising from the Company's financial instruments are credit risk and liquidity risk. The BOD reviews and approves policies for managing each of these risks and they are summarized below:

Credit Risk
Under the O&M Agreement, the Company has a 30-day credit term with MNTC, as well as in relation to the entitlement to income given by the joint venture parties. The Company continuously reviews credit policies and processes and implements various credit actions, depending on assessed risks, to minimize credit exposure. Since the Company's primary source of revenue is the concessionaires of the NLEX, Segments 7 and 8.1 and SCTEX, there is significant credit risk in case the concessionaires will be in default. However, there are provisions stated in the O&M Agreement that will give the Company remedies to recover its costs and loss of profit.

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

Credit Quality
The credit quality of financial assets is managed by the Company using high grade and standard grade as internal credit ratings.

High Grade. Pertains to a counterparty who is not expected by the Company to default in settling its obligations, thus credit risk exposure is minimal. This counterparty normally includes banks and corporations.

Standard Grade. Pertains to financial assets with tolerable delays in settling its obligations to the Company.

The table below shows the credit quality of the Company's financial assets that are neither past due nor impaired based on their historical experience with the corresponding parties:

	2014		
	Neither Past-due nor Impaired		
	High Grade	**Standard Grade**	**Total**
Cash and cash equivalents*	**₱227,422,239**	**₱–**	**₱227,422,239**
Receivables	**425,607,809**	**201,190,535**	**626,798,344**
Deposits	**9,169,169**	**–**	**9,169,169**
	₱662,199,217	**₱201,190,535**	**₱863,389,752**

	2013		
	Neither Past-due nor Impaired		
	High Grade	Standard Grade	Total
Cash and cash equivalents*	₱284,681,960	₱–	₱284,681,960
Receivables	284,487,558	171,359,100	455,846,658
Deposits	9,704,182	–	9,704,182
	₱578,873,700	₱171,359,100	₱750,232,800

**Excluding cash on hand*

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 inflows of cash from the O&M Agreement with MNTC and BCDA. The Company is able to build up sufficient cash from operating revenues

prior to the maturity of its payment obligations. The Company has short-term credit lines amounting to ₱470.0 million as at December 31, 2014 and 2013 and cash and cash equivalents amounting ₱242.1 million and ₱300.0 million as at December 31, 2014 and 2013, respectively that are allocated to meet the Company's short-term liquidity needs.

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

			2014		
	On Demand	**30 Days**	**Over 30 Days**	**Impaired**	**Total**
Financial Assets					
Cash and cash equivalents[a]	**₱227,422,239**	**₱–**	**₱–**	**₱–**	**₱227,422,239**
Receivables	**407,042,200**	**37,050,155**	**182,705,989**	**91,376,219**	**718,174,563**
Deposits[b]	**–**	**–**	**9,169,169**	**–**	**9,169,169**
	₱634,464,439	**₱37,050,155**	**₱191,875,158**	**₱91,376,219**	**₱954,765,971**
Financial Liabilities					
Trade	**₱6,930,233**	**₱13,571,265**	**₱4,979,472**	**₱–**	**₱25,480,970**
Accrued expenses:					
Outside services	**3,801,826**	**–**	**152,556,088**	**–**	**156,357,914**
Personnel expenses	**7,589,917**	**4,205,364**	**132,825,104**	**–**	**144,620,385**
Interest and guarantee	**–**	**24,305,708**	**–**	**–**	**24,305,708**
Payable to related parties	**193,736**	**38,129,840**	**–**	**–**	**38,323,576**
Provision for claims and losses[c]	**25,112,095**	**–**	**–**	**–**	**25,112,095**
Retention payable	**7,626,833**	**430,357**	**1,155,572**	**–**	**9,212,762**
Others	**4,297,253**	**4,325,292**	**295,412**	**–**	**8,917,957**
	₱55,551,893	**₱84,967,826**	**₱291,811,648**	**₱–**	**₱432,331,367**

[a] *Excluding cash on hand amounting to ₱14,702,378.*
[b] *Included under "Deposits and other noncurrent assets" account.*
[c] *Included under "Provisions" account.*

			2013		
	On Demand	**30 Days**	**Over 30 Days**	**Impaired**	**Total**
Financial Assets					
Cash and cash equivalents[a]	₱284,681,960	₱–	₱–	₱–	₱284,681,960
Receivables	4,777,012	157,381,010	293,688,636	91,376,219	547,222,877
Deposits[b]	–	–	9,704,182	–	9,704,182
	₱289,458,972	₱157,381,010	₱303,392,818	₱91,376,219	₱841,609,019
Financial Liabilities					
Trade	₱–	₱48,734,993	₱–	₱–	₱48,734,993
Accrued expenses:					
Outside services	512,545	134,887,902	–	–	135,400,447
Personnel expenses	7,054,402	110,056,537	1,751,953	–	118,862,892
Interest and guarantee	–	34,185,051	–	–	34,185,051
Payable to related parties	–	36,769,448	193,736	–	36,963,184
Provision for claims and losses[c]	11,876,793	116,265	10,000,000	–	21,993,058
Retention payable	–	–	4,890,651	–	4,890,651
Others	7,508	930,319	6,207,973	–	7,145,800
	₱19,451,248	₱365,680,515	₱23,044,313	₱–	₱408,176,076

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

Capital Risk Management

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

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

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

20. Other Matters

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

21. Events After Reporting Date

On February 12, 2015, the BOD approved the declaration of cash dividends amounting to ₱326.7 million to stockholders of record as at February 12, 2015, payable on or before April 30, 2015.

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

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

VAT

Details of the Company's gross sales/receipts, output VAT and input VAT accounts as at December 31, 2014 are as follows:

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

	Gross Receipts	Output VAT
Taxable sales:		
Sales of services	₱1,981,083,461	₱237,730,015
Others	2,479,902	297,589
	₱1,983,563,363	₱238,027,604

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

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

Input VAT declared in the Company's VAT returns filed for 2014 are as follows:

Balance at January 1	
Input tax deferred on capital goods exceeding ₱1 million from previous period	₱5,589,117
Current year's domestic purchases/payments for:	
Goods other than for resale or manufacture	4,865,332
Capital goods subject to amortization	4,207,342
Capital goods not subject to amortization	157,643
Domestic purchase of services	38,527,702
Input tax claimed against output tax	(47,049,564)
Balance at December 31	
Input tax on purchases of capital goods exceeding ₱1 million deferred for the succeeding period	₱6,297,572

Taxes and Licenses
This includes all other taxes, local and national, including licenses and permit fees presented as taxes and licenses under the "Cost of Services" and "General and Administrative" accounts in the 2014 statement of comprehensive income:

Local taxes:		
Business permits		₱22,072,635
National taxes:		
Vehicle registration	₱440,074	
Security and firearms license	38,000	
Radio license	124,891	
Import duties	53,136	
Tin Registration/SEC	15,500	
PDEA/NBI Permit/Prof.License Renewal	6,775	678,376
		₱22,751,011

The Company paid fringe benefit tax amounting to ₱733,916 in 2014.

Withholding Taxes
Details of withholding taxes for 2014 are as follows:

Withholding taxes on compensation and benefits	₱68,449,466
Expanded withholding taxes	29,137,441
Final withholding taxes	23,032,895

Tax Contingencies
There are no tax assessments and cases pending before the Bureau of Internal Revenue (BIR) as at December 31, 2014. Likewise the Company has no tax cases outside the administration of BIR that has reached final stage as at December 31, 2014.