Manila North Tollways Corporation

(A Subsidiary of Metro Pacific Tollways Development Corporation)

Parent Company Financial Statements
December 31, 2015 and 2014

and

Independent Auditors' Report

A member firm of Ernst & Young Global Limited

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BOA/PRC Reg. No. 0001,
December 14, 2015, valid until December 31, 2018
SEC Accreditation No. 0012-FR-4 (Group A),
November 10, 2015, valid until November 9, 2018

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Manila North Tollways Corporation

Report on the Parent Company Financial Statements

We have audited the accompanying parent company financial statements of Manila North Tollways Corporation (a subsidiary of Metro Pacific Tollways Development Corporation), which comprise the parent company balance sheets as at December 31, 2015 and 2014, and the parent company statements of income, 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 Parent Company Financial Statements

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the parent company financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the parent company 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 parent company 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 parent company financial statements.

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

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Opinion

In our opinion, the parent company financial statements present fairly, in all material respects, the financial position of Manila North Tollways Corporation as at December 31, 2015 and 2014, 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 32 to the parent company 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 Manila North Tollways Corporation. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

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PTR No. 5321613, January 4, 2016, Makati City

February 17, 2016

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

	December 31	
	2015	2014
ASSETS		
Current Assets		
Cash and cash equivalents (Note 6)	**₱2,656,864,610**	₱2,953,881,594
Short-term deposits (Notes 12 and 28)	**1,225,420,748**	4,789,522,429
Receivables (Notes 7 and 15)	**561,309,036**	683,237,587
Inventories - at cost	**71,393,140**	47,804,484
Advances to contractors and consultants (Notes 15 and 26)	**101,181,578**	123,022,645
Due from related parties (Note 15)	**4,072,845**	12,494,187
Available-for-sale financial assets (Notes 12 and 28)	**200,645,000**	255,591,000
Input value-added tax	**447,511,868**	46,907,017
Other current assets	**198,783,209**	130,947,246
Total Current Assets	**5,467,182,034**	9,043,408,189
Noncurrent Assets		
Service concession assets (Note 8)	**22,798,406,210**	16,867,583,654
Property and equipment (Note 9)	**121,077,788**	129,502,464
Other intangible assets (Note 10)	**16,681,278**	22,169,763
Investment in a subsidiary (Note 11)	**12,500,000**	–
Available-for-sale financial assets (Notes 12 and 28)	**1,514,483,246**	1,682,521,728
Pension asset (Note 20)	**12,055,764**	2,573,985
Other noncurrent assets (Note 26)	**942,806,342**	967,275,471
Total Noncurrent Assets	**25,418,010,628**	19,671,627,065
	₱30,885,192,662	₱28,715,035,254
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and other current liabilities (Notes 13 and 15)	**₱2,322,431,434**	₱2,055,790,449
Long-term incentive plan payable (Note 20)	–	120,000,012
Unearned toll revenue	**1,646,827**	149,003
Income tax payable	**258,655,448**	171,342,675
Dividends payable (Note 17)	**1,422,576,000**	1,193,472,000
Provisions (Note 14)	**167,361,768**	145,806,420
Current portion of long-term debt (Notes 16 and 28)	**992,503,413**	932,509,947
Total Current Liabilities	**5,165,174,890**	4,619,070,506
Noncurrent Liabilities		
Long-term debt - net of current portion (Notes 16 and 28)	**16,822,078,532**	15,813,559,542
Long-term incentive plan payable (Note 20)	**70,478,307**	–
Provisions (Note 14)	**172,092,670**	112,169,833
Deferred tax liabilities - net (Note 25)	**521,447,771**	542,379,105
Total Noncurrent Liabilities	**17,586,097,280**	16,468,108,480
Total Liabilities	**22,751,272,170**	21,087,178,986

(Forward)

	December 31	
	2015	2014
Equity (Note 17)		
Capital stock	**₱1,776,000,000**	₱1,776,000,000
Additional paid-in capital	**3,749,711,168**	3,749,711,168
Retained earnings	**2,622,989,360**	2,052,153,253
Other comprehensive income (loss) reserve	**(26,569,475)**	39,447,251
Other reserve (Note 21)	**11,789,439**	10,544,596
Total Equity	**8,133,920,492**	7,627,856,268
	₱30,885,192,662	₱28,715,035,254

See accompanying Notes to Parent Company Financial Statements.

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

PARENT COMPANY STATEMENTS OF INCOME

	Years Ended December 31	
	2015	2014
OPERATING REVENUES		
Toll fees (net of discounts amounting to ₱111,967,528 in 2015 and ₱79,048,588 in 2014)	**₱8,453,380,333**	₱7,516,586,901
Sales of magnetic cards	**13,482**	5,357
	8,453,393,815	7,516,592,258
COST OF SERVICES (Note 18)	**(3,420,625,851)**	(3,146,485,760)
GROSS PROFIT	**5,032,767,964**	4,370,106,498
CONSTRUCTION REVENUE (Note 8)	**3,328,364,819**	2,425,272,471
CONSTRUCTION COSTS (Note 8)	**(3,328,364,819)**	(2,425,272,471)
GENERAL AND ADMINISTRATIVE EXPENSES (Note 19)	**(708,679,150)**	(552,082,087)
INTEREST EXPENSE AND OTHER FINANCE COSTS (Note 23)	**(622,294,799)**	(601,214,207)
INTEREST INCOME (Note 22)	**72,894,986**	61,266,122
FOREIGN EXCHANGE GAIN – net	**7,840,647**	4,260,215
OTHER INCOME (Note 24)	**156,021,188**	121,786,577
INCOME BEFORE INCOME TAX	**3,938,550,836**	3,404,123,118
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 25)		
Current	**963,726,524**	752,767,850
Deferred	**(18,587,795)**	85,914,211
	945,138,729	838,682,061
NET INCOME	**₱2,993,412,107**	₱2,565,441,057

See accompanying Notes to Parent Company Financial Statements.

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

PARENT COMPANY STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2015	2014
NET INCOME	**₱2,993,412,107**	₱2,565,441,057
OTHER COMPREHENSIVE INCOME (LOSS)		
Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:		
Net gain on cash flow hedges (Note 28)	**3,775,752**	8,935,147
Income tax effect (Note 25)	**(1,132,726)**	(2,680,544)
	2,643,026	6,254,603
Gain (loss) on available-for-sale financial assets (Note 12)	**(78,828,116)**	21,117,971
Income tax effect (Note 25)	**5,483,894**	6,088,359
	(73,344,222)	27,206,330
	(70,701,196)	33,460,933
Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods:		
Remeasurement gains (losses) on defined benefit retirement plan (Note 20)	**6,692,099**	(3,054,067)
Income tax effect (Note 25)	**(2,007,629)**	916,220
	4,684,470	(2,137,847)
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE YEAR, NET OF TAX	**(66,016,726)**	31,323,086
TOTAL COMPREHENSIVE INCOME	**₱2,927,395,381**	₱2,596,764,143

See accompanying Notes to Parent Company Financial Statements.

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

PARENT COMPANY STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	Capital Stock	Additional Paid-in Capital	Retained Earnings	Other Comprehensive Income (Loss) Reserve	Other Reserve	Total Equity
At January 1, 2015	**₱1,776,000,000**	**₱3,749,711,168**	**₱2,052,153,253**	**₱39,447,251**	**₱10,544,596**	**₱7,627,856,268**
Cash dividends (Note 17)	–	–	**(2,422,576,000)**	–	–	**(2,422,576,000)**
Equity contribution - executive stock option plan (Note 21)	–	–	–	–	**1,244,843**	**1,244,843**
Net income	–	–	**2,993,412,107**	–	–	**2,993,412,107**
Other comprehensive loss (Note 17)	–	–	–	**(66,016,726)**	–	**(66,016,726)**
Total comprehensive income for the year	–	–	**2,993,412,107**	**(66,016,726)**	–	**2,927,395,381**
At December 31, 2015	**₱1,776,000,000**	**₱3,749,711,168**	**₱2,622,989,360**	**(₱26,569,475)**	**₱11,789,439**	**₱8,133,920,492**
At January 1, 2014	₱1,776,000,000	₱3,749,711,168	₱1,656,984,196	₱8,124,165	₱8,199,559	₱7,199,019,088
Cash dividends (Note 17)	–	–	(2,170,272,000)	–	–	(2,170,272,000)
Equity contribution - executive stock option plan (Note 21)	–	–	–	–	2,345,037	2,345,037
Net income	–	–	2,565,441,057	–	–	2,565,441,057
Other comprehensive income (Note 17)	–	–	–	31,323,086	–	31,323,086
Total comprehensive income for the year	–	–	2,565,441,057	31,323,086	–	2,596,764,143
At December 31, 2014	₱1,776,000,000	₱3,749,711,168	₱2,052,153,253	₱39,447,251	₱10,544,596	₱7,627,856,268

See accompanying Notes to Parent Company Financial Statements.

MANILA NORTH TOLLWAYS CORPORATION

(A Subsidiary of Metro Pacific Tollways Development Corporation)

STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2015	2014
OPERATING ACTIVITIES		
Income before income tax	**₱3,938,550,836**	₱3,404,123,118
Adjustments to reconcile income before income tax to net cash flows:		
Interest expense and other finance costs (Note 23)	**622,294,799**	601,214,207
Amortization of service concession assets (Notes 8 and 18)	**575,097,888**	483,626,911
Interest income (Note 22)	**(72,894,986)**	(61,266,122)
Movements in:		
Provisions	**69,538,725**	(58,490,828)
Pension asset	**(2,789,680)**	(3,790,206)
Long-term incentive plan expense (Note 20)	**48,735,905**	55,171,612
Depreciation of property and equipment (Notes 9, 18 and 19)	**38,025,416**	30,963,982
Gain on disposal of available-for-sale financial assets (Note 12)	**(2,032,346)**	(1,169,267)
Amortization of other intangible assets (Notes 10 and 19)	**10,954,056**	6,056,952
Executive stock option plan expense (Note 21)	**1,244,843**	2,345,037
Unrealized foreign exchange loss (gain) – net	**(2,477,153)**	1,006,086
Gain on disposals of property and equipment (Notes 9 and 24)	**(506,685)**	(355,322)
Deferred toll revenue realized	**(149,003)**	(335,345)
Working capital changes:		
Decrease (increase) in:		
Receivables	**124,358,991**	(436,253,453)
Inventories	**(23,588,656)**	2,484,978
Advances to contractors and consultants	**21,841,067**	103,239,624
Due from related parties	**8,421,342**	(7,657,605)
Input value added tax	**(400,604,851)**	(9,722,463)
Other current assets	**(67,835,963)**	(32,670,444)
Increase (decrease) in:		
Accounts payable and other current liabilities	**233,483,275**	644,634,166
Due to related parties	–	(97,549)
Long-term incentive plan payable	**(98,257,610)**	**–**
Unearned toll revenue	**1,646,827**	149,003
Income tax paid	**(876,413,751)**	(774,118,329)
Net cash flows from operating activities	**4,146,643,286**	3,949,088,743
INVESTING ACTIVITIES		
Interest received	**70,464,546**	51,952,183
Investment in a subsidiary (Note 11)	**(12,500,000)**	–
Acquisition of available-for-sale financial assets (Note 12)	**(5,407,332,256)**	(4,049,816,145)
Increase in other noncurrent assets	**(9,895,766)**	(907,879,073)
Additions to:		
Service concession assets (Note 8)	**(6,550,150,015)**	(2,423,808,366)
Property and equipment (Note 9)	**(31,071,973)**	(43,881,614)
Other intangible assets (Note 10)	**(5,465,571)**	(18,237,565)
Proceeds from:		
Sale of available-for-sale financial assets (Note 12)	**8,955,539,952**	866,641,317
Maturity of investments in bonds (Note 12)	**250,000,000**	–
Sale of property and equipment (Note 9)	**1,977,918**	1,640,888
Net cash flows used in investing activities	**(2,738,433,165)**	(6,523,388,375)

(Forward)

	Years Ended December 31	
	2015	2014
FINANCING ACTIVITIES		
Proceeds from loans (Note 16)	**₱3,000,000,000**	₱7,000,000,000
Payments of:		
Dividends (Note 17)	**(2,193,472,000)**	(1,385,812,800)
Loans	**(1,954,602,309)**	(954,602,309)
Interest expense and other finance costs	**(559,629,949)**	(556,418,582)
Debt issue costs (Note 16)	–	(76,029,099)
Net cash flows from (used in) financing activities	**(1,707,704,258)**	4,027,137,210
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(299,494,137)**	1,452,837,578
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**2,477,153**	(1,006,086)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR (Note 6)	**2,953,881,594**	1,502,050,102
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 6)	**₱2,656,864,610**	₱2,953,881,594

See accompanying Notes to Parent Company Financial Statements.

MANILA NORTH TOLLWAYS CORPORATION
(A Subsidiary of Metro Pacific Tollways Development Corporation)
NOTES TO PARENT COMPANY FINANCIAL STATEMENTS

1. Corporate Information

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

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

The MNEP consists of three phases as follows:

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

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

Segment 8.1, a portion of Phase II, which is a 2.7 km-road designed to link Mindanao Avenue to the NLEX, had officially commenced tollway operation on June 5, 2010. Segment 9, a portion of Phase II, which is a 2.4 km-road connecting NLEX to the McArthur Highway, had officially commenced tollway operation on March 19, 2015. In May 2014, Segment 10, a portion of Phase II, which is a 5.76 km four-lane, elevated expressway that will start from the terminal of Segment 9 in Valenzuela City going to C-3 Road in Caloocan City above the alignment of Philippine National Railway tracks, had commenced construction and is expected to be completed in the second quarter of 2017. The estimated cost of construction of Segment 10 is ₱10.5 billion. The remaining portion of Phase II is under pre-construction works while Phase III of the MNEP has not yet been started as at February 17, 2016.

As discussed in Note 2, pursuant to the Toll Operation Certificate (TOC) received from the TRB and agreements covering the Subic-Clark-Tarlac Expressway (SCTEX), the Company has commenced the management, operation and maintenance of the SCTEX on October 27, 2015.

The SCTEX is a 93.77-km four (4)-lane divided highway, traversing the provinces of Bataan, Pampanga and Tarlac.

MPTDC, the parent company, is a wholly owned subsidiary of Metro Pacific Tollways Corporation (MPTC). MPTC is 99.9% owned by Metro Pacific Investments Corporation (MPIC). MPIC is a publicly listed Philippine corporation and is 52.1% and 55.8% owned by Metro Pacific Holdings, Inc. (MPHI) as at December 31, 2015 and 2014, respectively. MPHI is a Philippine corporation whose stockholders are Enterprise Investment Holdings, Inc. (EIH) (60.0%), Intalink B.V. (26.7%) and First Pacific International Limited (FPIL) (13.3%). First Pacific Company Limited (FPC), a company incorporated in Bermuda and listed in Hong Kong, through its subsidiaries, Intalink B.V. and FPIL, holds 40.0% equity interest in EIH and investment financing, which under Hong Kong Generally Accepted Accounting Principles, require FPC to account for the results and assets and liabilities of EIH and its subsidiaries as part of FPC group of companies in Hong Kong.

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

The parent company financial statements as at and for the years ended December 31, 2015 and 2014 were authorized for issuance by the Company's Board of Directors (BOD) on February 17, 2016, as reviewed and recommended for approval by the Company's Audit Committee.

2. **Service Concession Arrangements**

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

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

In April 1998, the ROP (Grantor), acting by and through the TRB, PNCC (Franchisee) and MNTC (Concessionaire) executed the STOA for the Manila-North Expressway, whereby the ROP granted MNTC the rights, obligations and privileges including the authority to finance, design, construct,

operate and maintain the project roads as toll roads (the "Concession") commencing upon the date the STOA comes into effect until December 31, 2030 or 30 years after the issuance of the TOP for the last completed phase, whichever is earlier, unless further extended pursuant to the STOA.

The PNCC franchise expired on May 1, 2007. Pursuant to the STOA, the TRB issued the necessary TOC for the NLEX in order to allow the continuation of the Concession. As further discussed in Note 26, the Company pays a certain amount to PNCC.

Also, under the STOA, the Company shall pay for the Grantor's project overhead expenses based on certain percentages of total construction costs or of periodic maintenance works on the project roads.

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

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

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

Agreements covering the SCTEX

On February 26, 2015, the Company and the Bases Conversion and Development Authority (BCDA) entered into the Business Agreement (BA) covering the assignment by BCDA to MNTC of its rights, interest and obligations under the TOA relating to the management, operation and maintenance of the SCTEX (which shall include the exclusive right to possess and use the SCTEX toll road and facilities and the right to collect toll). BCDA shall retain all rights, interests and obligations under the TOA relating to the design, construction and financing of the SCTEX. Nevertheless, the Company and BCDA hereby acknowledge that BCDA has, as of date of the BA, designed, financed and constructed the SCTEX as an operable toll road in accordance with the TOA.

BCDA is a government instrumentality vested with corporate powers created by virtue of Republic Act (RA) No. 7227. Pursuant to Section 4 (b) of RA No. 7227, BCDA undertook the design, construction, operation and maintenance of the SCTEX, a major road project to serve as the backbone of a new economic growth corridor in Central Luzon, pursuant to a TOA entered into between BCDA and the ROP, acting through the TRB, on June 13, 2007. In 2008, TRB has issued in favor of BCDA a TOP authorizing the commercial operations of and the collection of tolls in SCTEX.

The term of the BA shall be from effective date (October 27, 2015), until October 30, 2043, and may be extended subject to mutual agreement of the Company and BCDA and the relevant laws, rules and regulations and required government approvals. At the end of the contract term or upon termination of the BA, the SCTEX, as well as the as-built plans, specifications and

operation/repair/ maintenance manuals relating to the same shall be turned over to BCDA or its successor-in-interest conformably with law, and in all cases in accordance with and subject to the terms and conditions of the STOA. The STOA, which was a supplement to and revision to the TOA, was entered into, by and among the ROP, acting through the TRB, BCDA and the Company on May 22, 2015, in order to fully allow MNTC to exercise its rights and interests under the BA.

In consideration for the assignment by BCDA to the Company of its rights to and interests in SCTEX, the Company paid BCDA an upfront cash of ₱3.5 billion (inclusive of value-added tax or VAT) upon effectivity of the BA (the Upfront Payment). The Company shall also pay BCDA monthly concession fees amounting to 50% of the Audited Gross Toll Revenues of SCTEX for the relevant month from Effective Date to October 30, 2043. The Company shall gross up the concession fees by the 12% value-added tax (VAT). In 2015, the Company recorded concession fees of ₱132.1 million included under “Cost of services” account in the parent company statement of income (see Note 18).

The Company also commits to undertake at its own cost the maintenance works/special/ major emergency works, other additional works, enhancements and/or improvement works contained in the Maintenance Plans submitted by the Company to BCDA from time to time.

On October 22, 2015, the Company received the TOC from the TRB for the operation and maintenance of the SCTEX. The Company officially took over the SCTEX toll facilities and officially commenced the management, operation and maintenance of SCTEX on October 27, 2015.

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3. **Basis of Preparation and Summary of Significant Accounting Policies**

Basis of Preparation
The separate or parent company financial statements, which are prepared for submission to the SEC and Bureau of Internal Revenue (BIR), have been prepared on a historical cost basis, except for available-for-sale (AFS) financial assets which are measured at fair value. The parent company financial statements are presented in Philippine peso, which is the Company’s functional and presentation currency.

The Company also prepares and issues consolidated financial statements for the same period as the parent company financial statements presented in compliance with Philippine Financial Reporting Standards (PFRS). The consolidated financial statements may be obtained at NLEX Compound, Balintawak, Caloocan City.

Statement of Compliance
The parent company financial statements have been prepared in compliance with PFRS as issued by the Financial Reporting Standards Council (FRSC).

Changes in Accounting Policies and Disclosures
The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of new and amended PFRS which were adopted as at January 1, 2015. The adoption of the new and amended PFRS did not have significant impact on the parent company financial statements.

- Amendments to Philippine Accounting Standards (PAS) 19, *Employee Benefits – Defined Benefit Plans: Employee Contributions*

- Annual Improvements to PFRS (2010-2012 cycle)
  - PFRS 2, *Share-based Payment – Definition of Vesting Condition*
  - PFRS 3, *Business Combinations – Accounting for Contingent Consideration in a Business Combination*
  - PFRS 8, *Operating Segments – Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets*
  - PAS 16, *Property, Plant and Equipment* and PAS 38, *Intangible Assets – Revaluation Method – Proportionate Restatement of Accumulated Depreciation and Amortization*
  - PAS 24, *Related Party Disclosures – Key Management Personnel*

- Annual Improvements to PFRS (2011-2013 cycle)
  - PFRS 3, *Business Combinations – Scope Exceptions for Joint Arrangements*
  - PFRS 13, *Fair Value Measurement – Portfolio Exception*
  - PAS 40, *Investment Property*

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

All other assets are classified as noncurrent.

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

The Company classifies all other liabilities as noncurrent.

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

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

Financial Assets and Liabilities

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

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

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

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

The Company has no financial assets and liabilities at FVPL and HTM investments as at December 31, 2015 and 2014.

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

a. Loans and Receivables

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

   Loans and receivables include cash and cash equivalents, receivables (excluding advances to officers and employees), due from related parties, and restricted cash and refundable deposits (included in "Other noncurrent assets" account in the parent company balance sheet) (see Notes 6, 7, 15 and 28).

b. AFS Financial Assets

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

   After initial recognition, AFS financial assets are measured at fair value with unrealized gains or losses being recognized as other comprehensive income (OCI) in "Other comprehensive income (loss) reserve" account, net of related deferred tax until the investment is derecognized or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the parent company statement of income. Interest earned on the investments is reported as interest income using the effective interest method.

As at December 31, 2015 and 2014, the Company's AFS financial assets consist of investments in fixed rate retail treasury bonds and notes of the ROP; fixed rate corporate bonds of Manila Electric Company (Meralco), Philippine Long Distance Telephone Company (PLDT) and First Metro Investment Corporation (FMIC); unit investment trust funds (UITFs) and long-term negotiable certificate of deposits (LTNCDs) (see Note 12).

c. Loans and Borrowings

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

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

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

This category includes accounts payable and other current liabilities, due to related parties, dividends payable and long-term debt (see Notes 13, 15, 16 and 28).

Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the parent company 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. The Company assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Company and all of the counterparties.

'Day 1' Profit or Loss

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

Impairment of Financial Assets

The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets 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 where observable data indicate that there is a measurable decrease in the

estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

a. Financial Assets Carried at Amortized Cost

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

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 credit losses that have not 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 amount of the loss is recognized in the parent company statement of income. Interest income continues to be accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income in the parent company statement of income. The assets together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Company. If a write-off is later recovered, any amount formerly charged is credited to the parent company statement of income.

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

b. AFS Financial Assets

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

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

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

Derecognition of Financial Assets and Liabilities

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

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

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

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

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

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

Derivatives and Hedge Accounting

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

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

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

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

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

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

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

Fair Value Measurement
The Company measures financial instruments such as AFS financial assets at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortized cost are disclosed in Note 28.

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 by the Company.

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

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

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 – Valuation techniques for which the lowest-level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 – Valuation techniques for which the lowest-level input that is significant to the fair value measurement is unobservable

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

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

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

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

<u>Service Concession Arrangements</u>
The Company accounts for its concession arrangements under the intangible asset model as it receives the right (license) to charge users of public service.

Revenue and Cost Recognition. The Company recognizes and measures construction revenue in accordance with PAS 11, *Construction Contracts*, and PAS 18, *Revenue,* for the services it performs. When the Company provides construction or upgrade services, the consideration received or receivable by the Company is recognized at its fair value. The revenue and cost from

these services are recognized based on the percentage of completion measured principally on the basis of estimated completion of a physical proportion of the contract works, and by reference to the actual costs incurred to date over the estimated total cost of the project.

Contractual Obligations. The Company recognizes its contractual obligations, (i) to maintain the toll roads to a specified level of serviceability or (ii) to restore the toll roads to a specified condition before it is handed over to the grantor at end of the concession term, in accordance with PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, as the obligations arise which is as a consequence of the use of the toll roads and therefore it is proportional to the number of vehicles using the toll roads and increasing in measurable annual increments.

Service Concession Assets. The service concession assets (or the rights to charge users of the public service) are recognized initially at cost. The cost of the service concession assets consists of the construction or upgrade costs, including related borrowing costs, and upfront fees payments on the concession agreements. Following initial recognition, the service concession assets are carried at cost less accumulated amortization and any impairment losses.

Subsequent costs and expenditures related to the toll road infrastructure arising from the Company's commitments to the concession agreements, or that increase future revenues are recognized as additions to the service concession assets and are stated at cost. Repairs and maintenance and other expenses that are routinary in nature are expensed and recognized to the parent company statement of income as incurred.

The service concession assets are amortized using the unit-of-production method. The annual amortization of the service concession assets is calculated by applying the ratio of actual traffic volume of the underlying toll expressways compared to the total expected traffic volume of the underlying toll expressways over the respective remaining concession periods to the net carrying value of the assets. The expected traffic volume is estimated by management with reference to the traffic projection reports.

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

The concession fees paid in consideration for the concession which vary in relation to future activity (i.e., based on toll revenues) are treated as executory and are expensed as incurred.

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

Deferred Project Costs. Costs directly attributable to the acquisition of a service concession asset are recorded as deferred project costs (under "Other noncurrent assets") until commencement of the concession term, whereupon the costs are transferred to the "Service concession assets" account.

Property and Equipment

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

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

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

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

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

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

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

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

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

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

Investment in a Subsidiary
The investment is carried in the parent company balance sheet at cost less any impairment in value. The Company recognizes income from the investment only to the extent that the Company

receives distributions of accumulated income of the subsidiary arising after the date of acquisition. Distributions received in excess of such income are regarded as recovery of investment and are recognized as a reduction of the cost of the investment.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Foreign Currency-denominated Transactions and Translations
The Company determines its own functional currency and items included in the parent company financial statements are measured using that functional currency. The Company has determined its functional currency to be the Philippine peso. Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency closing exchange rate at balance sheet date. All differences are taken to the parent company statement of income with the exception of differences on foreign currency borrowings that are regarded as adjustments to interest cost, and are capitalized as part of the cost of the service concession asset during the construction period.

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

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

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

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

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

Defined benefit costs comprise the following:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Taxes

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

Current tax relating to items recognized directly in equity is recognized in equity and not in the parent company statement of income.

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

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

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

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

Deferred tax relating to items recognized outside parent company statement of income is recognized outside parent company statement of income. Deferred tax items are recognized in correlation to the underlying transaction either in OCI or directly in equity.

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

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

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

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

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

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

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

4. **Significant Accounting Judgments, Estimates and Assumptions**

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

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

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

Service Concession Arrangements. Philippine Interpretation IFRIC 12, *Service Concession Arrangements*, outlines an approach to account for contractual arrangements arising from entities providing public services. Arrangements within the scope of Philippine Interpretation IFRIC 12 are those public-to-private service concession arrangements in which: (a) the grantor controls or regulates the services that the operator must provide using the infrastructure, to whom it must provide them, and at what price; and (b) the grantor controls any significant residual interest in the property at the end of the concession term through ownership, beneficial entitlement or otherwise. Infrastructure assets within scope are those constructed or acquired for the purpose of the service concession arrangement or existing infrastructure to which the operator is given access by the grantor for the purpose of the service concession arrangement.

Philippine Interpretation IFRIC 12 also provides that the operator should not account for the infrastructure as property, plant and equipment, but recognize a financial asset and/or an intangible asset.

The Company has made a judgment that the STOA for the Manila-North Expressway and the agreements covering the SCTEX are within the scope of Philippine Interpretation IFRIC 12 and qualify under the intangible asset model, wherein the service concession assets are recognized as intangible assets in accordance with PAS 38, *Intangible Assets*.

The Company also recognizes construction revenues and costs in accordance with PAS 11, *Construction Contracts*. It measures contract revenue at the fair value of the consideration received or receivable. Given that MNTC has subcontracted the construction to outside contractors, the construction revenue recognized is equal to the construction costs. Construction revenue and costs recognized in parent company statements of income amounted to ₱3,328.4 million and ₱2,425.3 million for the years ended December 31, 2015 and 2014, respectively.

The Company also recognizes its contractual obligations to restore the toll roads to a specified level of serviceability. The Company recognizes a provision following PAS 37, as the obligation arises which is a consequence of the use of the toll roads and therefore it is proportional to the number of vehicles using the toll roads and increasing in measurable annual increments. Provision for heavy maintenance amounted to ₱263.3 million and ₱167.9 million as at December 31, 2015 and 2014, respectively (see Note 14).

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

Allowance for Doubtful Accounts. Allowance for doubtful accounts is maintained at a level considered adequate to provide for potentially uncollectible receivables. The level of allowance is based on past collection experience and other factors that may affect collectability. An evaluation of the receivables using specific method, designed to identify potential charges to the allowance, is performed on a continuous basis throughout the year. There were no provisions under collective assessment in 2015 and 2014.

Receivables (excluding advances to officers and employees) amounted to ₱553.9 million and ₱674.4 million as at December 31, 2015 and 2014, respectively. Allowance for doubtful accounts amounted to ₱14.2 million and ₱9.9 million as at December 31, 2015 and 2014, respectively (see Note 7).

Due from related parties amounted to ₱4.1 million and ₱12.5 million as at December 31, 2015 and 2014, respectively (see Note 15).

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

No impairment loss was recognized in 2015 and 2014. The carrying values of AFS financial assets, including short-term deposits, amounted to ₱2,940.5 million and ₱6,727.6 million as at December 31, 2015 and 2014, respectively (see Note 12).

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

There was no write-down of inventories recognized in the parent company statements of income in 2015 and 2014. Inventories amounted to ₱71.4 million and ₱47.8 million as at December 31, 2015 and 2014, respectively.

Amortization of Service Concession Assets. The service concession assets are amortized using unit-of-production (UOP) method, where the amortization is calculated based on the ratio of actual traffic volume of the underlying toll expressways compared to the total expected traffic volume of the underlying toll expressways over the remaining concession periods of the concession agreements. Adjustments may need to be made to the carrying amounts of service concession assets should there be a material difference between the total expected traffic volume and the actual results.

As at December 31, 2015 and 2014, the Company's management has reviewed the total expected traffic volume and made appropriate adjustments to the assumptions of the expected traffic volume with reference to the latest traffic studies. In 2015 and 2014, the Company reported amortization of service concession assets amounting to ₱575.1 million and ₱483.6 million, respectively (see Note 18). The management of the Company considers that these are calculated by reference to the best estimates of the total expected traffic volumes of the underlying toll expressways.

The carrying values of the service concession assets as at December 31, 2015 and 2014 are ₱22,798.4 million and ₱16,867.6 million, respectively (see Note 8).

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

There were no changes in the estimated useful lives of property and equipment and other intangible assets in 2015 and 2014. The carrying values of property and equipment and other intangible assets as at December 31, 2015 and 2014 are as follows:

	2015	2014
Property and equipment (see Note 9)	**₱121,077,788**	₱129,502,464
Other intangible assets (see Note 10)	**16,681,278**	22,169,763

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

There was no impairment loss recognized in the parent company statements of income in 2015 and 2014. There was no impairment testing performed in 2015 and 2014 as there were no indicators of impairment. The carrying values of the Company's nonfinancial assets as at December 31, 2015 and 2014 are as follows:

	2015	2014
Service concession assets (see Note 8)	**₱22,798,406,210**	₱16,867,583,654
Property and equipment (see Note 9)	**121,077,788**	129,502,464
Other intangible assets (see Note 10)	**16,681,278**	22,169,763
Investment in a subsidiary (see Note 11)	**12,500,000**	–

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

Deferred tax assets amounted to ₱134.7 million and ₱107.5 million as at December 31, 2015 and 2014, respectively (see Note 25).

Retirement Costs. The cost of defined benefit retirement plan and the present value of the defined benefit obligation are determined using actuarial valuations. The actuarial valuations involve making various assumptions about discount rates, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each balance sheet date. Further details about the assumptions used are given in Note 20.

Pension asset amounted to ₱12.1 million and ₱2.6 million as at December 31, 2015 and 2014, respectively (see Note 20).

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

LTIP payable amounted to ₱70.5 million and ₱120.0 million as at December 31, 2015 and 2014, respectively (see Note 20).

Share-based Payments. The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payments requires determining the most appropriate valuation model for a grant of equity instruments, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payments are disclosed in Note 21.

Total cost arising from share-based payments recognized by the Company, included in salaries and employee benefits under "General and administrative expenses" account in the parent company statements of income, amounted to ₱1.2 million and ₱2.3 million for the years ended December 31, 2015 and 2014, respectively (see Notes 19, 20 and 21).

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

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

Provisions (current and noncurrent) amounted to ₱339.5 million and ₱258.0 million as at December 31, 2015 and 2014, respectively (see Note 14).

Contingencies. The Company is a party to certain lawsuits or claims arising from the ordinary course of business. However, the Company's management and legal counsel believe that the eventual liabilities under these lawsuits or claims, if any, will not have a material effect on the Company's parent company financial statements (see Note 29).

5. Operating Segment Information

The Company and its subsidiary (collectively the MNTC Group) have only one operating segment which is the tollways business. The MNTC Group's results of operations are reviewed by the chief operating decision maker to make decisions and to assess MNTC Group performance, and for which discrete financial information is available.

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

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

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

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

The revenues, net income, assets, liabilities, and other information of the MNTC Group's operations as at and for the years ended December 31, 2015 and 2014 are as follows:

	2015	2014
Net toll revenues	**₱8,453,380,333**	₱7,516,586,901
Other income	**154,002,324**	120,227,103
Total revenues	**8,607,382,657**	7,636,814,004
Operating and maintenance costs	**(2,694,832,558)**	(2,438,204,973)
Operating expenses	**(613,837,616)**	(501,220,971)
EBITDA	**5,298,712,483**	4,697,388,060
Financing costs	**(480,832,163)**	(504,337,927)
Core income before depreciation, amortization and provisions	**4,817,880,320**	4,193,050,133
Depreciation, amortization and provisions*	**(1,737,541,182)**	(1,609,093,962)
Core income	**3,080,339,138**	2,583,956,171
Nonrecurring items	**(87,208,995)**	(18,515,114)
Net income	**₱2,993,130,143**	₱2,565,441,057

	2015	2014
EBITDA margin for the year	**63%**	62%
Core income margin for the year	**36%**	34%
Net income margin for the year	**35%**	34%
Total assets	**₱30,885,000,298**	₱28,715,035,254
Total liabilities	**22,751,361,770**	21,087,178,986
Total equity	**8,133,638,528**	7,627,856,268
Other disclosures:		
Capital expenditure (consists of additions to service concession asset, property and equipment and other intangible assets)	**₱6,586,687,559**	₱2,485,927,545

** Includes provision for current and deferred taxes.*

The following table shows the reconciliation of EBITDA to consolidated net income for the years ended December 31, 2015 and 2014.

	2015	2014
EBITDA	**₱5,298,712,483**	₱4,697,388,060
Interest expense and other finance costs (see Note 23)	**(622,295,149)**	(601,214,207)
Amortization of service concession assets (see Note 18)	**(575,097,888)**	(483,626,911)
Interest income (see Note 22)	**72,896,989**	61,266,122
Provision for heavy maintenance (see Note 18)	**(150,819,004)**	(224,653,876)
Depreciation of property and equipment (see Notes 18 and 19)	**(38,025,416)**	(30,963,982)
Amortization of other intangible assets (see Note 19)	**(10,954,056)**	(6,056,952)
Nonrecurring items:		
Provisions (see Note 19)	**(5,101,457)**	(13,840,182)
Foreign exchange gain – net	**7,840,647**	4,260,215
Other nonrecurring items	**(38,887,876)**	1,564,831
Income before income tax	**3,938,269,273**	3,404,123,118
Provision for (benefit from) income tax (see Note 25):		
Current	**963,726,925**	752,767,850
Deferred	**(18,587,795)**	85,914,211
	945,139,130	838,682,061
Net income	**₱2,993,130,143**	₱2,565,441,057

The following table shows the reconciliation of the core income to the net income for the years ended December 31, 2015 and 2014.

	2015	2014
Core income for the year	**₱3,080,339,138**	₱2,583,956,171
Provisions (see Note 19)	**(5,101,457)**	(13,840,182)
Foreign exchange gain – net	**7,840,647**	4,260,215
Other nonrecurring items	**(89,948,185)**	(8,935,147)
Net income	**₱2,993,130,143**	₱2,565,441,057

The following table shows the reconciliation of MNTC Group amounts and the amounts reflected in the parent company financial statements as at and for the year ended December 31, 2015. In 2014, there were no differences as the subsidiary was just incorporated in September 2015.

	December 31, 2015		
	MNTC Group	Subsidiary*	MNTC
Net toll revenues	₱8,453,380,333	₱–	₱8,453,380,333
Other income	154,002,324	–	154,002,324
Total revenues	8,607,382,657	–	8,607,382,657
Operating and maintenance costs	(2,694,832,558)	–	(2,694,832,558)
Operating expenses	(613,837,616)	(283,216)	(613,554,400)
EBITDA	5,298,712,483	(283,216)	5,298,995,699
Financing income (costs)	(480,832,163)	1,252	(480,833,415)
Core income before depreciation, amortization and provisions	4,817,880,320	(281,964)	4,818,162,284
Depreciation, amortization and provisions**	(1,737,541,182)	–	(1,737,541,182)
Core income	3,080,339,138	(281,964)	3,080,621,102
Nonrecurring items	(87,208,995)	–	(87,208,995)
Net income	₱2,993,130,143	(₱281,964)	₱2,993,412,107
EBITDA margin for the year	63%	–	63%
Core income margin for the year	36%	–	36%
Net income margin for the year	35%	–	35%
Total assets	₱30,885,000,298	₱192,364	₱30,885,192,662
Total liabilities	22,751,361,770	89,600	22,751,272,170
Total equity	8,133,638,528	281,964	8,133,920,492
Other disclosures:			
Capital expenditure (consists of additions to service concession assets, property and equipment and other intangible assets)	₱6,586,687,559	₱–	₱6,586,687,559

* *Includes PFRS 10 adjustments.*
** *Includes provision for current and deferred income taxes.*

6. Cash and Cash Equivalents

This account consists of:

	2015	2014
Cash on hand and in banks	**₱366,526,326**	₱905,227,627
Short-term deposits as cash equivalents	**2,290,338,284**	2,048,653,967
	₱2,656,864,610	₱2,953,881,594

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

Interest earned from cash and cash equivalents amounted to ₱19.1 million and ₱11.1 million for the years ended December 31, 2015 and 2014, respectively (see Note 22).

At December 31, 2015, the Company has available ₱2.0 billion undrawn committed term loan facility from Philippine National Bank (PNB).

7. Receivables

This account consists of:

	2015	2014
Trade receivables (see Note 15)	**₱313,928,378**	₱464,262,735
Advances to Department of Public Works and Highways (DPWH)	**202,883,464**	173,678,456
Advances to officers and employees (see Note 15)	**7,373,156**	8,883,113
Interest receivables	**15,943,301**	13,512,861
Other receivables	**35,342,796**	32,783,619
	575,471,095	693,120,784
Less allowance for doubtful accounts	**14,162,059**	9,883,197
	₱561,309,036	₱683,237,587

Trade receivables are noninterest-bearing and are generally on terms of 30 to 45 days.

Advances made to DPWH is pursuant to the Reimbursement Agreement entered into by the Company with DPWH in 2013 where DPWH requested these advances in order to fast track the acquisition of right-of-way for the construction of Phase II Segment 9. The balance also includes direct advances to certain Segment 9 landowners as consideration for the grant of immediate right-of-way possession to the Company ahead of the expropriation proceedings. Under a Deed of Assignment with Special Power of Attorney agreement, these landowners agreed to assign their receivables from DPWH to the Company in consideration for the direct advances received from the Company. These advances to DPWH are noninterest-bearing and are collectible within a year.

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

Interest receivables are collectible within three months.

Other receivables are noninterest-bearing and are collectible within a year. As at December 31, 2015 and 2014, other receivables include those receivables from motorists who caused accidental damage to NLEX property from day-to-day operations amounting to ₱33.2 million and ₱30.2 million, respectively.

Movements in the allowance for individually assessed impaired receivables in 2015 and 2014 are as follows:

	2015		
	Trade Receivables	**Other Receivables**	**Total**
Balance at beginning of year	**₱2,238,191**	**₱7,645,006**	**₱9,883,197**
Provision for doubtful accounts (see Note 19)	**151,641**	**4,127,221**	**4,278,862**
Balance at end of year	**₱2,389,832**	**₱11,772,227**	**₱14,162,059**

	2014		
	Trade Receivables	Other Receivables	Total
Balance at beginning of year	₱–	₱5,544,087	₱5,544,087
Provision for doubtful accounts (see Note 19)	2,238,191	2,100,919	4,339,110
Balance at end of year	₱2,238,191	₱7,645,006	₱9,883,197

8. Service Concession Assets

The movements in this account follow:

	MNEP	SCTEX	Total
Cost:			
At January 1, 2014	₱20,380,318,478	₱–	₱20,380,318,478
Additions	2,425,272,471	–	2,425,272,471
At December 31, 2014	22,805,590,949	–	22,805,590,949
Additions	3,328,364,819	3,177,555,625	6,505,920,444
At December 31, 2015	**₱26,133,955,768**	**₱3,177,555,625**	**₱29,311,511,393**
Accumulated amortization:			
At January 1, 2014	₱5,454,380,384	₱–	₱5,454,380,384
Amortization (see Note 18)	483,626,911	–	483,626,911
At December 31, 2014	5,938,007,295	–	5,938,007,295
Amortization (see Note 18)	563,733,763	11,364,125	575,097,888
At December 31, 2015	**₱6,501,741,058**	**₱11,364,125**	**₱6,513,105,183**
Net book value:			
At December 31, 2015	**₱19,632,214,710**	**₱3,166,191,500**	**₱22,798,406,210**
At December 31, 2014	16,867,583,654	–	16,867,583,654

MNEP

Additions during 2015 and 2014 pertain mainly to civil works construction on Segments 9 and 10 and fixed operating equipment (FOE) design, supply and installation for the toll collection system (TCS) migration on Segment 8.1 and Phase I of MNEP. Additions also include the pre-construction costs of Segment 8.2 of the Phase II of MNEP.

Borrowing costs capitalized amounted to ₱383.0 million and ₱335.9 million for the years ended December 31, 2015 and 2014, respectively. The interest rates used to determine the amount of borrowing costs eligible for capitalization ranges from 5.0% to 5.8% in 2015 and 2014.

The concession term for fully operational Phase I and Segments 8.1 and 9 of Phase II of MNEP is until December 31, 2037. As at December 31, 2015 and 2014, the remaining concession term is 22 years and 23 years, respectively.

SCTEX

As discussed in Note 2, the Company took over from BCDA the management, operation and maintenance of the SCTEX on October 27, 2015. Additions during 2015 pertain to an upfront fee payment amounting to ₱3.1 billion and other directly attributable costs of the project.

The concession term for SCTEX is until October 30, 2043. As at December 31, 2015, the remaining concession term is 28 years.

9. Property and Equipment

The movements in this account follow:

	Building, Building Improvements and Leasehold Improvements	Transportation Equipment	Office Equipment and Others	Total
Cost:				
At January 1, 2014	₱93,089,431	₱64,354,325	₱112,198,591	₱269,642,347
Additions	330,400	16,986,321	26,564,893	43,881,614
Disposals	(498,288)	(10,151,786)	(753,501)	(11,403,575)
At December 31, 2014	92,921,543	71,188,860	138,009,983	302,120,386
Additions	1,279,911	10,720,714	19,071,348	31,071,973
Disposals	–	(7,304,642)	(724,111)	(8,028,753)
At December 31, 2015	**₱94,201,454**	**₱74,604,932**	**₱156,357,220**	**₱325,163,606**
Accumulated depreciation:				
At January 1, 2014	₱27,843,443	₱39,117,071	₱84,811,435	₱151,771,949
Depreciation (see Note 19)	4,296,499	9,908,799	16,758,684	30,963,982
Disposals	(498,288)	(8,866,220)	(753,501)	(10,118,009)
At December 31, 2014	31,641,654	40,159,650	100,816,618	172,617,922
Depreciation (see Notes 18 and 19)	4,873,240	12,979,609	20,172,567	38,025,416
Disposals	–	(5,995,409)	(562,111)	(6,557,520)
At December 31, 2015	**₱36,514,894**	**₱47,143,850**	**₱120,427,074**	**₱204,085,818**
Net book value:				
At December 31, 2015	**₱57,686,560**	**₱27,461,082**	**₱35,930,146**	**₱121,077,788**
At December 31, 2014	61,279,889	31,029,210	37,193,365	129,502,464

Proceeds from the sale of property and equipment amounted to ₱2.0 million and ₱1.6 million in 2015 and 2014, respectively. Gain on disposal of property and equipment amounted to ₱0.5 million and ₱0.4 million for the years ended December 31, 2015 and 2014, respectively. The gross carrying amounts of fully depreciated property and equipment that are still in use amounted to ₱115.0 million and ₱99.6 million as at December 31, 2015 and 2014, respectively.

10. Other Intangible Assets

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

	2015	2014
Cost:		
Balance at beginning of year	**₱93,567,919**	₱75,330,354
Additions	**5,465,571**	18,237,565
Balance at end of year	**99,033,490**	93,567,919
Accumulated amortization:		
Balance at beginning of year	**71,398,156**	65,341,204
Amortization (see Note 19)	**10,954,056**	6,056,952
Balance at end of year	**82,352,212**	71,398,156
Net book value	**₱16,681,278**	₱22,169,763

11. Investment in a Subsidiary

On September 23, 2015, the Company incorporated NLEX Ventures Corporation (NVC), a wholly owned subsidiary, in the Philippines. NVC is primarily engaged to develop, fund, construct, operate and maintain any and all facilities, and to undertake, provide and render any and all services relating to the safety, comfort and convenience of its customers such as road users; and to undertake traffic management services.

On September 8, 2015, the Company offered to purchase a parcel of land, located in Valenzuela City, owned by PNB for ₱11.0 million. On the same date, the Company paid ₱1.1 million or 10% of the purchase price as a deposit pending acceptance of the offer by PNB. On November 23, 2015, the Company advice PNB that the buyer of the parcel of land shall be NVC and that deposit remitted by the Company shall be applied as a deposit/downpayment of NVC. On December 4, 2015, the purchase proposal of NVC was accepted by PNB. On January 18, 2016, NVC and PNB executed the Deed of Absolute Sale transferring the ownership of the parcel of land to NVC.

12. Available-for-sale Financial Assets

Details of AFS financial assets are shown below:

	Interest	**2015**		2014	
Maturity Date	Rate	**Fair Value**	**Principal Amount**	Fair Value	Principal Amount
UITF*					
Short-term		**₱1,225,420,748**	**₱1,220,988,850**	₱4,789,522,429	₱4,730,364,789
ROP Retail Treasury Bonds					
March 12, 2015	5.00%	–	–	50,767,000	50,000,000
August 19, 2015	5.88%	–	–	204,824,000	200,000,000
March 3, 2016	6.00%	**150,870,000**	**150,000,000**	156,741,000	150,000,000
August 15, 2023	3.25%	**525,712,530**	**565,100,000**	544,095,233	565,100,000
		676,582,530	**715,100,000**	956,427,233	965,100,000
Fixed Rate Treasury Notes					
April 25, 2016	1.63%	**49,775,000**	**50,000,000**	49,584,500	50,000,000
May 23, 2018	2.13%	**434,254,716**	**449,260,000**	390,360,495	399,260,000
		484,029,716	**499,260,000**	439,944,995	449,260,000
LTNCD					
PNB - June 12, 2020	4.13%	**49,460,000**	**50,000,000**	50,000,000	50,000,000
Metrobank - November 21, 2021	4.25%	**48,135,000**	**50,000,000**	50,000,000	50,000,000
		97,595,000	**100,000,000**	100,000,000	100,000,000
Corporate Bonds					
FMIC - August 10, 2019	5.75%	**52,745,000**	**50,000,000**	51,114,500	50,000,000
Meralco - December 12, 2020	4.38%	**202,142,000**	**200,000,000**	192,254,000	200,000,000
PLDT - February 6, 2021	5.23%	**202,034,000**	**200,000,000**	198,372,000	200,000,000
		456,921,000	**450,000,000**	441,740,500	450,000,000
		₱2,940,548,994	**₱2,985,348,850**	₱6,727,635,157	₱6,694,724,789

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

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

The movements in this account follow:

	2015	2014
Balance at beginning of year	**₱6,727,635,157**	₱3,516,701,041
Additions	**5,407,332,256**	4,049,816,145
Maturity	**(250,000,000)**	–
Sale of AFS financial assets	**(8,865,590,303)**	(860,000,000)
Gain (loss) on AFS financial assets during the year (see Note 17)	**(78,828,116)**	21,117,971
Balance at end of year	**₱2,940,548,994**	₱6,727,635,157
Current	**₱1,426,065,748**	₱5,045,113,429
Noncurrent	**1,514,483,246**	1,682,521,728
	₱2,940,548,994	₱6,727,635,157

The fair value is based on the quoted market price of the financial instruments as at December 31, 2015 and 2014. The movements in the net unrealized gain on fair value change in AFS financial assets under "Other comprehensive income (loss) reserve" account for the years ended December 31, 2015 and 2014 follow:

	2015	2014
Balance at beginning of year	**₱41,296,009**	₱20,178,038
Changes in fair value during the year	**11,121,533**	27,759,214
Reclassification to profit or loss*	**(89,949,649)**	(6,641,243)
Balance at end of year	**(37,532,107)**	41,296,009
Tax effects of items taken directly in equity (see Note 25)	**2,657,153**	(2,826,741)
	(₱34,874,954)	₱38,469,268

* *Includes gain on sale of UITF amounting to ₱87,917,303* and *₱5,471,976 in 2015 and 2014, respectively, that was deducted from borrowing costs capitalized to service concession assets.*

13. Accounts Payable and Other Current Liabilities

This account consists of:

	2015	2014
Trade payables (see Note 15)	**₱978,330,080**	₱735,625,201
Accrued expenses (see Note 15)	**930,217,785**	946,662,930
Retention payable	**139,949,877**	141,287,463
Output value-added tax	**124,354,201**	108,610,052
Withholding taxes payable	**95,145,493**	87,599,960
Interest payable	**41,996,378**	23,838,668
Others	**12,437,620**	12,166,175
	₱2,322,431,434	₱2,055,790,449

Trade payables and accrued expenses are noninterest-bearing and are normally settled within 30 to 45 days.

Accrued expenses consist of:

	2015	2014
Operator's fee (see Note 15)	**₱329,024,746**	₱419,551,367
Construction costs	**239,316,532**	302,730,298
Concession fees (see Note 2)	**78,025,151**	–
Operating and maintenance cost	**64,700,365**	47,818,012
PNCC fee	**47,895,086**	47,899,188
Salaries and employee benefits	**41,368,543**	43,203,819
Advertising and marketing expenses	**32,522,105**	36,960,176
Management fees (see Note 15)	**29,890,097**	–
Outside services	**17,665,604**	24,292,771
Repairs and maintenance	**7,405,068**	7,405,068
Professional fees	**8,642,723**	6,544,196
Toll collection and medical services	**3,339,113**	1,334,270
Project insurance	**10,670,039**	–
Others	**19,752,613**	8,923,765
	₱930,217,785	₱946,662,930

Retention payable is a percentage of the amount certified as due to the contractor on an interim certificate, that is deducted from the amount due and retained by the Company. Retention payable is usually released upon completion of the relevant project.

Interest payable is settled within six months.

14. Provisions

The movements in this account follow:

	Heavy Maintenance	Others	Total
At January 1, 2014	₱205,876,862	₱98,611,379	₱304,488,241
Additions (see Notes 18 and 19)	251,612,341	13,840,182	265,452,523
Accretion (see Note 23)	11,978,840	–	11,978,840
Payments	(301,616,361)	(22,326,990)	(323,943,351)
At December 31, 2014	167,851,682	90,124,571	257,976,253
Additions (see Notes 18 and 19)	168,917,287	5,101,457	174,018,744
Accretion (see Note 23)	11,939,460	–	11,939,460
Payments	(85,455,941)	(19,024,078)	(104,480,019)
At December 31, 2015	**₱263,252,488**	**₱76,201,950**	**₱339,454,438**
At December 31, 2015:			
Current	**₱105,000,000**	**₱62,361,768**	**₱167,361,768**
Noncurrent	**158,252,488**	**13,840,182**	**172,092,670**
	₱263,252,488	**₱76,201,950**	**₱339,454,438**
At December 31, 2014:			
Current	₱69,522,031	₱76,284,389	₱145,806,420
Noncurrent	98,329,651	13,840,182	112,169,833
	₱167,851,682	₱90,124,571	₱257,976,253

As discussed in Note 4, provision for heavy maintenance pertains to the present value of the estimated contractual obligations of the Company to maintain the service concession assets to a specified level of serviceability during the service concession term and to restore the same assets in good condition prior to turnover of the assets to the Grantor. The amount of provision is reduced by the actual obligations paid for heavy maintenance of the service concession assets.

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

15. **Related Party Disclosures**

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

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

Related Party			Management Fees (see Note 19)	Operator's Fee (see Note 18)	Outside Services (see Notes 18)	Repairs and Maintenance (see Note 18)	Income from Advertising (see Note 24)	Income from Utility Facilities (see Note 24)
MPTC	Intermediate Parent Company	**2015**	**₱60,702,628**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**
		2014	44,832,143	–	–	–	–	–
Tollways Management Corporation (TMC)	Associate of MPTDC	**2015**	**–**	**1,741,674,430**	**–**	**5,524,377**	**–**	**–**
		2014	–	1,710,956,357	–	3,230,823	–	–
Easytrip Services Corp. (ESC)	Joint Venture of MPTDC	**2015**	**–**	**–**	**61,167,420**	**–**	**60,000**	**–**
		2014	–	–	54,442,444	–	620,000	–
Smart Communications Inc. (Smart)	Associate of FPC	**2015**	**–**	**–**	**–**	**–**	**72,850,000**	**342,350**
		2014	–	–	–	–	58,492,000	327,608
PLDT	Associate of FPC	**2015**	**–**	**–**	**–**	**–**	**–**	**2,423,099**
		2014	–	–	–	–	–	1,889,481
Digitel Mobile Philippines, Inc. (Digitel)	Associate of FPC	**2015**	**–**	**–**	**–**	**–**	**7,579,000**	**–**
		2014	–	–	–	–	10,880,000	–
Total		**2015**	**₱60,702,628**	**₱1,741,674,430**	**₱61,167,420**	**₱5,524,377**	**₱80,489,000**	**₱2,765,449**
		2014	44,832,143	1,710,956,357	54,442,444	3,230,823	69,992,000	2,217,089

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

Name	Relationship		Advances to Contractors and Consultants	Receivables[2] (see Note 7)	Due from Related Parties[1]	Accounts Payable and Other Current Liabilities[2] (see Note 13)	Terms	Conditions
MPTC	Intermediate Parent Company	**2015**	**₱–**	**₱647,529**	**₱2,201,450**	**₱65,192,328**	(1) On demand; noninterest-bearing (2) 30-45 days; noninterest-bearing	Unsecured; no impairment
		2014	–	–	2,696,473	36,960,176		
MPTDC	Parent Company	**2015**	**–**	**–**	**–**	**8,624,846**	(1) On demand; noninterest-bearing (2) 30-45 days; noninterest-bearing	Unsecured; no impairment
		2014	–	–	8,274	5,825,468		
MPCALA Holdings, Inc. (MHI)	Other related party	**2015**	**–**	**–**	**55,408**	**–**	On demand; noninterest-bearing	Unsecured; no impairment
		2014	–	–	–	–		
TMC	Associate of MPTDC	**2015**	**58,000**	**25,455**	**109,177**	**479,494,299**	(1) On demand; noninterest-bearing (2) 30-45 days; noninterest-bearing	Unsecured; no impairment
		2014	15,000	–	9,354,793	436,291,284		
Cavitex Infrastructure Corp. (CIC)	Subsidiary of MPIC	**2015**	**–**	**–**	**342,507**	**–**	On demand; noninterest-bearing	Unsecured; no impairment
		2014	–	–	335,647	–		
ESC	Joint Venture of MPTDC	**2015**	**–**	**228,352,174**	**99,000**	**59,366,617**	(1) On demand; noninterest-bearing (2) 7 days; noninterest-bearing	Unsecured; no impairment
		2014	–	404,242,172	99,000	44,151,770		
Indra Philippines, Inc. (Indra)	Associate of MPIC	**2015**	**425,045**	**–**	**–**	**18,010,626**	Within one year; noninterest-bearing	Unsecured; no impairment
		2014	–	–	–	18,010,626		
Smart	Associate of FPC	**2015**	**–**	**24,727,200**	**–**	**125,761**	30-45 days; noninterest-bearing	Unsecured; no impairment
		2014	–	42,732,473	–	245,574		
PLDT	Associate of FPC	**2015**	**–**	**892,697**	**–**	**92,849**	30-45 days; noninterest-bearing	Unsecured; no impairment
		2014	–	478,297	–	358,644		
Digitel	Associate of FPC	**2015**	**–**	**8,286,880**	**–**	**–**	30-45 days; noninterest-bearing	Unsecured; no impairment
		2014	–	4,297,440	–	3,532		
NLEX Ventures	Subsidiary	**2015**	**–**	**–**	**1,265,303**	**–**	On demand; noninterest-bearing	Unsecured; no impairment
		2014	–	–	–	–		
Total		**2015**	**₱483,045**	**₱262,931,935**	**₱4,072,845**	**₱630,907,326**		
		2014	15,000	451,750,382	12,494,187	541,847,074		

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

Transactions with Parent Companies

MPTC

- MPTC performs managerial and financial advisory services for the Company in 2015 and 2014. On January 1, 2014, the Company and MPTC renewed their Management Services Agreement where the Company shall pay MPTC a fixed monthly fee of ₱3.7 million (exclusive of VAT) for the services rendered by MPTC. The agreement is effective January 1, 2014, and shall remain in effect for 12 months. As at February 17, 2016, the Company and MPTC are in the process of renewing the Management Services Agreement for year 2015 with an increase in the monthly fee to ₱5.1 million.

MPTDC

- In 2015 and 2014, MPTDC billed the Company for various expenses paid in behalf of the Company as well as the latter's share in common expenses.

Transactions with Other Related Parties

TMC

NLEX

- TMC, an associate of MPTDC, provides services to the Company as operator to the existing NLEX and Segment 7 under the Operations and Management Agreement (O&M) entered into by the Company and TMC on July 6, 2001. The O&M contains the terms and conditions for the operation and maintenance by TMC of the existing NLEX and subsequently, of Segment 7, and sets forth the scope of its services. Under the O&M, the Company pays TMC a minimum fixed annual amount of ₱605.4 million for the existing NLEX and ₱38.8 million for Segment 7, to be escalated on a quarterly basis plus a variable component, which took effect upon start of commercial operations. The O&M, which also provides for certain bonuses and penalties as described in the O&M, shall be effective for the entire concession term.

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

- On December 10, 2012, pursuant to the O&M and the TRB's approval to open and operate the Balagtas Interchange as an integral part of Phase I of the MNEP, MNTC and TMC agreed that the scope of the O&M shall correspondingly cover the Balagtas Interchange from June 25, 2012 until December 31, 2037. Consequently, MNTC agreed to pay TMC an annual base fee for the operations and maintenance of the Balagtas Interchange in the amount of ₱15.6 million effective in 2012. On July 6, 2015, MNTC and TMC agreed to reduce the base fee for Balagtas Interchange from ₱15.6 million to ₱13.7 million to take into account the

reduction in operational and maintenance costs of the Sta. Rita Interchange. The Balagtas Interchange is a 1.5-km stretch connecting Plaridel to NLEX.

- In 2012, the Company also added the new Bocaue Interchange Northbound Exit to the scope of TMC's operations and maintenance contract at the proposed annual fee of ₱7.7 million. On June 22, 2015, pursuant to the O&M, MNTC gave a formal notice to TMC that the scope of O&M shall correspondingly cover the Bocaue Interchange Northbound Exit from July 29, 2012 until December 31, 2037. Consequently, MNTC agreed to pay TMC an annual base fee of ₱7.7 million. It has been further agreed that the base fee may be escalated after the lapse of one (1) year from July 2012.

- In 2014, in view of the latest publication of the National Statistics Office (NSO) for consumer price index (CPI) values issued in July 2011, with different commodity grouping compared with those stipulated in the O&M, MNTC and TMC agreed to amend the base fee, effective January 9, 2012 as follows:
    - ₱1,312.6 million for the existing NLEX;
    - ₱84.2 million for Segment 7;
    - ₱6.9 million for Dau Interchange; and
    - ₱32.9 million for Segment 8.1.

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

- On March 15, 2015, MNTC engaged TMC to operate and maintain Segment 9, portion of Phase II of MNEP, for a proposed annual fee of ₱32.6 million until December 31, 2037. The terms for the operation and maintenance of Segment 9 is still being finalized as at February 17, 2016.

<u>SCTEX</u>

- On May 27, 2015, in view of the forthcoming turn-over of the management, operation and maintenance of the SCTEX to MNTC by the BCDA (see Note 2), MNTC and TMC entered into a letter-agreement where TMC was designated to operate and maintain the SCTEX under the existing O&M dated July 6, 2001 for a compensation computed based on a cost plus margin, which compensation shall not exceed ₱26.3 million per month. TMC commenced the operation and maintenance of the SCTEX on October 27, 2015.

ESC

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

respectively, which are also to be maintained and escalated every year for labor index and CPI.

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

Indra

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

- On June 14, 2013, MNTC entered into a Contract Agreement with EPPI and Indra Consortium for the design, supply, installation, testing and commissioning of the FOE for Segment 9 of Phase II. The total contract price of €1.3 million (₱77.5 million) shall be fixed lump sum, inclusive of VAT. Segment 9 has been substantially completed and has started tollway operation on March 19, 2015.

- On May 8, 2015, MNTC entered into a Contract Agreement with EPPI and Indra Consortium for the design, supply, installation, testing and commissioning of the FOE for Segment 10, part of Phase II of the MNEP. The total contract amount is €1.8 million (₱92.7 million), inclusive of VAT. The target completion of the works shall be within 2 years from contract date.

- On August 7, 2015, MNTC issued a letter of acceptance to EPPI and Indra Consortium relating to their revised proposal dated August 3, 2015 for the design, supply, installation, testing and commissioning of the FOE for the NLEX-SCTEX integration project. The revised contract price amounted to €10.2 million (₱507.2 million), inclusive of VAT. The target completion of the works shall be within second quarter of 2016.

PLDT, Smart and Digitel

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

- On January 5, 2011, MNTC and Smart (a subsidiary of PLDT) signed a Utility Facilities Contract where MNTC provides Smart an access for the construction, operation and maintenance of a cell site inside the NLEX right of way for an annual fee of ₱0.3 million which shall then be escalated annually to 4.5% starting on the fourth year of the contract and every year thereafter. The contract is effective from April 26, 2010 for a period of five (5) years which may be renewed or extended upon mutual agreement by MNTC and Smart. As at February 17, 2016, the Company and Smart are in the process of renewing the contract.

- On March 26, 2012, MNTC and Smart agreed on the terms of the grant to Smart of exclusive rights to name the NLEX-Mindanao Avenue Cloverleaf as a Smart Connect Interchange and put up outdoor advertising structures near the interchange. The annual package is based on a predetermined timetable of when the official road signs are progressively built. The base price is from ₱175.0 million to ₱228.2 million and may increase depending on the final features and characteristics of the cloverleaf. This agreement shall take effect from April 1, 2012 until April 30, 2017, unless pre-terminated or renewed by mutual written agreement of the parties.

- In 2015 and 2014, MNTC entered into advertising arrangements with Smart and Digitel (a subsidiary of PLDT) related to various advertising mediums, which include rental, material production, installation and maintenance at several locations along NLEX.

Other Transactions

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

	2015	2014
Short-term employee benefits	**₱90,576,679**	₱96,765,803
Retirement costs (see Note 20)	**10,924,834**	9,726,985
Executive stock option expense (see Notes 20 and 21)	**1,244,843**	2,345,037
Long-term incentive plan expense (see Note 20)	**48,735,905**	55,171,612
	₱151,482,261	₱164,009,437

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

- The Company paid directors fees amounting to ₱0.5 million and ₱0.7 million in 2015 and 2014, respectively, recorded under "General and administrative expenses" account in the parent company statements of income (see Note 19).

- Advances to officers and employees has an outstanding balance of ₱7.4 million and ₱8.9 million as at December 31, 2015 and 2014, respectively (see Note 7).

16. **Long-term Debt**

This account consists of:

	2015	2014
Peso-denominated Notes, Loans and Bonds:		
Series A Notes	**₱5,961,821,616**	₱6,023,923,925
Term Loan Facilities	**5,000,000,000**	3,000,000,000
PNB Loan	**–**	892,500,000
Fixed-rate Bonds	**7,000,000,000**	7,000,000,000
	17,961,821,616	16,916,423,925
Less unamortized debt issue costs	**147,239,671**	170,354,436
	17,814,581,945	16,746,069,489
Less current portion of long-term debt - net of unamortized debt issue costs of ₱19,598,895 in 2015 and ₱22,092,362 in 2014	**992,503,413**	932,509,947
	₱16,822,078,532	₱15,813,559,542

The unamortized debt issue costs incurred in connection with the availment of long-term debt amounting to ₱147.2 million and ₱170.4 as at December 31, 2015 and 2014, respectively, were deducted against the long-term debt. The movements in debt issue costs are as follows:

	2015	2014
Balance at beginning of year	**₱170,354,436**	₱125,004,006
Amortization during the year* (see Note 23)	**(38,114,765)**	(30,678,669)
Debt issue costs incurred during the year	**15,000,000**	76,029,099
Balance at end of year	**₱147,239,671**	₱170,354,436

** Includes amortization of debt issue costs capitalized to service concession assets amounting to ₱9,322,837 and ₱6,936,155 in 2015 and 2014, respectively.*

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

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

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

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

On December 28, 2012, MNTC issued a notice for early termination of the interest rate swap transaction with PNB effective December 15, 2012 (see Note 28).

As at December 31, 2015, the loan facility has already matured.

Term Loan Facilities

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

On November 20, 2015, MNTC issued a notice of prepayment effective on December 15, 2015, for the loans availed from Insular and Philam, amounting to ₱500.0 million each. The prepayment penalty amounting to ₱30.0 million was recognized as part of "Interest expense and other finance costs" (see Note 23).

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

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

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

The loans availed from Sun Life, Insular and Philam in 2013 are intended to partially finance the Phase II expansion projects of MNTC.

PNB. On December 4, 2015, MNTC entered into a new ten-year term loan facility agreement with PNB for a facility amount of ₱5.0 billion to finance capital expenditures such as the NLEX Lane Widening Project, NLEX-SCTEX Integration Project and the upgrade of the SCTEX. On December 10, 2015, the Company made its initial drawdown amounting to ₱3.0 billion. The undrawn amount can be availed on December 1, 2016 and March 1, 2017 at ₱1.0 billion each. The maturity date of the loan is on December 10, 2025. Debt issue costs incurred on the initial drawdown amounted to ₱15.0 million.

The applicable interest rate for each drawdown made until repricing date (which is December 15, 2020) shall be the higher of (i) 5-year PDST-R2 rate on the drawdown date plus a 1.0% per annum; and (ii) 5.0% per annum, which will be repriced after 5 years from drawdown date. On date immediately after the repricing date and until termination, the applicable interest rate shall be the higher of (i) 5-year PDST-R2 rate plus a 1.0% per annum; and (ii) weighted

average of the applicable interest rate for each drawdown. The interest shall be payable semi-annually.

Fixed-rate Bonds

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

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

Compliance with Loan Covenants

As at December 31, 2015 and 2014, the Company is in compliance with the required financial ratios and other loan covenants. The Company's long-term debts are unsecured as at December 31, 2015 and 2014.

17. **Equity**

Capital Stock

Details of common shares of the Company as at December 31, 2015 and 2014 follow:

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

Cash Dividends

The Company's BOD declared the following cash dividends in 2015 and 2014:

Declaration Date	Record Date	Payment Date	Cash Dividend per Share	Total
July 23, 2015	**July 13, 2015**	**August 12, 2015**	**₱56.31**	**₱1,000,000,000**
December 17, 2015	**December 28, 2015**	**January 27, 2016**	**80.10**	**1,422,576,000**
July 31, 2014	July 21, 2014	August 20, 2014	55.0	976,800,000
December 17, 2014	December 7, 2014	January 6, 2015	67.2	1,193,472,000

Unpaid dividends amounted to ₱1,422.6 million and ₱1,193.5 million as at December 31, 2015 and 2014, respectively.

Other Comprehensive Income (Loss) Reserve

	Cash Flow Hedge	Income Tax Related to Cash Flow Hedge	AFS Financial Assets	Income Tax Related to AFS Financial Assets	Re-measurement of Defined Benefit Plan	Income Tax Related to Defined Benefit Plan	Total
Balance at January 1, 2015	**(₱3,775,752)**	**₱1,132,726**	**₱41,296,009**	**(₱2,826,741)**	**₱5,172,871**	**(₱1,551,862)**	**₱39,447,251**
Net movement in cash flow hedge (see Note 28)	**3,775,752**	**(1,132,726)**	**–**	**–**	**–**	**–**	**2,643,026**
Change in fair value of AFS (see Note 12)	**–**	**–**	**(78,828,116)**	**5,483,894**	**–**	**–**	**(73,344,222)**
Remeasurement gain (see Note 20)	**–**	**–**	**–**	**–**	**6,692,099**	**(2,007,629)**	**4,684,470**
Balance at December 31, 2015	**₱–**	**₱–**	**(₱37,532,107)**	**₱2,657,153**	**₱11,864,970**	**(₱3,559,491)**	**(₱26,569,475)**
Balance at January 1, 2014	(₱12,710,899)	₱3,813,270	₱20,178,038	(₱8,915,100)	₱8,226,938	(₱2,468,082)	₱8,124,165
Net movement in cash flow hedge (see Note 28)	8,935,147	(2,680,544)	–	–	–	–	6,254,603
Change in fair value of AFS (see Note 12)	–	–	21,117,971	6,088,359	–	–	27,206,330
Remeasurement loss (see Note 20)	–	–	–	–	(3,054,067)	916,220	(2,137,847)
Balance at December 31, 2014	(₱3,775,752)	₱1,132,726	₱41,296,009	(₱2,826,741)	₱5,172,871	(₱1,551,862)	₱39,447,251

18. **Cost of Services**

This account consists of:

	2015	2014
Operator's fee (see Note 15)	**₱1,741,674,430**	₱1,710,956,357
Amortization of service concession assets (see Note 8)	**575,097,888**	483,626,911
PNCC fee (see Note 26)	**482,149,955**	442,714,079
Provision for heavy maintenance (see Note 14)	**150,819,004**	224,653,876
Concession fees (see Note 2)	**132,146,972**	–
Repairs and maintenance (see Note 15)	**108,201,070**	108,050,774
Outside services (see Note 15)	**64,279,224**	54,442,444
Salaries (see Note 20)	**53,303,999**	43,603,408
Insurance	**52,976,575**	48,781,314
Toll collection and medical services	**17,636,666**	15,612,000
Depreciation of property and equipment (see Note 9)	**8,956,180**	–
Others	**33,383,888**	14,044,597
	₱3,420,625,851	₱3,146,485,760

19. **General and Administrative Expenses**

This account consists of:

	2015	2014
Advertising and marketing expenses	**₱220,221,143**	₱93,756,686
Salaries and employee benefits (see Notes 15, 20 and 21)	**184,339,652**	203,587,291
Management fees (see Note 15)	**60,702,628**	44,832,143
Taxes and licenses	**57,067,298**	51,740,610
Professional fees	**50,533,540**	17,718,074
Depreciation of property and equipment (see Note 9)	**29,069,236**	30,963,982
Representation and travel	**27,489,618**	22,064,000
Outside services	**23,201,107**	26,072,527
Amortization of other intangible assets (see Note 10)	**10,954,056**	6,056,952
Communication, light and water	**10,251,450**	10,472,969
Repairs and maintenance	**6,837,414**	6,430,205
Training and development costs	**5,416,536**	3,997,548
Provisions (see Note 14)	**5,101,457**	13,840,182
Provision for doubtful accounts (see Note 7)	**4,278,862**	4,339,110
Office supplies	**2,365,137**	5,807,068
Rentals	**1,168,873**	–
Directors' fees (see Note 15)	**530,000**	680,000
Miscellaneous	**9,151,143**	9,722,740
	₱708,679,150	₱552,082,087

20. **Personnel Cost and Employee Benefits**

This account consists of:

	2015	2014
Salaries expense	**₱169,520,573**	₱171,404,655
Long-term incentive plan (LTIP) expense	**48,735,905**	55,171,612
Retirement expense	**13,256,495**	12,811,988
Employee stock option plan expense (see Note 21)	**1,244,843**	2,345,037
Other employee benefits	**4,885,835**	5,457,407
	₱237,643,651	₱247,190,699
Cost of services (see Note 18)	**₱53,303,999**	₱43,603,408
General and administrative expenses (see Note 19)	**184,339,652**	203,587,291
	₱237,643,651	₱247,190,699

LTIP
On April 27, 2012, MPTC's BOD approved the implementation of 2012-2014 LTIP of MPTC and its subsidiaries (MPTC Group) which will be effective on January 1, 2012. In 2015, pending approval from MPTC's BOD, MPTC's management implemented the 2015-2017 LTIP of MPTC Group effective January 1, 2015. MPTC's LTIP is aimed at providing a competitive level of financial incentives for eligible employees to encourage them to achieve performance targets consistent with the MPTC Group's long-term business plans; recognizing and rewarding the contribution of eligible employees to the overall profitability and performance of the MPTC Group; and attracting and retaining talented employees to ensure the sustained growth and success of the MPTC Group. The payment under the LTIP was intended to be made at the end of the Performance Cycle (without interim payments) and contingent on the achievement of the MPTC Group's cumulative consolidated core income target for the relevant Performance Cycle.

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

The total cost of the LTIP recognized by the Company in 2015 and 2014 included in "Salaries and employee benefits" account under "General and administrative expenses" in the parent company statements of income amounted to ₱48.7 million and ₱55.2 million, respectively (see Note 19). Total long-term incentive plan payable amounted to ₱70.5 million and ₱120.0 million as at December 31, 2015 and 2014, respectively.

Retirement Costs
The Company has a funded noncontributory defined benefit retirement plan covering all of its regular and full time employees. The plan provides for a lump sum benefit payment upon retirement. Contributions and costs are determined in accordance with the actuarial study made for the plan which is normally obtained every two years. The most recent actuarial valuation of plan assets and the present value of the defined benefit obligation was carried out as at December 31, 2015 by a certified actuary.

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

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

Changes in pension asset in 2015 are as follows:

	Present Value of Defined Benefit Obligation	Fair Value of Plan Assets	Pension Asset
At January 1, 2015	**(₱126,819,299)**	**₱129,393,284**	**₱2,573,985**
Net benefit income (cost) in parent company statement of income:			
Current service cost	**(13,361,771)**	**–**	**(13,361,771)**
Net interest	**(5,186,909)**	**5,292,185**	**105,276**
	(18,548,680)	**5,292,185**	**(13,256,495)**
Benefits paid	**26,416,340**	**(26,416,340)**	**–**
Remeasurement gain (loss) in other comprehensive income:			
Return on plan assets (excluding amount included in net interest)	**–**	**(1,320,394)**	**(1,320,394)**
Actuarial changes arising from changes in financial assumptions	**4,496,060**	**–**	**4,496,060**
Actuarial changes arising from changes in demographic assumptions	**(525,026)**	**–**	**(525,026)**
Actuarial changes due to experience adjustment	**4,041,459**	**–**	**4,041,459**
	8,012,493	**(1,320,394)**	**6,692,099**
Contributions	**–**	**16,046,175**	**16,046,175**
At December 31, 2015	**(₱110,939,146)**	**₱122,994,910**	**₱12,055,764**

Changes in pension asset in 2014 are as follows:

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

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

The actual return on plan assets amounted to ₱4.0 million and ₱1.9 million in 2015 and 2014, respectively.

The Company expects to contribute ₱10.3 million in 2016.

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

	2015		2014	
	Amount	**Percentage**	Amount	Percentage
Investments in:				
Government securities	**₱76,878,679**	**62.51%**	₱77,778,679	60.11%
Debt securities	**39,818,321**	**32.37%**	31,283,347	24.18%
Cash and cash equivalents	**2,544,126**	**2.07%**	14,546,546	11.24%
Loans/notes receivable	**2,600,000**	**2.11%**	2,600,000	2.01%
Receivables and others	**1,153,784**	**0.94%**	3,184,712	2.46%
	₱122,994,910	**100.00%**	₱129,393,284	100.00%

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

The plan assets consist of the following:

- Investments in government securities consist primarily of fixed-rate treasury notes and retail treasury bonds that bear interest ranging from 2.13% to 9.41% per annum in 2015, 2.30% to 9.42% per annum in 2014.
- Investments in debt instruments consist of quoted, unsecured, long-term corporate bonds and subordinated notes, which bear interest ranging from 4.63% to 6.27% per annum in 2015 and 2014 and have maturities from 2017 to 2024.
- Cash and cash equivalents include regular savings and time deposits, which bear interest of 2.5% per annum in 2015 and 2014.
- As at December 31, 2015 and 2014, loans and notes receivables consist of unsecured subordinated note of an unaffiliated company amounting to ₱2.6 million, which bears interest of 6.73% per annum.
- Other financial assets held by the plan are primarily accrued interest income from cash and cash equivalents, UITFs, and investments in debt securities.

The principal assumptions used to determine accrued retirement costs as at December 31, 2015 and 2014 are as follows:

	2015	2014
Discount rate	**4.59%**	4.09%
Salary increase rate	**7.00%**	7.00%

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as at December 31, 2015, assuming if all other assumptions were held constant:

			Amount
Discount rate			
2015	(Actual + 1.00%)	5.59%	**₱102,803,333**
	(Actual - 1.00%)	3.59%	**120,324,656**
2014	(Actual + 1.00%)	5.09%	118,660,522
	(Actual - 1.00%)	3.09%	136,216,002
Salary increase rate			
2015	(Actual + 1.00%)	8.00%	**₱119,614,630**
	(Actual - 1.00%)	6.00%	**103,213,151**
2014	(Actual + 1.00%)	8.00%	135,562,239
	(Actual - 1.00%)	6.00%	119,016,823

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

The average duration of the defined benefit obligation as at December 31, 2015 and 2014 is 14 years.

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

	2015	2014
Less than 1 year	**₱30,476.517**	₱57,111,370
More than 1 year to 5 years	**24,525,496**	24,588,490
More than 5 years to 10 years	**91,278,048**	71,777,735
More than 10 years to 15 years	**68,161,913**	72,095,603
More than 15 years to 20 years	**98,944,707**	91,287,113
More than 20 years	**178,590,037**	177,153,803

21. Share-based Payment Plan

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

As amended, the overall limit on the number of shares which may be issued upon exercise of all options to be granted and yet to be exercised under the Plan must not exceed 5% of the shares in issue from time to time. The maximum number of shares in respect of which options may be granted under the Plan shall not exceed 5% of the issued shares of MPIC on June 14, 2007 or the

date when an event of any change in the corporate structure or capitalization affecting MPIC's shares occurred, as the case may be.

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

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

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

A summary of the Company's stock option activity received from MPIC and related information for the years ended December 31, 2015 and 2014 follows:

	2010 Grant		**2013 Grant**	
	Number of Shares	**Exercise Price**	**Number of Shares**	**Exercise Price**
Outstanding at December 31, 2013	485,000	₱2.73	4,000,000	₱4.60
Exercised during the year	(485,000)	2.73	–	–
Outstanding at December 31, 2015 and 2014	**–**	**₱–**	**4,000,000**	**₱4.60**
Exercisable at:				
December 31, 2015	**–**	**₱–**	**4,000,000**	**₱4.60**
December 31, 2014	–	–	2,000,000	4.60

The weighted average remaining contractual life for the 2010 share options outstanding as at December 31, 2015 and 2014 is nil and 0.5 year, respectively. The weighted average remaining contractual life for the 2013 share options outstanding as at December 31, 2015 and 2014 is 2.8 years and 3.8 years, respectively.

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

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

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

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

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

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

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

Executive stock options expense, recognized by the Company in "Salaries and employee benefits" account under "General and administrative expenses" in the parent company statements of income amounted to ₱1.2 million and ₱2.3 million in 2015 and 2014, respectively (see Notes 19 and 20).

Carrying value of the ESOP, recognized under "Other reserve" in the parent company statement of changes in equity, amounted to ₱11.8 million and ₱10.5 million as at December 31, 2015 and 2014, respectively.

22. Interest Income

Sources of interest income follow:

	2015	2014
Cash and cash equivalents (see Note 6)	**₱19,106,126**	₱11,129,626
AFS financial assets (see Note 12)	**53,776,152**	50,136,496
Others	**12,708**	–
	₱72,894,986	₱61,266,122

23. Interest Expense and Other Finance Costs

Sources of interest expense and other finance costs follow:

	2015	2014
Interest expense on:		
Loans (see Notes 16 and 28)	**₱546,748,317**	₱563,162,098
Provision for heavy maintenance (see Note 14)	**11,939,460**	11,978,840
Finance costs:		
Loan prepayment fees	**30,000,000**	–
Amortization of debt issue costs (see Note 16)	**28,791,928**	23,742,514
Lenders' fees	**3,998,564**	1,793,373
Bank charges	**816,530**	537,382
	₱622,294,799	₱601,214,207

24. Other Income

Details of other income follow:

	2015	2014
Income from advertising (see Note 15)	**₱112,313,888**	₱95,112,651
Income from TSF	**32,661,844**	21,540,542
Income from utility facilities (see Note 15)	**5,088,001**	2,354,089
Gain on sale of AFS financial assets (see Note 12)	**2,032,346**	1,169,267
Others (see Note 9)	**3,925,109**	1,610,028
	₱156,021,188	₱121,786,577

25. Income Taxes

The provisions for current income tax for the years ended December 31, 2015 and 2014 are as follows:

	2015	2014
Regular corporate income tax (RCIT)	**₱949,581,001**	₱742,156,676
Final tax on interest income from banks	**14,145,523**	10,611,174
	₱963,726,524	₱752,767,850

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

	2015	2014
Deferred tax assets:		
Provision for heavy maintenance	**₱72,072,409**	₱46,134,929
Long-term incentive plan payable	**21,143,492**	36,000,004
Accrued expenses and provisions	**25,849,075**	12,961,146
Unamortized past service cost	**8,710,551**	9,630,966
Allowance for doubtful accounts	**4,248,618**	1,301,733
Fair value changes on derivatives deferred in equity	**–**	1,132,725

(Forward)

	2015	2014
Fair value changes on AFS financial assets	**₱2,657,153**	₱–
Unrealized foreign exchange loss	**–**	301,826
	134,681,298	107,463,329
Deferred tax liabilities:		
Difference in amortization of service concession assets	**(632,176,295)**	(625,760,012)
Unamortized realized foreign exchange losses capitalized	**(19,592,899)**	(20,483,486)
Fair value changes on AFS financial assets	**–**	(2,826,741)
Pension asset	**(3,616,729)**	(772,195)
Unrealized foreign exchange gain	**(743,146)**	–
	(656,129,069)	(649,842,434)
Deferred tax liabilities – net	**(₱521,447,771)**	(₱542,379,105)

For tax purposes, the Company used the UOP method of amortization for the civil work component of the service concession assets as approved by the BIR.

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

	2015	2014
Income before income tax	**₱3,938,550,836**	₱3,404,123,118
Income tax computed at statutory tax rate of 30%	**1,181,565,251**	1,021,236,935
Add (deduct) the tax effects of:		
Effect of optional standard deduction	**(228,405,536)**	(175,204,186)
Interest income already subjected to final tax	**(21,864,683)**	(18,379,836)
Nondeductible expenses and others	**(301,826)**	417,974
Final tax on interest income	**14,145,523**	10,611,174
Provision for income tax	**₱945,138,729**	₱838,682,061

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

The Company opted to avail of the OSD for the taxable years 2015 and 2014.

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

	2015	2014
Balance at beginning of year	**₱542,379,105**	₱460,788,929
Provision for (benefit from) income tax during the year recognized in the parent company statements of income	**(18,587,795)**	85,914,211
Income tax effect during the year recognized in the parent company statements of comprehensive income	**(2,343,539)**	(4,324,035)
Balance at end of year	**₱521,447,771**	₱542,379,105

26. **Significant Contracts and Commitments**

PNCC Fee

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

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

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

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

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

The Company recorded PNCC fee amounting to ₱482.1 million and ₱442.7 million in 2015 and 2014, respectively (see Note 18).

NLEX-SLEX Connector Road Project

In September 2013, MPTDC was requested by the ROP to consider undertaking the Connector Road Project either through a new joint venture with PNCC, or under the existing joint venture between PNCC and MPTDC and pursuant to the existing STOA amongst PNCC, MNTC and the TRB dated April 30, 1998. Accordingly, the National Economic and Development Authority (NEDA) Board approved that the Connector Road Project proposed by MPTDC will be implemented: (i) through a joint venture between MPTDC and PNCC, or (ii) to the extent possible, through an amendment or extension of the existing joint venture of PNCC and MPTDC and/or STOA pursuant to PD No. 1894. The Connector Road Project is approximately 8-km elevated 2x2 toll road extending the NLEX southward from the end of Segment 10 in C3 Road Caloocan City to PUP Sta. Mesa and connect to the Common Alignment of Skyway Stage 3, and traversing mostly along the Philippine National Railways rail track.

In a letter dated November 7, 2013, DPWH informed MPTDC that it would defer further consideration and processing of the Connector Road Project as a Build-Operate-Transfer (BOT)

unsolicited proposal to allow TRB to pursue the implementation of the same project as an amendment or extension of the existing STOA. Consequently, MNTC as the existing joint venture company, was requested to consider undertaking the NLEX-SLEX Connector Road Project as an extension of Segment 10 of the NLEX under the existing STOA from C3 Road in Caloocan to PUP Sta. Mesa, Manila utilizing the same PNR right-of-way covered by the BOT unsolicited proposal .

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

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

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

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

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

In February 2015, the NEDA Board has confirmed the re-approval of the Connect Road Project through an unsolicited mode subject to Swiss Challenge. During 2015, the DPWH, NEDA and MPTDC and its subsidiaries, as original proponent, continue to negotiate in preparation for the Swiss Challenge. On December 18, 2015, the NEDA Board confirmed and approved the revised terms negotiated by the DPWH and MPTDC and its subsidiaries in order to proceed with the Swiss Challenge.

As at February 17, 2016, the preparations for the Swiss Challenge are still on-going.

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

The Construction Notice to Proceed was issued by MNTC to EEI Corporation in May 2013 and mobilization works commenced in May 2013. The construction works for Segment 9 were substantially completed in March 2015.

Unapplied mobilization advances to EEI Corporation, included as part of "Advances to contractors and consultants" in the parent company balance sheets, amounting to ₱71.0 million as at December 31, 2014 was already applied against payments in 2015.

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

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

NLEX-SCTEX Integration Agreement
On February 5, 2015, MNTC and BCDA executed the Integration Agreement relating to the TCS integration of the NLEX-SCTEX that will involve the adoption of an advanced common transit ticket system which will make operations more efficient and enhance motorists' convenience. The project cost is estimated at ₱650.0 million and expected to be completed within the second quarter of 2016.

27. Financial Risk Management Objectives and Policies

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

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

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

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

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

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

		December 31, 2015				
	Interest Rate	**Within the Year ('000)**	**2–3 Years ('000)**	**4–5 Years ('000)**	**More than 5 Years ('000)**	**Total ('000)**
Cash and cash equivalents[a]	0.25%–2.50%	**₱2,595,489**	**₱–**	**₱–**	**₱–**	**₱2,595,489**
AFS financial assets	1.63%–6.00%	**200,000**	**449,260**	**300,000**	**815,100**	**1,764,360**
Restricted cash[b]	1.00%	–	**889,000**	–	–	**889,000**
		₱2,795,489	**1,338,260**	**300,000**	**815,100**	**5,248,849**
Fixed-rate loans:						
Series A-5	6.54%	**₱960,000**	**₱–**	**₱–**	**₱–**	**₱960,000**
Series A-7	7.27%	**42,102**	**3,999,719**	–	–	**4,041,821**
Series A-10	7.70%	**10,000**	**20,000**	**20,000**	**910,000**	**960,000**
Term-loan facility	5.00%–5.80%	–	**300,000**	**300,000**	**4,400,000**	**5,000,000**
Fixed-rate bonds	5.07%–5.50%	–	–	–	**7,000,000**	**7,000,000**
		₱1,012,102	**₱4,319,719**	**₱320,000**	**₱12,310,000**	**₱17,961,821**

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

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

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

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

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

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

As at December 31, 2015, there were no floating rate loans.

Credit Risk

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

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

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

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

The Company's credit risk is concentrated on AFS financial assets (including short-term deposits) covering at least 67% and 81% of the Company's financial assets, except cash and cash equivalents, as at December 31, 2015 and 2014, respectively. The table below shows the

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

	December 31, 2015	December 31, 2014
Cash and cash equivalents[a]	**₱2,595,489,451**	₱2,916,206,125
Short-term deposits	**1,225,420,748**	4,789,522,429
Receivables[b]	**553,935,880**	674,354,474
Due from related parties	**4,072,845**	12,494,187
Short-term investments[c]	–	17,846,800
AFS financial assets	**1,715,128,246**	1,938,112,728
Refundable deposits[d]	**3,694,561**	3,694,561
Restricted cash[d]	**889,000,000**	889,000,000
Total credit risk exposure	**₱6,986,741,731**	₱11,241,231,304

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

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

As at December 31, 2015 and 2014, the aging analysis of past due but not impaired trade receivables follows. All other financial assets of the Company are neither past due nor impaired as at December 31, 2015 and 2014.

	Neither Past Due nor	**Past Due but not Impaired**						
Year	**Impaired**	**<31 Days**	**31–60 Days**	**61–90 Days**	**91–180 Days**	**Over 180 Days**	**Total**	**Total**
2015	**₱248,866,172**	**₱54,219,711**	**₱1,069,731**	**₱975,781**	**₱746,254**	**₱5,660,897**	**₱62,672,374**	**₱311,538,546**
2014	423,907,069	756,560	22,550,213	3,438,431	844,454	10,527,817	38,117,475	462,024,544

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

	December 31, 2015			
	Neither Past Due nor Impaired - High-grade	**Past Due but not Impaired**	**Impaired**	**Total**
Cash and cash equivalents[a]	**₱2,595,489,451**	**₱–**	**₱–**	**₱2,595,489,451**
Short-term deposits	**1,225,420,748**	**–**	**–**	**1,225,420,748**
Receivables:				
Trade receivables	**248,866,172**	**62,672,374**	**2,389,832**	**313,928,378**
Interest receivables	**15,943,301**	**–**	**–**	**15,943,301**
Advances to DPWH	**202,883,464**	**–**	**–**	**202,883,464**
Other receivables	**23,570,569**	**–**	**11,772,227**	**35,342,796**
Due from related parties	**4,072,845**	**–**	**–**	**4,072,845**
AFS financial assets	**1,715,128,246**	**–**	**–**	**1,715,128,246**
Refundable deposits[b]	**3,694,561**	**–**	**–**	**3,694,561**
Restricted cash[b]	**889,000,000**	**–**	**–**	**889,000,000**
	₱6,924,069,357	**₱62,672,374**	**₱14,162,059**	**₱7,000,903,790**

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

	December 31, 2014			
	Neither Past Due nor Impaired - High-grade	Past Due but not Impaired	Impaired	Total
Cash and cash equivalents[a]	₱2,916,206,125	₱–	₱–	₱2,916,206,125
Short-term deposits	4,789,522,429	–	–	4,789,522,429
Receivables:				
Trade receivables	423,907,069	38,117,475	2,238,191	464,262,735
Interest receivables	13,512,861	–	–	13,512,861
Advances to DPWH	173,678,456	–	–	173,678,456
Other receivables	25,138,613	–	7,645,006	32,783,619
Due from related parties	12,494,187	–	–	12,494,187
Short-term investments[b]	17,846,800	–	–	17,846,800
AFS financial assets	1,938,112,728	–	–	1,938,112,728
Refundable deposits[c]	3,694,561	–	–	3,694,561
Restricted cash[c]	889,000,000	–	–	889,000,000
	₱11,203,113,829	₱38,117,475	₱9,883,197	₱11,251,114,501

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

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

Foreign Currency Risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. As at December 31, 2015 and 2014, the Company is not significantly exposed to foreign currency risk. The minimal exposure to foreign currency risk relates to the Company's foreign currency denominated cash and cash equivalents, short-term investments (included in "Other current assets" account in the parent company balance sheet) and accounts payables as at December 31, 2015 and 2014.

Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. The Company is not exposed to significant liquidity risk because of the nature of its operations which provides daily inflows of cash from toll collections. The Company is able to build up sufficient cash from operating revenues prior to the maturity of its payment obligations. The Company arranged additional short-term lines to boost its ability to meet short-term liquidity needs. The Company has short-term credit lines amounting to ₱2,450.0 million and ₱2,825.0 million as at December 31, 2015 and 2014, respectively, and cash and cash equivalents amounting to ₱2,656.9 million and ₱2,953.9 million as at December 31, 2015 and 2014, respectively, that are allocated to meet the Company's short-term liquidity needs.

The tables below summarize the maturity profile of the Company's financial assets and financial liabilities as at December 31, 2015 and 2014 based on undiscounted payments:

	December 31, 2015				
	Within the Year	**2–3 Years**	**4–5 Years**	**More than 5 Years**	**Total**
Financial Assets					
Cash and cash equivalents	**₱2,656,864,610**	**₱–**	**₱–**	**₱–**	**₱2,656,864,610**
Short-term deposits	**1,225,420,748**	**–**	**–**	**–**	**1,225,420,748**
Receivables [(a)]	**553,935,880**	**–**	**–**	**–**	**553,935,880**
Due from related parties	**4,072,845**	**–**	**–**	**–**	**4,072,845**
AFS financial assets [(b)]	**256,791,692**	**552,234,537**	**376,223,604**	**869,099,663**	**2,054,349,496**
Refundable deposits	**–**	**–**	**–**	**3,694,561**	**3,694,561**
Restricted cash	**–**	**889,000,000**	**–**	**–**	**889,000,000**
	₱4,697,085,775	**₱1,441,234,537**	**₱376,223,604**	**₱872,794,224**	**₱7,387,338,140**
Financial Liabilities					
Accounts payable and other current liabilities [(c)]	**₱2,102,931,740**	**–**	**₱–**	**₱–**	**₱2,102,931,740**
Dividends payable	**1,422,576,000**	**–**	**–**	**–**	**1,422,576,000**
Long-term debt [(d)]	**2,042,011,488**	**6,121,358,466**	**1,697,568,817**	**13,977,224,180**	**23,838,162,951**
	₱5,567,519,228	**₱6,121,358,466**	**₱1,697,568,817**	**₱13,977,224,180**	**₱27,363,670,691**

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

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

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

Capital Management

The primary objective of the Company's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximize shareholder value while complying with the financial covenants required by the lenders. These loan covenants were overhauled in April 2011 and were amended in 2015. Under the loan agreements, MNTC is required a Maintenance Debt Service Coverage Ratio (DSCR) of not less than 1.15 times and maintain a Debt to Equity Ratio not exceeding 3.0 times until the loan maturity. For the Fixed Rate Bonds, the Company is required to maintain a Debt to Equity Ratio of not exceeding 3.0 times for the first three years after the date of the loan agreement and not exceeding 2.5 times after such period.

The loan agreement provides that MNTC may incur new loans or declare dividends as long as the Pro-forma DSCR for the relevant year is not less than 1.3 times.

The Company also ensures that its debt to equity ratio is in line with the requirements of the Board of Investments (BOI). BOI requires the Company not to exceed 75:25 debt to equity ratio as proof of capital build-up. The Company's long-term debt to equity ratio stood at both 69:31 for 2015 and 2014 indicating that the Company has the capacity to incur additional long-term debt to build up its capital.

	2015	2014
Long-term debt	**₱17,814,581,945**	₱16,746,069,489
Total equity	**8,133,920,492**	7,627,856,268
Total capital	**₱25,948,502,437**	₱24,373,925,757
Debt to equity ratio	**69:31**	69:31

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

28. Financial Assets and Financial Liabilities

Fair Values

A comparison of carrying and fair values of all of the Company's financial instruments other than those with carrying amounts that are reasonable approximate of fair values, by category as at December 31, 2015 and 2014 follows:

	2015		2014	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Financial Assets				
AFS financial assets:				
UITF*	**₱1,225,420,748**	**₱1,225,420,748**	₱4,789,522,429	₱4,789,522,429
Investment in treasury bonds and notes	**1,160,612,246**	**1,160,612,246**	1,396,372,228	1,396,372,228
Investment in corporate bonds	**456,921,000**	**456,921,000**	441,740,500	441,740,500
Investment in LTNCD	**97,595,000**	**97,595,000**	100,000,000	100,000,000
	₱2,940,548,994	**₱2,940,548,994**	₱6,727,635,157	₱6,727,635,157
Financial Liabilities				
Other financial liabilities:				
Long-term debt	**₱17,814,581,945**	**₱18,328,964,217**	₱16,746,069,489	₱17,466,778,765

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

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

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

AFS Financial Assets
The fair value of investment in treasury bonds and notes, corporate bonds and LTNCD is based on the quoted market price of the financial instruments as at December 31, 2015 and 2014. The fair value of the UITF is based on the estimated fair market value of the assets of the fund based on prices supplied by independent sources as at December 31, 2015 and 2014.

Long-term Debt
For both fixed rate and floating rate (repriceable every six months) peso-denominated notes and loans, except the fixed-rate bonds where the fair value is based on its quoted market price as at December 31, 2015 and 2014, estimated fair value is based on the discounted value of future cash flows using the prevailing peso interest rates. In 2015 and 2014, the prevailing peso interest rates ranged from 3.2% to 6.1% and 3.1% to 6.2%, respectively.

Fair Value Hierarchy
As at December 31, 2015 and 2014, the Company held the following financial instruments measured at fair value:

	2015	**Level 1**	**Level 2**	**Level 3**
Assets measured at fair value				
AFS financial assets:				
UITF*	**₱1,225,420,748**	**₱–**	**₱1,225,420,748**	**₱–**
Investment in treasury bonds and notes	**1,160,612,246**	**959,967,246**	**200,645,000**	**–**
Investment in corporate bonds	**456,921,000**	**456,921,000**	**–**	**–**
Investment in LTNCD	**97,595,000**	**97,595,000**	**–**	**–**
	₱2,940,548,994	**₱1,514,483,246**	**₱1,426,065,748**	**₱–**
Liabilities for which fair values are disclosed				
Other financial liabilities-				
Long-term debt	**₱18,328,964,217**	**₱7,064,938,000**	**₱11,264,026,217**	**₱–**

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

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

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

During the year ended December 31, 2015, a portion of the investment in treasury bonds and notes amounting to ₱200.6 million was transferred from Level 1 to Level 2. These investments were proven to be inactively traded due to the lower average daily trading volume in December 2015, as well as no availability of bid-offer on value date. For the year ended December 31, 2014, there were no transfers between Level 1 and Level 2 fair value measurements and no transfers into and out of Level 3 fair value measurements.

Derivative Instruments

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

The swap was designated as cash flow hedge at trade date. As at June 30, 2011, the effectiveness ratio was only 58.05% and the hedging relationship failed to meet the 80% to 125% hedge effectiveness criterion of PAS 39. As a result, the hedge was de-designated by the Company. The ₱39.0 million (gross of ₱10.7 million tax) deferred in equity representing the negative fair value change of the swap up to March 31, 2011 (the last testing date when the hedge was still effective) is being amortized over the term of the hedged loan and recognized under "Interest expense and other finance costs" account. As at December 31, 2015 and 2014, the unamortized amount deferred in equity amounted to nil (after amortization of ₱3.8 million) and ₱3.8 million (gross of ₱1.1 million tax) after amortization of ₱8.9 million, respectively.

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

As discussed in Note 16, this swap was pre-terminated on December 28, 2012.

Hedge Effectiveness of Cash Flow Hedges. Movements of the Company's cumulative translation adjustments on cash flow hedges under "Other comprehensive income (loss) reserve" account for the years ended December 31, 2015 and 2014 follow:

	2015	2014
Balance at beginning of year	**(₱3,775,752)**	(₱12,710,899)
Transferred to parent company statement of income:		
Interest expense*	**3,775,752**	8,935,147
Balance at end of year	**–**	(3,775,752)
Tax effects of items taken directly to equity		1,132,726
	₱–	(₱2,643,026)

* *Included in "Interest expense on loans" under "Interest expense and other finance costs" account (see Note 23).*

29. **Contingencies and Others**

a. Value-Added Tax

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

   On July 15, 2008, the Company filed a petition for review under Section 226 of the Local Government Code ("LGC") with the Local Boards of Assessment Appeals (LBAA) to annul and set aside the action of the provincial assessor of the province of Bulacan, in *motu proprio* issuing five (5) assailed tax declarations under the name of the Company as administrator/ beneficial user and classifying and categorizing the NLEX as a commercial property subject to RPT. In August 2008, the respondent provincial assessor filed its answer with motion to dismiss. In September 2008, the Company filed the corresponding reply with opposition. The LBAA scheduled an ocular inspection of the subject real properties on May 7, 2009 to determine whether said properties in fact covers portions of the NLEX, which the Company argues are part of public land exempt from RPT. The ocular inspection however was reset due to the unavailability of some of the members of the LBAA. The LBAA has yet to re-schedule the ocular inspection as at February 17, 2016. The case is still pending before the LBAA of the Province of Bulacan.

   In April 2013, the Company filed a petition for review under Section 226 of the LGC with the LBAA to declare as null and void the assailed assessment and the assailed thirty-four (34) tax declarations *motu proprio* issued by the provincial assessor of the province of Bulacan in the name of the Company as owner of the NLEX and categorizing the NLEX as a commercial property, subject to RPT, and the corresponding notice of assessment dated January 10, 2013 for RPT against the Company over the said properties pursuant to Section 204 of the LGC. In June 2013, the LBAA issued an order denying due course to the petition. In July 2013, the Company filed a motion for reconsideration praying that the order be reconsidered and that the Company's petition be given due course. In September 2013, the Company received an order from the LBAA setting the date for the hearing on the Company's motion for reconsideration on September 25, 2013. In September 2013, the Company received the province of Bulacan's comment to the Company's motion for reconsideration. Since the Company learned of the September 25, 2013 hearing only after it received the order on September 26, 2013, the Company filed a manifestation and motion praying that (i) the Company be given until October 16, 2013 within which to file its reply to the comment, and (ii) the hearing on the motion for reconsideration be reset to October 22, 2013. During the hearing on November 20, 2013, the province requested for time to file its rejoinder. The LBAA also ordered the Respondents to submit samples of the tax declarations in question. The LBAA then set another hearing on December 11, 2013. The LBAA submitted the Motion for Reconsideration for resolution during the December 11, 2013 hearing. As at February 17, 2016, the LBAA has not yet resolved the motion.

   On September 18, 2013, the Company received Notices of Realty Tax Delinquencies for the years 2006 to 2013 issued by the Provincial Treasurer of Bulacan, which state that, if after fifteen (15) days from the Company's receipt of the Notices, the Company fails to pay or remit the alleged delinquent RPT due in the amount of ₱304.9 million, the remedies provided for under the law for the collection of delinquent taxes shall be applied to enforce collection. On September 27, 2013, the BLGF wrote a letter to the LGU advising it to hold in abeyance any further course of action pertaining to the RPT delinquency covering the subject 34 tax

declarations. On October 3, 2013, the Company received another notice dated October 1, 2013 from the Provincial Treasurer, alleging that since the period given in the Notices has already elapsed, the Province may apply “the remedies under the law for the collection of delinquent taxes.” On October 4, 2013, the Provincial Treasurer withdrew the October 3, 2013 notice to respect the directive from the DOF-BLGF to hold the enforcement of any collection remedies in abeyance.

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

c. Toll Rate Adjustments

On August 26, 2015, MNTC wrote the ROP, acting by and through the TRB, a Final Demand for Compensation based on Overdue 2013 and 2015 Toll Rate Adjustments (Final Demand).

In the letter, MNTC stated that, the ROP’s/TRB’s inexcusable refusal to act on the Petitions for Approval of Periodic Toll Rate Adjustment effective January 1, 2013 (2012 Petition) and January 1, 2015 (2014 Petition) is in total disregard and a culpable violation of applicable laws and contractual provisions to the great prejudice of MNTC, which has continuously relied in good faith on such contractual provisions as well as on the timely and proper performance of the ROP’s/TRB’s legal and contractual duties.

Thus, as of July 31, 2015, the value of the compensation due to MNTC amounts to ₱2.3 billion (exclusive of VAT) and ₱0.2 billion (exclusive of VAT) under the 2012 and 2014 Petitions, respectively.

In view of the failure of the ROP/TRB to heed the Final Demand, MNTC sent a Notice of Dispute to the ROP/TRB dated September 11, 2015 invoking STOA Clause 19 (Settlement of Disputes) that require the parties to reach an amicable settlement within 60 calendar days. The TRB sent several letters to MNTC requesting the extension of the amicable settlement period, the latest letter of which, requests that the amicable settlement period be further extended to April 12, 2016.

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

30. **Standards Issued but Not Yet Effective**

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below. The Company intends to adopt these standards, if applicable, when they become effective. Adoption of these standards and interpretations are not expected to have any significant impact on the financial statements of the Company, except for the adoption of PFRS 9, *Financial Instruments*, International Financial Reporting Standards (IFRS) 15, *Revenue from Contracts with Customers* and IFRS 16, *Leases*. The nature of the impending changes in accounting policy on adoption of PFRS 9, IFRS 15 and IFRS 16 are described below.

No definite adoption date prescribed by the SEC and FRSC

- Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*

Effective January 1, 2016

- PAS 1, *Presentation of Financial Statements – Disclosure Initiatives* (Amendments)
- PAS 16, *Property, Plant and Equipment*, and PAS 38, *Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortization* (Amendments)
- PAS 16, *Property, Plant and Equipment*, and PAS 41, *Agriculture – Bearer Plants* (Amendments)
- PAS 27, *Separate Financial Statements – Equity Method in Separate Financial Statements* (Amendments)
- PFRS 10, *Consolidated Financial Statements*, and PAS 28, *Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*
- PFRS 10, *Consolidated Financial Statements*, PFRS 12, *Disclosure of Interests in Other Entities*, and PAS 28, *Investments in Associates and Joint Ventures – Investment Entities: Applying the Consolidation Exception* (Amendments)
- PFRS 11, *Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operations* (Amendments)
- PFRS 14, *Regulatory Deferral Accounts*
- *Annual Improvements to PFRSs (2012-2014 cycle)*
  - PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations – Changes in Methods of Disposal*
  - PFRS 7, *Financial Instruments: Disclosures – Servicing Contracts*
  - PFRS 7 - *Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements*
  - PAS 19, *Employee Benefits – Regional Market Issue regarding Discount Rate*
  - PAS 34, *Interim Financial Reporting – Disclosure of Information 'Elsewhere in the Interim Financial Report'*

Effective January 1, 2018

- 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. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions. Early application of previous versions of PFRS 9 (2009, 2010 and

2013) is permitted if the date of initial application is before February 1, 2015. The Company did not early adopt PFRS 9.

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

Standards issued by the International Accounting Standards Board (IASB) but not yet adopted locally by the SEC and FRSC

- International Financial Reporting Standards (IFRS) 15, *Revenue from Contracts with Customers*. IFRS 15 was issued in May 2014 by the International Accounting Standards Board (IASB) and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue.

  The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018 with early adoption permitted. IFRS 15 was not yet adopted by FRSC. The Company is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date once adopted locally.

- IFRS 16, *Leases*. On January 13, 2016, the IASB issued its new standards, IFRS 16, *Leases*, which replaces International Accounting Standard (IAS) 17, the current leases standard, and the related Interpretations.

  Under the new standard, lessees will no longer classify their leases as either operating or finance leases in accordance with IAS 17. Rather, lessees will apply the single-asset model. Under this model, lessees will recognize the assets and related liabilities for most leases on their balance sheets, and subsequently, will depreciate the lease assets and recognize interest on the lease liabilities in their profit or less. Lease with a term of 12 months or less or for which the underlying asset if of low value are exempted from these requirements.

  The accounting by lessors is substantially unchanged as the new standard carried forward the principles of lessor accounting under IAS 17. Lessors, however, will be required to disclose more information in their financial statements, particularly on the risk exposure to residual value.

  The new standard is effective for annual periods beginning on or after January 1, 2019. Entities may early adopt IFRS 16 but only if they have also adopted IFRS 15, *Revenue from Contracts with Customers*. When adopting IFRS 16, an entity is permitted to use either a full retrospective or a modified retrospective approach, with options to use certain transition reliefs. The Company is currently assessing the impact of IFRS 16 and plans to adopt the new standard on the required effective date once adopted locally.

31. Events After the Reporting Period

On January 29, 2016, the Company entered into a new ten-year term loan facility agreement with Unionbank of the Philippines for a facility amount of ₱5.0 billion to finance capital expenditures such as partial funding of Segment 10, NLEX-SLEX Connector Road and other toll road projects of the Company. On February 3, 2016, MNTC made its initial drawdown amounting to ₱1.0 billion. The undrawn amount will be available for drawing in one (1) or more availments on any banking day within one (1) year from July 24, 2015, or such longer period as the parties may agree upon in writing.

The applicable interest rate for the loan shall be 130 basis points plus the prevailing 10 year PDST-R2, provided that the applicable interest rate shall not be lower than 5% per annum. Interest payment shall be made quarterly until maturity date of February 3, 2026.

32. Supplementary Information Required Under Revenue Regulations 15-2010

In compliance with the requirements set forth by RR No. 15-2010 hereunder are the information on taxes and license fees paid as at and for the year ended December 31, 2015.

Value-added Tax (VAT)
Details of the Company's net sales/receipts, output VAT and input VAT accounts are as follows:

a. Net Sales/Receipts and Output VAT declared in the Company's VAT returns filed in 2015

	Net Sales/ Receipts	Output VAT
Sales of services:		
Vatable receipts	₱8,628,657,861	₱1,035,438,943

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

Sales from services represent collections received from such sales which for the year amounted to ₱8,628.7 million, of which ₱8,451.3 million pertains to toll collections which are under "Operating revenues" account in the parent company statements of income and ₱177.4 million pertains to collections from TSF and others which are recorded in "Other income" account in the parent company statements of income.

b. Input VAT declared in the Company's VAT returns filed for 2015 are as follows:

Balance at beginning of year:	
Carried over from previous period	₱–
Input VAT deferred on capital goods exceeding ₱1.0 million from previous period	4,381,600
Current year's importations of goods other than capital goods	5,806,216
Current year's domestic purchases/payments for:	
Goods other than for resale or manufacture	6,880,516
Domestic purchase of services:	
Services lodged under cost of service	562,918,065
Services lodged under other accounts	69,449
Capital goods not subject to amortization	104,532
Capital goods subject to amortization	376,711,755
Input VAT claimed against output VAT	(590,040,199)
Balance at end of year	₱366,831,934

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

Documentary Stamp Tax (DST)
The DST paid/accrued on the following transactions are:

Transaction	Amount	DST thereon
Loan instrument	₱3,000,000,000	₱15,000,000
Advances to MPTC	90,000,000	450,000
	₱3,090,000,000	₱15,450,000

Taxes, Duties and License Fees
This includes all other taxes, local and national, including real estate taxes, licenses and permit fees for the year ended December 31, 2015:

a. Local taxes

Local Business Taxes	₱49,682,143
Real Property Taxes*	9,412,196
License and Permit Fees	2,535,631
Filing, registration and notarial fees	581,269
	₱62,211,239

** Presented as part of "Cost of services"*

b. National taxes

Documentary stamp taxes	₱450,000
Fringe benefits taxes	3,818,254
	₱19,268,254

Withholding Taxes
Details of withholding tax payments for the year ended December 31, 2015 are as follows:

Expanded withholding taxes	₱333,252,303
Withholding taxes on compensation and benefits	74,708,638
Final withholding taxes	68,312,101
	₱476,273,042

Tax Assessments and Litigations

Real Property Tax Assessment. On July 15, 2008, MNTC received five (5) assailed tax declarations under the name of MNTC as administrator/beneficial user and classifying and categorizing the NLEX as a commercial property subject to RPT. In August 2008, the respondent provincial assessor filed its answer with motion to dismiss. In September 2008, MNTC filed the corresponding reply with opposition. The LBAA scheduled an ocular inspection of the subject real properties on May 7, 2009 to determine whether said properties in fact covers portions of the NLEX, which MNTC argues are part of public land exempt from RPT. The ocular inspection however was reset due to the unavailability of some of the members of the LBAA. The LBAA has yet to re-schedule the ocular inspection as at February 17, 2016. The case is still pending before the LBAA of the Province of Bulacan.

In April 2013, MNTC received assailed thirty-four (34) tax declarations *motu proprio* issued by the provincial assessor of the province of Bulacan in the name of MNTC as owner of the NLEX and categorizing the NLEX as a commercial property, subject to RPT, and the corresponding notice of assessment dated January 10, 2013 for RPT against MNTC over the said properties pursuant to Section 204 of the LGC. In June 2013, the LBAA issued an order denying due course to the petition. In July 2013, MNTC filed a motion for reconsideration praying that the order be reconsidered and that MNTC's petition be given due course. In September 2013, MNTC received an order from the LBAA setting the date for the hearing on MNTC's motion for reconsideration on September 25, 2013. In September 2013, MNTC received the province of Bulacan's comment to MNTC's motion for reconsideration. Since MNTC learned of the September 25, 2013 hearing only after it received the order on September 26, 2013, MNTC filed a manifestation and motion praying that (i) MNTC be given until October 16, 2013 within which to file its reply to the comment, and (ii) the hearing on the motion for reconsideration be reset to October 22, 2013. During the hearing on November 20, 2013, the province requested for time to file its rejoinder. The LBAA also ordered the Respondents to submit samples of the tax declarations in question. The LBAA then set another hearing on December 11, 2013. The LBAA submitted the Motion for Reconsideration for resolution during the December 11, 2013 hearing. As at February 17, 2016, the LBAA has not yet resolved the motion.

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