

## **NLEX Corporation**

*(Formerly Manila North Tollways Corporation)*

*(A Subsidiary of Metro Pacific Tollways  
Development Corporation)*

## **and A Subsidiary**

Consolidated Financial Statements  
December 31, 2016 and 2015  
and Years Ended December 31, 2016,  
2015 and 2014

and

Independent Auditor's Report



## INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders  
NLEX Corporation

### Opinion

We have audited the consolidated financial statements of NLEX Corporation (formerly Manila North Tollways Corporation, a subsidiary of Metro Pacific Tollways Development Corporation) and its subsidiary (the Company), which comprise the consolidated balance sheets as at December 31, 2016 and 2015, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2016, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2016 and 2015, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2016 in accordance with Philippine Financial Reporting Standards (PFRSs).

### Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.



## Recoverability of Service Concession Assets Not Yet Available for Use

The Company has entered into several service concession agreements with the Philippine Government and/or its agencies or instrumentalities, of which ₱8.8 billion of these service concession assets are not yet available for use. Under Philippine Accounting Standard (PAS) 36, *Impairment of Assets*, the Company is required to perform annual impairment test on the service concession assets not yet available for use. These annual impairment tests are significant to our audit because the amounts are material to the consolidated financial statements. In addition, the determination of the recoverable amount of the cash-generating units (CGUs) to which the service concession assets relates, involves significant assumptions about the future results of business such as revenue growth, gross margins and discount rates which are applied to the cash flow forecasts. The assumption on revenue growth mainly relates to the expected volume of traffic of the toll roads. Refer to Notes 2 and 8 to the consolidated financial statements for the details of service concession assets.

### *Audit response*

We obtained an understanding of the Company's impairment assessment process and the related controls. We also involved our internal specialist in evaluating the methodologies and the assumptions used. These assumptions include the expected volume of traffic, gross margins and discount rates. We compared the forecast revenue growth and gross margins against the historical data of the CGUs and inquired from management and operations personnel about the plans to support the forecast revenues. We also compared the Company's key assumptions such as traffic volume against historical data and against available studies by independent parties that were commissioned by the Company. We reviewed the weighted average cost of capital (WACC) used in the impairment test by comparing it with WACC of other comparable companies in the regions where the Company operates. Furthermore, we reviewed the Company's disclosures about those assumptions to which the outcome of the impairment test is most sensitive, specifically those that have the most significant effect on determining the recoverable amount of the service concession assets not yet available for use.

## Amortization of Service Concession Assets using Unit-of-Production Method

The service concession assets are amortized using the unit-of-production (UOP) method. The amortization is based on the ratio of the actual traffic volume to the total expected traffic volume of the underlying toll expressways over the remaining concession period. The UOP amortization method is a key audit matter as the method involves significant management judgment and estimates, particularly in determining the total expected traffic volume over the remaining period of the concession agreement. The Company reviews annually the total expected traffic volume with reference to traffic projection reports. It considers different factors such as population growth and ongoing and future expansions. Refer to Notes 4 and 8 to the consolidated financial statements for the related discussions on service concession assets.



### *Audit response*

We obtained an understanding of management's processes and controls in the estimation of traffic volume. We then evaluated the competence, capabilities and objectivity of management's specialists who estimated the forecasted volumes. We also reviewed the report of the management's specialists and gained an understanding of the methodology and the basis of computing the forecasted volumes. Furthermore, we compared the actual traffic volume during the year against the data generated from the toll collection system. We recalculated the amortization expense for the year and the service concession assets as of year-end based on the established traffic volume.

### **Other Information**

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement) and SEC Form 17-A for the year ended December 31, 2016, but does not include the consolidated financial statements and our auditor's report thereon. The SEC Form 20-IS (Definitive Information Statement) and SEC Form 17-A for the year ended December 31, 2016 are expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits, or otherwise appears to be materially misstated.

### **Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements**

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

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.



## **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with PSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.



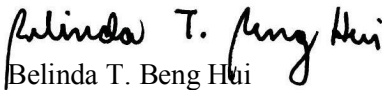
We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Belinda T. Beng Hui.

SYCIP GORRES VELAYO & CO.



Belinda T. Beng Hui  
Partner

CPA Certificate No. 88823

SEC Accreditation No. 0923-AR-1 (Group A),  
May 1, 2016, valid until May 1, 2019

Tax Identification No. 153-978-243

BIR Accreditation No. 08-001998-78-2015,  
June 26, 2015, valid until June 25, 2018

PTR No. 5908672, January 3, 2017, Makati City

February 16, 2017



## **INDEPENDENT AUDITOR'S REPORT**

The Board of Directors and Stockholders  
NLEX Corporation  
NLEX Compound  
Balintawak, Caloocan City

We have audited the consolidated financial statements of NLEX Corporation (formerly Manila North Tollways Corporation, a subsidiary of Metro Pacific Tollways Development Corporation) and its subsidiary (the Company) as at and for the year ended December 31, 2016, on which we have rendered the attached report dated February 16, 2017.

In compliance with Securities Regulation Code Rule 68, As Amended (2011), we are stating that the above Company has five (5) stockholders owning more than one hundred (100) shares each.

**SYCIP GORRES VELAYO & CO.**

Belinda T. Beng Hui  
Partner  
CPA Certificate No. 88823  
SEC Accreditation No. 0923-AR-1 (Group A),  
May 1, 2016, valid until May 1, 2019  
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June 26, 2015, valid until June 25, 2018  
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February 16, 2017



## **INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY SCHEDULES**

The Board of Directors and Stockholders  
NLEX Corporation  
NLEX Compound  
Balintawak, Caloocan City

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of NLEX Corporation (formerly Manila North Tollways Corporation, a subsidiary of Metro Pacific Tollways Development Corporation) and its subsidiary (the Company) as at December 31, 2016 and 2015 and for each of the three years in the period ended December 31, 2016, included in this Form 17-A, and have issued our report thereon dated February 16, 2017. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to the Consolidated Financial Statements and Supplementary Schedules are the responsibility of the Company's management. These schedules are presented for purposes of complying with Securities Regulation Code Rule 68, As Amended (2011) and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state, in all material respects, the information required to be set forth therein in relation to the basic financial statements taken as a whole.

**SYCIP GORRES VELAYO & CO.**

Belinda T. Beng Hui  
Partner  
CPA Certificate No. 88823  
SEC Accreditation No. 0923-AR-1 (Group A),  
May 1, 2016, valid until May 1, 2019  
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February 16, 2017





**NLEX CORPORATION**  
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**AND A SUBSIDIARY**

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**CONSOLIDATED BALANCE SHEETS**

	<b>December 31</b>	
	<b>2016</b>	<b>2015</b>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents (Note 6)	<b>₱389,912,852</b>	₱2,669,324,105
Short-term deposits (Notes 12 and 30)	<b>82,407,389</b>	1,225,420,748
Receivables (Notes 7 and 16)	<b>593,177,913</b>	564,116,578
Inventories - at cost	<b>91,176,361</b>	71,393,140
Available-for-sale financial assets (Notes 12 and 30)	–	200,645,000
Other current assets (Note 13)	<b>969,432,484</b>	748,590,099
Total Current Assets	<b>2,126,106,999</b>	5,479,489,670
<b>Noncurrent Assets</b>		
Service concession assets (Note 8)	<b>30,672,147,592</b>	22,798,406,210
Property and equipment (Note 9)	<b>134,971,360</b>	121,077,788
Investment properties (Note 10)	<b>41,443,879</b>	–
Other intangible assets (Note 11)	<b>18,258,492</b>	16,681,278
Available-for-sale financial assets (Notes 12 and 30)	<b>1,353,667,695</b>	1,514,483,246
Pension asset (Note 23)	<b>904,680</b>	12,055,764
Deferred tax assets - net (Note 27)	<b>645,104</b>	–
Other noncurrent assets (Note 28)	<b>940,551,082</b>	942,806,342
Total Noncurrent Assets	<b>33,162,589,884</b>	25,405,510,628
	<b>₱35,288,696,883</b>	₱30,885,000,298
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liabilities</b>		
Accounts payable and other current liabilities (Notes 14 and 16)	<b>₱3,178,755,241</b>	₱2,324,167,861
Income tax payable	<b>303,456,146</b>	258,655,448
Dividends payable (Note 19)	–	1,422,576,000
Provisions (Note 15)	<b>320,814,502</b>	167,361,768
Current portion of long-term debt (Notes 17 and 30)	<b>278,737,740</b>	992,503,413
Total Current Liabilities	<b>4,081,763,629</b>	5,165,264,490
<b>Noncurrent Liabilities</b>		
Long-term debt - net of current portion (Notes 17 and 30)	<b>18,543,924,749</b>	16,822,078,532
Service concession fees payable (Notes 18 and 30)	<b>2,335,916,229</b>	–
Long-term incentive plan payable (Note 23)	<b>129,442,315</b>	70,478,307
Provisions (Note 15)	<b>98,894,187</b>	172,092,670
Deferred tax liabilities - net (Note 27)	<b>486,884,747</b>	521,447,771
Other noncurrent liabilities (Note 30)	<b>253,292</b>	–
Total Noncurrent Liabilities	<b>21,595,315,519</b>	17,586,097,280
Total Liabilities	<b>25,677,079,148</b>	22,751,361,770

(Forward)



	<b>December 31</b>	
	<b>2016</b>	2015
<b>Equity</b> (Note 19)		
Capital stock	<b>¥1,776,000,000</b>	¥1,776,000,000
Additional paid-in capital	<b>3,749,711,168</b>	3,749,711,168
Retained earnings	<b>4,109,784,668</b>	2,622,707,396
Other comprehensive income (loss) reserve	<b>(36,912,383)</b>	(26,569,475)
Other reserve (Note 24)	<b>13,034,282</b>	11,789,439
Total Equity	<b>9,611,617,735</b>	8,133,638,528
	<b>¥35,288,696,883</b>	¥30,885,000,298

*See accompanying Notes to Consolidated Financial Statements.*



**NLEX CORPORATION**  
**(Formerly Manila North Tollways Corporation)**  
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**AND A SUBSIDIARY**

**CONSOLIDATED STATEMENTS OF INCOME**

	<b>Years Ended December 31</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
<b>OPERATING REVENUES</b>			
Toll fees (net of discounts amounting to ₱136,344,787 in 2016, ₱111,967,528 in 2015, and ₱79,048,588 in 2014)	<b>₱10,538,908,306</b>	₱8,453,380,333	₱7,516,586,901
Sales of magnetic cards	<b>5,000</b>	13,482	5,357
Toll revenues	<b>10,538,913,306</b>	8,453,393,815	7,516,592,258
Non-toll revenues (Note 20)	<b>157,434,640</b>	150,063,733	119,007,282
Total revenues	<b>10,696,347,946</b>	8,603,457,548	7,635,599,540
<b>COST OF SERVICES</b> (Note 21)	<b>(4,392,888,455)</b>	(3,420,625,851)	(3,146,485,760)
<b>GROSS PROFIT</b>	<b>6,303,459,491</b>	5,182,831,697	4,489,113,780
<b>CONSTRUCTION REVENUE</b> (Note 8)	<b>6,170,060,989</b>	3,328,364,819	2,425,272,471
<b>CONSTRUCTION COSTS</b> (Note 8)	<b>(6,170,060,989)</b>	(3,328,364,819)	(2,425,272,471)
<b>GENERAL AND ADMINISTRATIVE EXPENSES</b> (Note 22)	<b>(726,169,402)</b>	(708,962,366)	(552,082,087)
<b>INTEREST EXPENSE AND OTHER FINANCE COSTS</b> (Note 26)	<b>(442,912,617)</b>	(622,295,149)	(601,214,207)
<b>INTEREST INCOME</b> (Note 25)	<b>62,089,704</b>	72,896,989	61,266,122
<b>FOREIGN EXCHANGE GAIN (LOSS) - net</b>	<b>(254,488)</b>	7,840,647	4,260,215
<b>OTHER INCOME</b>	<b>10,479,541</b>	5,957,455	2,779,295
<b>INCOME BEFORE INCOME TAX</b>	<b>5,206,692,229</b>	3,938,269,273	3,404,123,118
<b>PROVISION FOR (BENEFIT FROM) INCOME TAX</b> (Note 27)			
Current	<b>1,152,806,403</b>	963,726,925	752,767,850
Deferred	<b>(33,191,446)</b>	(18,587,795)	85,914,211
	<b>1,119,614,957</b>	945,139,130	838,682,061
<b>NET INCOME</b>	<b>₱4,087,077,272</b>	₱2,993,130,143	₱2,565,441,057

*See accompanying Notes to Consolidated Financial Statements.*



**NLEX CORPORATION**  
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**AND A SUBSIDIARY**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

	<b>Years Ended December 31</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
<b>NET INCOME</b>	<b>₱4,087,077,272</b>	<b>₱2,993,130,143</b>	<b>₱2,565,441,057</b>
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>			
<i>Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:</i>			
Net gain on cash flow hedges (Notes 19 and 30)	–	3,775,752	8,935,147
Income tax effect (Notes 19 and 27)	–	(1,132,726)	(2,680,544)
	–	2,643,026	6,254,603
Gain (loss) on available-for-sale financial assets (Notes 12 and 19)	<b>(1,661,917)</b>	(78,828,116)	21,117,971
Income tax effect (Notes 19 and 27)	<b>(1,192,620)</b>	5,483,894	6,088,359
	<b>(2,854,537)</b>	(73,344,222)	27,206,330
	<b>(2,854,537)</b>	(70,701,196)	33,460,933
<i>Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods:</i>			
Remeasurement gains (losses) on defined benefit retirement plan (Notes 19 and 23)	<b>(10,697,673)</b>	6,692,099	(3,054,067)
Income tax effect (Notes 19 and 27)	<b>3,209,302</b>	(2,007,629)	916,220
	<b>(7,488,371)</b>	4,684,470	(2,137,847)
<b>OTHER COMPREHENSIVE INCOME (LOSS) FOR THE YEAR, NET OF TAX</b>	<b>(10,342,908)</b>	(66,016,726)	31,323,086
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>₱4,076,734,364</b>	<b>₱2,927,113,417</b>	<b>₱2,596,764,143</b>

*See accompanying Notes to Consolidated Financial Statements.*



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**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014**

	<b>Capital Stock</b>	<b>Additional Paid-in Capital</b>	<b>Retained Earnings</b>	<b>Other Comprehensive Income (Loss) Reserve</b>	<b>Other Reserve</b>	<b>Total Equity</b>
At January 1, 2016	<b>₱1,776,000,000</b>	<b>₱3,749,711,168</b>	<b>₱2,622,707,396</b>	<b>(₱26,569,475)</b>	<b>₱11,789,439</b>	<b>₱8,133,638,528</b>
Cash dividends (Note 19)	–	–	<b>(2,600,000,000)</b>	–	–	<b>(2,600,000,000)</b>
Equity contribution - executive stock option plan (Note 24)	–	–	–	–	<b>1,244,843</b>	<b>1,244,843</b>
Net income	–	–	<b>4,087,077,272</b>	–	–	<b>4,087,077,272</b>
Other comprehensive loss (Note 19)	–	–	–	<b>(10,342,908)</b>	–	<b>(10,342,908)</b>
Total comprehensive income for the year	–	–	<b>4,087,077,272</b>	<b>(10,342,908)</b>	–	<b>4,076,734,364</b>
At December 31, 2016	<b>₱1,776,000,000</b>	<b>₱3,749,711,168</b>	<b>₱4,109,784,668</b>	<b>(₱36,912,383)</b>	<b>₱13,034,282</b>	<b>₱9,611,617,735</b>
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 19)	–	–	<b>(2,422,576,000)</b>	–	–	<b>(2,422,576,000)</b>
Equity contribution - executive stock option plan (Note 24)	–	–	–	–	<b>1,244,843</b>	<b>1,244,843</b>
Net income	–	–	<b>2,993,130,143</b>	–	–	<b>2,993,130,143</b>
Other comprehensive loss (Note 19)	–	–	–	<b>(66,016,726)</b>	–	<b>(66,016,726)</b>
Total comprehensive income for the year	–	–	<b>2,993,130,143</b>	<b>(66,016,726)</b>	–	<b>2,927,113,417</b>
At December 31, 2015	<b>₱1,776,000,000</b>	<b>₱3,749,711,168</b>	<b>₱2,622,707,396</b>	<b>(₱26,569,475)</b>	<b>₱11,789,439</b>	<b>₱8,133,638,528</b>
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 19)	–	–	<b>(2,170,272,000)</b>	–	–	<b>(2,170,272,000)</b>
Equity contribution - executive stock option plan (Note 24)	–	–	–	–	<b>2,345,037</b>	<b>2,345,037</b>
Net income	–	–	<b>2,565,441,057</b>	–	–	<b>2,565,441,057</b>
Other comprehensive income (Note 19)	–	–	–	<b>31,323,086</b>	–	<b>31,323,086</b>
Total comprehensive income for the year	–	–	<b>2,565,441,057</b>	<b>31,323,086</b>	–	<b>2,596,764,143</b>
At December 31, 2014	<b>₱1,776,000,000</b>	<b>₱3,749,711,168</b>	<b>₱2,052,153,253</b>	<b>₱39,447,251</b>	<b>₱10,544,596</b>	<b>₱7,627,856,268</b>

*See accompanying Notes to Consolidated Financial Statements.*



**NLEX CORPORATION**  
**(Formerly Manila North Tollways Corporation)**  
**(A Subsidiary of Metro Pacific Tollways Development Corporation)**  
**AND A SUBSIDIARY**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Years Ended December 31		
	2016	2015	2014
<b>OPERATING ACTIVITIES</b>			
Income before income tax	<b>₱5,206,692,229</b>	₱3,938,269,273	₱3,404,123,118
Adjustments to reconcile income before income tax to net cash flows:			
Amortization of service concession assets (Notes 8 and 21)	<b>615,120,463</b>	575,097,888	483,626,911
Interest expense and other finance costs (Note 26)	<b>442,912,617</b>	622,295,149	601,214,207
Movements in:			
Provisions	<b>66,899,069</b>	69,538,725	(58,490,828)
Pension asset	<b>453,411</b>	(2,789,680)	(3,790,206)
Interest income (Note 25)	<b>(62,089,704)</b>	(72,896,989)	(61,266,122)
Long-term incentive plan expense (Note 23)	<b>58,964,008</b>	48,735,905	55,171,612
Depreciation of property and equipment (Notes 9, 21 and 22)	<b>29,978,498</b>	38,025,416	30,963,982
Amortization of other intangible assets (Notes 11 and 22)	<b>5,924,711</b>	10,954,056	6,056,952
Gain on disposal of available-for-sale financial assets (Note 12)	<b>(4,699,640)</b>	(2,032,346)	(1,169,267)
Deferred toll revenue realized	<b>(1,646,827)</b>	(149,003)	(335,345)
Executive stock option plan expense (Notes 23 and 24)	<b>1,244,843</b>	1,244,843	2,345,037
Gain on disposals of property and equipment (Notes 9)	<b>(861,043)</b>	(506,685)	(355,322)
Unrealized foreign exchange loss (gain) - net	<b>(245,495)</b>	(2,477,153)	1,006,086
Working capital changes:			
Decrease (increase) in:			
Receivables	<b>(30,697,442)</b>	134,045,636	(443,911,058)
Inventories	<b>(19,783,221)</b>	(23,588,656)	2,484,978
Other current assets	<b>(221,944,766)</b>	(447,713,191)	60,846,717
Increase (decrease) in:			
Accounts payable and other current liabilities	<b>886,394,582</b>	233,572,875	644,536,617
Long-term incentive plan payable	-	(98,257,610)	-
Unearned toll revenue (Note 14)	<b>2,571,857</b>	1,646,827	149,003
Income tax paid	<b>(1,108,005,705)</b>	(876,414,152)	(774,118,329)
<b>Net cash flows from operating activities</b>	<b>5,867,182,445</b>	4,146,601,128	3,949,088,743

(Forward)



	<b>Years Ended December 31</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
<b>INVESTING ACTIVITIES</b>			
Interest received	<b>₱63,725,811</b>	₱70,466,549	₱51,952,183
Acquisition of available-for-sale financial assets (Note 12)	<b>(7,063,921,689)</b>	(5,407,332,256)	(4,049,816,145)
Increase in other noncurrent assets	<b>(129,950,093)</b>	(9,895,766)	(907,879,073)
Additions to:			
Service concession assets (Note 8)	<b>(6,031,216,910)</b>	(6,550,150,015)	(2,423,808,366)
Property and equipment (Note 9)	<b>(45,382,933)</b>	(31,071,973)	(43,881,614)
Investment properties (Note 10)	<b>(40,341,498)</b>	-	-
Other intangible assets (Note 11)	<b>(7,501,925)</b>	(5,465,571)	(18,237,565)
Proceeds from:			
Sale of available-for-sale financial assets (Note 12)	<b>8,394,068,882</b>	8,955,539,952	866,641,317
Maturity of investments in bonds (Note 12)	<b>200,000,000</b>	250,000,000	-
Sale of property and equipment (Note 9)	<b>2,371,906</b>	1,977,918	1,640,888
Net cash flows used in investing activities	<b>(4,658,148,449)</b>	(2,725,931,162)	(6,523,388,375)
<b>FINANCING ACTIVITIES</b>			
Proceeds from loans (Note 17)	<b>2,000,000,000</b>	3,000,000,000	7,000,000,000
Payments of:			
Dividends (Note 19)	<b>(4,022,576,000)</b>	(2,193,472,000)	(1,385,812,800)
Loans	<b>(1,012,102,309)</b>	(1,954,602,309)	(954,602,309)
Interest expense and other finance costs	<b>(427,123,627)</b>	(559,630,299)	(556,418,582)
Debt issue costs (Note 17)	<b>(26,888,808)</b>	-	(76,029,099)
Net cash flows from (used in) financing activities	<b>(3,488,690,744)</b>	(1,707,704,608)	4,027,137,210
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(2,279,656,748)</b>	(287,034,642)	1,452,837,578
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>	<b>245,495</b>	2,477,153	(1,006,086)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>2,669,324,105</b>	2,953,881,594	1,502,050,102
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 6)</b>	<b>₱389,912,852</b>	₱2,669,324,105	₱2,953,881,594

*See accompanying Notes to Consolidated Financial Statements.*



**NLEX CORPORATION**  
**(Formerly Manila North Tollways Corporation)**  
**(A Subsidiary of Metro Pacific Tollways Development Corporation)**  
**AND A SUBSIDIARY**

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**1. Corporate Information**

General

NLEX Corporation (NLEX Corp. or the Parent Company) (formerly Manila North Tollways Corporation or MNTC) and its subsidiary (collectively referred to as “the Company”) were incorporated in the Philippines and registered with the Philippine Securities and Exchange Commission (SEC) on February 4, 1997 and September 23, 2015, respectively. NLEX Corp.’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.

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

On October 19 and November 17, 2016, the Parent Company’s Board of Directors (BOD) and stockholders, respectively, approved the change in the Parent Company’s corporate name from “Manila North Tollways Corporation” to “NLEX Corporation”. The SEC approved the change in the Parent Company’s corporate name on February 13, 2017.

On October 19, 2016, the Parent Company’s BOD approved the proposed merger between NLEX Corp. and Tollways Management Corporation (TMC), with NLEX Corp. as the surviving entity. On November 17, 2016, the BOD and the stockholders of NLEX Corp. owning at least two-thirds of NLEX Corp.’s outstanding capital stock approved the amended plan of merger between NLEX Corp and TMC. As at February 16, 2017, the Parent Company has yet to file the proposed merger with the SEC.

Metro Pacific Tollways Development Corporation (MPTDC), the parent company of NLEX Corp., 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 42.0% and 52.1% owned by Metro Pacific Holdings, Inc. (MPHI) as at December 31, 2016 and 2015, respectively. The reduction in the ownership interest resulted from GT Capital Holdings, Inc.’s (GTCHI) acquisition of 1.3 billion MPIC common shares from MPHI on May 27, 2016. On the same date, MPIC entered into a Share Subscription Agreement with GTCHI for the subscription by GTCHI of 3.6 billion common shares in MPIC. As sole holder of the voting Class A Preferred Shares, MPHI’s combined voting interest as a result of all of its shareholdings is estimated at 55.0% as at December 31, 2016. 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 an investment financing which under Hong Kong Generally Accepted Accounting Principles, require FPC to account for the results and assets and liabilities of EIH and its subsidiaries as part of FPC group of companies in Hong Kong.





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

The consolidated financial statements as at December 31, 2016 and 2015 and for each of the three years in the period ended December 31, 2016 were authorized for issuance by the Parent Company's BOD on February 16, 2017, as reviewed and recommended for approval by the Parent Company's Audit Committee.

### Toll Operations

*Manila-North Expressway Project (MNEP)*. In April 1998, NLEX Corp. (then MNTC) was granted the concession for the rehabilitation, modernization, expansion and operation of the North Luzon Expressway (NLEX) and the installation of the appropriate collection system therein referred to as 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 (Segment 7) |
| 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 Highway 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 NLEX Corp. Thereafter, NLEX Corp. took over the NLEX from Philippine National Construction Corporation (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 Circumferential Road 3 (C-3 Road) in Caloocan City above the alignment of Philippine National Railway (PNR) tracks, had commenced construction and is expected to be completed in May 2018. 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 16, 2017.

*Subic-Clark-Tarlac Expressway (SCTEX)*. Pursuant to the Toll Operation Certificate (TOC) received from the TRB and agreements covering the SCTEX, NLEX Corp. has commenced the management, operation and maintenance of the SCTEX on October 27, 2015. The SCTEX is a 93.77-km four-lane divided highway, traversing the provinces of Bataan, Pampanga and Tarlac.

*NLEX-South Luzon Expressway (SLEX) Connector Road Project (NLEX-SLEX Connector Road)*. On November 23, 2016, NLEX Corp. was awarded the concession for the design, financing, construction, operation and maintenance of the NLEX-SLEX Connector Road. The NLEX-SLEX



Connector Road is an elevated four-lane toll expressway structure with a length of 8 km passing through and above the right of way of the PNR starting from NLEX Segment 10 at C-3 Road Caloocan City and seamlessly connecting to SLEX through Metro Manila Skyway Stage 3 Project in Manila.

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## 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, 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 Joint Venture Agreement (JVA) entered into by PNCC and MPTDC (then First Philippine Infrastructure Development Corporation or 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 NLEX Corp., including the design, funding and rehabilitation of the NLEX, and installation of the appropriate collection system therein. MPTDC in turn assigned all its rights, interests and privileges to Segment 7, as defined in the Memorandum of Agreement dated March 6, 1995, to NLEX Corp., 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 NLEX Corp. (Concessionaire) executed the STOA for the Manila-North Expressway, whereby the ROP granted NLEX Corp. 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 28, NLEX Corp. pays a certain amount to PNCC.

Also, under the STOA, NLEX Corp. 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, NLEX Corp. 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 NLEX Corp.'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, NLEX Corp. 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; (d) modification of alignments of Phase II Segments 9 and 10 - February 2010; and (e) the following approvals in relation to Phase II Segments 9 and 10 project: (i) adoption of the 2008 TRB approved ATR formula ("ATRF") for five (5) years following the completion of Segment 9; (ii) continuation of the implementation of the ATRF for ten (10) years from commercial operation of Segment 10; and (iii) approval of the additional ₱6.00 (exclusive of value-added tax or VAT) adjustment to the Open System toll rate upon completion of Segment 10.

#### Agreements covering the SCTEX

On February 26, 2015, NLEX Corp. and the Bases Conversion and Development Authority (BCDA) entered into the Business Agreement (BA) covering the assignment by BCDA to NLEX Corp. 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, NLEX Corp. 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 October 27, 2015 (effective date), until October 30, 2043, and may be extended subject to mutual agreement of NLEX Corp. 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 NLEX Corp. on May 22, 2015, in order to fully allow NLEX Corp. to exercise its rights and interests under the BA.

In consideration for the assignment by BCDA to NLEX Corp. of its rights to and interests in SCTEX, NLEX Corp. paid BCDA an upfront cash of ₱3.5 billion (inclusive of VAT) upon effectivity of the BA (the Upfront Payment). NLEX Corp. 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. NLEX Corp. shall gross up the concession fees by the 12% VAT. The Company recorded concession fees of ₱791.5 million and ₱132.1 million in 2016 and 2015, respectively, which is included under “Cost of services” account in the consolidated statement of income (see Note 21).

NLEX Corp. 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 NLEX Corp. to BCDA from time to time.

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

#### NLEX-SLEX Connector Road Concession Agreement

In July 2016, after a competitive and comparative public bidding process or Swiss Challenge, NLEX Corp. was declared as the winning proponent to undertake the NLEX-SLEX Connector Road in accordance with Section 10.1 of the Revised Build-Operate-Transfer (BOT) Law and its Revised Implementing Rules and Regulations of 2012.

On November 23, 2016, NLEX Corp. and Department of Public Works and Highways (DPWH) signed the Concession Agreement for the NLEX-SLEX Connector Road. Under the concession agreement, the ROP, acting through the DPWH, granted NLEX Corp. the rights and obligations to finance, design, construct, operate and maintain the NLEX-SLEX Connector Road, including the right to collect toll fees over the concession period as well as commercial revenues and fees from non-toll user related facilities, subject to the right of DPWH to receive revenue share of 5% of commercial revenues from toll user and non-toll user related facilities. The concession period shall commence on the commencement date (being the date of issuance of the Notice to Proceed (NTP) by the DPWH to begin the construction of the NLEX-SLEX Connector Road) and shall end on its thirty-seventh (37<sup>th</sup>) anniversary, unless otherwise extended or terminated in accordance with the Concession Agreement. The concession period includes both the construction period and the operation period and in no event be extended beyond the fiftieth (50<sup>th</sup>) anniversary of the operation period.

In consideration for granting the basic right of way for the NLEX-SLEX Connector Road, NLEX Corp. shall pay DPWH periodic payments of ₱243.2 million annually which will commence on the first anniversary of the construction completion deadline, as extended, until the expiry of the concession period and will be subject to an agreed escalation every two years based on the prevailing Consumer Price Index (CPI) for the two-year period immediately preceding the adjustment or escalation.

During the concession period, NLEX Corp. shall pay for the project overhead expenses to be incurred by the DPWH or the TRB in the process of their monitoring, inspecting, evaluating and checking the progress and quality of the activities and works undertaken by NLEX Corp. NLEX Corp.'s liability for the payment of the project overhead expenses due to TRB shall not exceed ₱50.0 million and the liability for the payment of the project overhead expenses due the DPWH shall not exceed ₱200.0 million; provided, that these limits may be increased in case of inflation, or in case of additional work due to a concessionaire variation that will result in an extension of the construction period or concession period, upon mutual agreement of the parties in the concession agreement.



Legal title to the NLEX-SLEX Connector Road, including all assets and other improvements constructed therein and all additional and/or enhancement works contributed by NLEX Corp. during the concession period, shall remain with NLEX Corp. until the termination date. At the end of the concession period or upon the termination of the concession agreement, the NLEX-SLEX Connector Road, including all rights, title and interest in the aforesaid assets, shall be turned over to DPWH or to its successor-in-interest conformably with law, and in all cases in accordance with and subject to the terms and conditions of the Concession Agreement. NLEX Corp. shall be prohibited from transferring, alienating, selling, or otherwise disposing the NLEX-SLEX Connector Road.

Pursuant to the Concession Agreement, NLEX Corp. shall preserve the asset so it can be handed back to DPWH in a manner that complies with the pavement performance standards specified in the concession agreement and that all the building and equipment necessary to operate the expressway remain functional and in good condition that is equivalent to prudent industry practice. NLEX Corp. must also manage the maintenance of the assets so that there is a residual asset life that complies with the residual life standards stated in the concession agreement at the end of the concession period.

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### 3. Summary of Significant Accounting Policies

#### Basis of Preparation

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

#### Statement of Compliance

The consolidated financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRSs) as issued by the Financial Reporting Standards Council (FRSC).

#### Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiary as at December 31, 2016 and 2015 and for each of the three years in the period ended December 31, 2016.

Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Company controls an investee if, and only if, the Company has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee),
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns.

The Company re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Company gains control until the date the Company ceases to control the subsidiary.



When necessary, adjustments are made to the financial statements of a subsidiary to bring its accounting policies into line with the Company's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Company are eliminated in full on consolidation.

#### 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 PFRSs which were adopted as at January 1, 2016. The adoption of the new and amended PFRSs did not have any significant impact on the Company's financial position or performance.

- Amendments to PFRS 10, PFRS 12 and Philippine Accounting Standards (PAS) 28, *Investment Entities: Applying the Consolidation Exception*
- Amendments to PFRS 11, *Accounting for Acquisitions of Interests in Joint Operations*
- PFRS 14, *Regulatory Deferral Accounts*
- Amendments to PAS 1, *Disclosure Initiative*
- Amendments to PAS 16 and PAS 38, *Clarification of Acceptable Methods of Depreciation and Amortization*
- Amendments to PAS 16 and PAS 41, *Agriculture: Bearer Plants*
- Amendments to PAS 27, *Equity Method in Separate Financial Statements*
- Annual Improvements to PFRSs 2012 - 2014 Cycle
  - Amendment to PFRS 5, *Changes in Methods of Disposal*
  - Amendment to PFRS 7, *Servicing Contracts*
  - Amendment to PFRS 7, *Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements*
  - Amendment to PAS 19, *Discount Rate: Regional Market Issue*
  - Amendment to PAS 34, *Disclosure of Information 'Elsewhere in the Interim Financial Report'*

#### Current versus Noncurrent Classification of Assets and Liabilities

The Company presents assets and liabilities in the consolidated balance sheet based on current or 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 dates of acquisition and are subject to an insignificant risk of changes in value.

Financial Assets and Financial Liabilities

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

*Initial Recognition and Measurement.* Financial assets are classified, at initial recognition, 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.

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

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognized on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

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

The Company has no financial assets and financial liabilities at FVPL and HTM investments as at December 31, 2016 and 2015.

*Subsequent Measurement.* The subsequent measurement of financial assets and financial 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 measured at amortized cost using the effective interest rate (EIR) method, less any impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in finance income in the consolidated statement of income. The losses arising from impairment are recognized in the consolidated statement of income under general and administrative expenses.

Loans and receivables include cash and cash equivalents, receivables (excluding advances to officers and employees), and restricted cash and refundable deposits (included in "Other noncurrent assets" account in the consolidated balance sheet) (see Notes 6 and 7).



b. AFS Financial Assets

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 consolidated statement of income. Interest earned on the investments is reported as interest income using the EIR method.

As at December 31, 2016 and 2015, 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); long-term negotiable certificate of deposits (LTNCDs); and unit investment trust funds (UITFs) (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 EIR method.

Debt issue costs are amortized over the life of the debt instrument using the EIR 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 consolidated statement of income when the liabilities are derecognized, as well as through the amortization process.

This category includes accounts payable and other current liabilities, dividends payable, rental deposits (included in “Other noncurrent liabilities” account in the consolidated balance sheet), long-term debt and service concession fees payable (see Notes 14, 17, 18, 19 and 30).

Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated 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 consolidated 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 consolidated 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 the Company determines 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 EIR.

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 consolidated 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 consolidated 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 consolidated 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 consolidated 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 consolidated statement of income) is removed from OCI and recognized in the consolidated statement of income. Impairment losses on equity investments are not reversed through the consolidated statement of income; increases in their fair value after impairment are recognized directly in OCI.

The determination of what is 'significant' or 'prolonged' requires judgement. In making this judgement, the Company evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

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 consolidated 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 consolidated 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 consolidated statement of income, the impairment loss is reversed through the consolidated 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 (i.e., removed from the Company's consolidated balance sheet) 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 consolidated 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 consolidated 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 consolidated statement of income in the same period or periods during which the hedged forecasted transaction or recognized asset or liability affect the consolidated 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 consolidated 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 consolidated statement of income.

#### Fair Value Measurement

The Company measures financial instruments such as AFS financial assets at fair value at each balance sheet date.

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 consolidated 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 consolidated 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.



Fair-value related disclosures for financial instruments that are measured at fair value or where fair values are disclosed, are summarized in the following notes:

- Disclosures for valuation methods, significant estimates and assumptions Notes 4, 10, 12 and 30
- Quantitative disclosures of fair value measurement hierarchy Note 30
- Investment properties Note 10
- Financial instruments (including those carried at amortized cost) Notes 12 and 30

#### Inventories

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

#### Advances to Contractors and Consultants

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

#### Service Concession Arrangements

The Company accounts for its concession arrangements in accordance with Philippine Interpretation IFRIC 12, *Service 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; upfront fees payments on the concession agreements; and future fixed fee considerations in exchange for the license or right. The fixed fees are recognized at present value using the discount rate at the inception date with a corresponding liability recognized. Interest on the unwinding of discount of the liability is recognized as a borrowing cost that is capitalized as part of the service concession asset during construction of the infrastructure asset and as an expense in the period incurred starting from the commercial operations of the said infrastructure asset. 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 routine in nature are expensed and recognized in the consolidated statement of income as incurred.

The service concession assets are amortized using the unit-of-production (UOP) 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 consolidated 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 assets 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 service concession assets 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.

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

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 consolidated statement of income in the year the item is derecognized.

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 consolidated 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.

#### Investment Properties

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are carried at historical cost less provisions for depreciation and impairment.

An investment property is derecognized either when it has been disposed or when it is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the consolidated statement of income in the year of retirement or disposal.

Transfers are made to (or from) investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the carrying value at the date of change in use. If owner-occupied property becomes an investment property, the Company accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

#### Other Intangible Assets (Software Cost)

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 or 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 consolidated 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 consolidated statement of income when the asset is derecognized.

#### Impairment of Nonfinancial Assets

The Company assesses at each balance sheet date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU'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 consolidated 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 consolidated 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 consolidated 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 or loss, that are not recognized in the consolidated 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 NLEX Corp. 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 revenue can be measured reliably, regardless of when the payment is received. 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 consolidated 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 "Non-toll revenues" account in the consolidated 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.
- Rental revenue is accounted for on a straight-line basis over the lease term.
- Service revenue, included in "Non-toll revenues" account in the consolidated statement of income, is recognized as services are rendered in accordance with the terms of the agreements.
- 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 gain on disposal of property and equipment.

#### 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 consolidated 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.* A lease that transfers substantially all the risks and rewards incidental to ownership to the Company is classified as a finance lease. An operating lease is a lease other than a finance lease. Operating lease payments are recognized as an operating expense in the consolidated statement of income on a straight-line basis over the lease term.

*Company as Lessor.* Leases in which the Company does not transfer substantially all the risks and rewards of ownership of an asset are classified as operating leases. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

### Foreign Currency-denominated Transactions and Translations

The Company's consolidated financial statements are presented in Philippine peso, which is also the Company's functional currency. The Parent Company and its subsidiary determine their own functional currency and items included in the financial statements of each entity are measured using that functional currency. 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 consolidated 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 assets 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 consolidated 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 in the country where the Company operates and generates taxable income.

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

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

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or 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 profit or loss
- In respect of taxable temporary differences associated with its investment in a subsidiary, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future

Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except:

- When the deferred tax asset relating to the deductible temporary difference 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 profit or loss
- In respect of deductible temporary differences associated with its investment in a subsidiary, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized

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

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 consolidated statement of income is recognized outside consolidated 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 consolidated balance sheet.

#### Contingencies

Contingent liabilities are not recognized in the consolidated 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 consolidated financial statements but disclosed when an inflow of economic benefits is probable.

#### Events After the Balance Sheet Date

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

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

The preparation of the consolidated financial statements in compliance with PFRS requires management to make judgments, estimates and assumptions that affect certain reported amounts and disclosures. In preparing the consolidated 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 consolidated financial statements are based upon management's evaluation of relevant facts and circumstances as at the date of the consolidated 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 consolidated 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 consolidated financial statements.



*Service Concession Arrangements.* Philippine Interpretation IFRIC 12, 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, the agreements covering the SCTEX and NLEX-SLEX Connector Road concession agreement 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.

The Company also recognizes construction revenues and costs in accordance with PAS 11. It measures contract revenue at the fair value of the consideration received or receivable. Given that NLEX Corp. has subcontracted the construction to outside contractors, the construction revenue recognized is equal to the construction costs. Construction revenue and costs recognized in consolidated statements of income amounted to ₱6,170.1 million, ₱3,328.4 million and ₱2,425.3 million for the years ended December 31, 2016, 2015 and 2014, respectively (see Note 8).

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 ₱314.0 million and ₱263.3 million as at December 31, 2016 and 2015, respectively (see Note 15).

*Operating lease commitments – Company as lessor.* The Company has entered into commercial property lease on its investment property portfolio. The Company has determined, based on an evaluation of the terms and conditions of the arrangement, such as the lease term not constituting a major part of the economic life of the commercial property and the present value of the minimum lease payments not amounting to substantially all of the fair value of the commercial property, that it retains all the significant risks and rewards of ownership of these properties and accounts for the contracts as operating leases.

#### 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 consolidated 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 2016, 2015 and 2014.

Receivables (excluding advances to officers and employees) amounted to ₱577.9 million and ₱556.7 million as at December 31, 2016 and 2015, respectively. Allowance for doubtful accounts amounted to ₱24.9 million and ₱14.2 million as at December 31, 2016 and 2015, respectively (see Notes 7).

*Amortization of Service Concession Assets.* The service concession assets are amortized using 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. The Company's management has reviewed the total expected traffic volume and made appropriate adjustments to the assumptions of the expected traffic volume with reference to the latest traffic studies. The management of the Company considers that these are calculated by reference to the best estimates of the total expected traffic volumes of the underlying toll expressways.

In 2016, 2015 and 2014, the Company reported amortization of service concession assets amounting to ₱615.1 million, ₱575.1 million and ₱483.6 million, respectively (see Notes 8 and 21). The carrying values of the service concession assets as at December 31, 2016 and 2015 amounted to ₱30,672.1 million and ₱22,798.4 million, respectively (see Note 8).

*Impairment of Nonfinancial Assets.* Impairment exists when the carrying value of an asset or CGU exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs of disposing of the asset. The value in use calculation is based on a discounted cash flow (DCF) model. The cash flows are derived from the budget for the concession period and do not include restructuring activities that the Company is not yet committed to or significant future investments that will enhance the performance of the assets of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash inflows and the growth rate used for extrapolation purposes. These estimates are most relevant to service concession assets not yet available for use recognized by the Company. The key assumptions used to determine the recoverable amount, including a sensitivity analysis, are disclosed and further explained in Note 8.

There was no impairment loss recognized in the consolidated statements of income in 2016, 2015 and 2014. The carrying values of the Company's service concession assets not yet available for use amounted to ₱8,773.7 million and ₱3,742.7 million as at December 31, 2016 and 2015, respectively (see Note 8).

*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.





Deferred tax assets are recognized on deductible temporary differences and the carryforward benefits of net operating loss carry-over (NOLCO) to the extent that it is probable that taxable income will be available against which the deductible temporary differences and the carryforward benefits of NOLCO can 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 ₱870.6 million and ₱134.7 million as at December 31, 2016 and 2015, respectively (see Note 27).

*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 and mortality rates. 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 23.

Pension asset amounted to ₱0.9 million and ₱12.1 million as at December 31, 2016 and 2015, respectively (see Note 23).

*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 ₱129.4 million and ₱70.5 million as at December 31, 2016 and 2015, respectively (see Note 23).

*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 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 ₱419.7 million and ₱339.5 million as at December 31, 2016 and 2015, respectively (see Note 15).

*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 consolidated financial statements (see Note 31).



## 5. Operating Segment Information

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

The Company's performance is evaluated based on net income for the year; earnings before interest, taxes and depreciation and amortization (EBITDA); EBITDA margin; core income; and core income margin. Net income for the year is measured consistent with the net income in the 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 Company's operations as at and for the years ended December 31, 2016, 2015 and 2014 are as follows:

	2016	2015	2014
Net toll revenues	<b>₱10,538,908,306</b>	₱8,453,380,333	₱7,516,586,901
Other income	<b>163,219,541</b>	154,002,324	120,227,103
Total revenues	<b>10,702,127,847</b>	8,607,382,657	7,636,814,004
Operating and maintenance costs	<b>(3,663,871,264)</b>	(2,694,832,558)	(2,438,204,973)
Operating expenses	<b>(625,204,430)</b>	(613,837,616)	(501,220,971)
EBITDA	<b>6,413,052,153</b>	5,298,712,483	4,697,388,060
Financing costs	<b>(354,728,002)</b>	(480,832,163)	(504,337,927)
Core income before depreciation, amortization and provisions	<b>6,058,324,151</b>	4,817,880,320	4,193,050,133
Depreciation, amortization and provisions*	<b>(1,900,818,231)</b>	(1,737,541,182)	(1,609,093,962)
Core income	<b>4,157,505,920</b>	3,080,339,138	2,583,956,171
Nonrecurring items	<b>(70,428,648)</b>	(87,208,995)	(18,515,114)
Net income	<b>₱4,087,077,272</b>	₱2,993,130,143	₱2,565,441,057
EBITDA margin for the year	<b>61%</b>	63%	62%
Core income margin for the year	<b>39%</b>	36%	34%
Net income margin for the year	<b>39%</b>	35%	34%

(Forward)



	2016	2015	2014
Total assets	<b>₱35,288,696,883</b>	₱30,885,000,298	₱28,715,035,254
Total liabilities	<b>25,677,079,148</b>	22,751,361,770	21,087,178,986
Total equity	<b>9,611,617,735</b>	8,133,638,528	7,627,856,268
Other disclosures:			
Capital expenditure (consists of additions to service concession assets, property and equipment, investment properties and other intangible assets)	<b>₱6,124,443,266</b>	₱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, 2016, 2015 and 2014.

	2016	2015	2014
EBITDA	<b>₱6,413,052,153</b>	₱5,298,712,483	₱4,697,388,060
Interest expense and other finance costs (see Note 26)	<b>(442,912,617)</b>	(622,295,149)	(601,214,207)
Amortization of service concession assets (see Note 21)	<b>(615,120,463)</b>	(575,097,888)	(483,626,911)
Interest income (see Note 25)	<b>62,089,704</b>	72,896,989	61,266,122
Provision for heavy maintenance (see Note 21)	<b>(113,971,317)</b>	(150,819,004)	(224,653,876)
Depreciation of property and equipment (see Note 22)	<b>(25,001,484)</b>	(29,069,236)	(30,963,982)
Amortization of other intangible assets (see Note 22)	<b>(5,924,711)</b>	(10,954,056)	(6,056,952)
Gain on sale on AFS financial assets	<b>4,699,640</b>	2,032,346	1,169,267
Nonrecurring items:			
Provisions	<b>(3,737,064)</b>	(5,101,457)	(13,840,182)
Foreign exchange gain (loss) - net	<b>(254,488)</b>	7,840,647	4,260,215
Other nonrecurring items	<b>(66,227,124)</b>	(49,876,402)	395,564
Income before income tax	<b>5,206,692,229</b>	3,938,269,273	3,404,123,118
Provision for (benefit from) income tax (see Note 27):			
Current	<b>₱1,152,806,403</b>	₱963,726,925	₱752,767,850
Deferred	<b>(33,191,446)</b>	(18,587,795)	85,914,211
	<b>1,119,614,957</b>	945,139,130	838,682,061
Net income	<b>₱4,087,077,272</b>	₱2,993,130,143	₱2,565,441,057

The following table shows the reconciliation of the consolidated core income to the net income for the years ended December 31, 2016, 2015 and 2014.

	2016	2015	2014
Core income for the year	<b>₱4,157,505,920</b>	₱3,080,339,138	₱2,583,956,171
Provisions	<b>(3,737,064)</b>	(5,101,457)	(13,840,182)
Foreign exchange gain (loss) - net	<b>(254,488)</b>	7,840,647	4,260,215
Other nonrecurring items	<b>(66,437,096)</b>	(89,948,185)	(8,935,147)
Net income	<b>₱4,087,077,272</b>	₱2,993,130,143	₱2,565,441,057



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## 6. Cash and Cash Equivalents

This account consists of:

	2016	2015
Cash on hand and in banks	<b>₱35,649,031</b>	₱378,985,821
Short-term deposits as cash equivalents	<b>354,263,821</b>	2,290,338,284
	<b>₱389,912,852</b>	₱2,669,324,105

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 ₱20.6 million, ₱19.1 million and ₱11.1 million for the years ended December 31, 2016, 2015 and 2014, respectively (see Note 25).

As at December 31, 2016 and 2015, the Company had available ₱5.0 billion and ₱2.0 billion of undrawn committed term loan facilities, respectively.

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## 7. Receivables

This account consists of:

	2016	2015
Trade receivables:		
Related parties (see Note 16)	<b>₱304,124,441</b>	₱262,931,935
Third parties	<b>59,666,237</b>	50,996,443
Advances to DPWH	<b>180,361,049</b>	202,883,464
Advances to officers and employees (see Note 16)	<b>15,317,943</b>	7,373,156
Interest receivables	<b>14,307,194</b>	15,943,301
Due from related parties (see Note 16)	<b>3,812,414</b>	2,807,542
Other receivables	<b>40,527,225</b>	35,342,796
	<b>618,116,503</b>	578,278,637
Less allowance for doubtful accounts	<b>24,938,590</b>	14,162,059
	<b>₱593,177,913</b>	₱564,116,578

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

Advances to DPWH is pursuant to the Reimbursement Agreement entered into by NLEX Corp. with DPWH in 2013 where DPWH requested these advances in order to fast track the acquisition of right-of-way for the construction of Segments 9 and 10, portions of Phase II of MNEP. The balance also includes direct advances to certain Segment 9 landowners as consideration for the grant of immediate right-of-way possession to NLEX Corp. 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 NLEX Corp. in consideration for the direct advances received from NLEX Corp. 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 to six months.



Other receivables are noninterest-bearing and are collectible within a year. As at December 31, 2016 and 2015, other receivables include those receivables from motorists who caused accidental damage to NLEX properties from day-to-day operations amounting to ₱38.2 million and ₱33.2 million, respectively.

Movements in the allowance for individually assessed impaired receivables in 2016 and 2015 are as follows:

	2016		
	Trade Receivables	Other Receivables	Total
Balance at beginning of year	₱2,389,832	₱11,772,227	₱14,162,059
Provision for doubtful accounts (see Note 22)	664,119	10,112,412	10,776,531
<b>Balance at end of year</b>	<b>₱3,053,951</b>	<b>₱21,884,639</b>	<b>₱24,938,590</b>

	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 22)	151,641	4,127,221	4,278,862
<b>Balance at end of year</b>	<b>₱2,389,832</b>	<b>₱11,772,227</b>	<b>₱14,162,059</b>

## 8. Service Concession Assets

The movements in this account follow:

	MNEP	SCTEX	NLEX-SLEX Connector Road	Total
<b>Cost:</b>				
At January 1, 2015	₱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
Additions	5,602,509,835	378,504,587	2,507,847,423	8,488,861,845
<b>At December 31, 2016</b>	<b>₱31,736,465,603</b>	<b>₱3,556,060,212</b>	<b>₱2,507,847,423</b>	<b>₱37,800,373,238</b>
<b>Accumulated amortization:</b>				
At January 1, 2015	₱5,938,007,295	₱-	₱-	₱5,938,007,295
Amortization (see Note 21)	563,733,763	11,364,125	-	575,097,888
At December 31, 2015	6,501,741,058	11,364,125	-	6,513,105,183
Amortization (see Note 21)	540,223,703	74,896,760	-	615,120,463
<b>At December 31, 2016</b>	<b>₱7,041,964,761</b>	<b>₱86,260,885</b>	<b>₱-</b>	<b>₱7,128,225,646</b>
<b>Net book value:</b>				
<b>At December 31, 2016</b>	<b>₱24,694,500,842</b>	<b>₱3,469,799,327</b>	<b>₱2,507,847,423</b>	<b>₱30,672,147,592</b>
At December 31, 2015	19,632,214,710	3,166,191,500	-	22,798,406,210

### MNEP

Additions during 2016 and 2015 pertain mainly to lane widening project on Segments 2 and 3 (portions of Phase I); civil works construction for Segments 9 and 10 (portion of Phase II); and fixed operating equipment (FOE) design, supply and installation on Segment 10 (portion of Phase II). Additions also include the pre-construction costs of Segment 8.2, portion of Phase II.



Borrowing costs capitalized amounted to ₱653.7 million and ₱383.0 million for the years ended December 31, 2016 and 2015, respectively. The interest rates used to determine the amount of borrowing costs eligible for capitalization ranges from 5.0% to 5.8% in 2016 and 2015.

The concession term for fully operational Phase I and Segments 8.1 and 9 of Phase II of the MNEP is until December 31, 2037. As at December 31, 2016 and 2015, the remaining concession term is 21 years and 22 years, respectively.

As at February 16, 2017, Segment 10, portion of Phase II, with a carrying amount of ₱6,265.9 million and ₱3,742.7 million as at December 31, 2016 and 2015, respectively, has not yet started its tollway operation.

#### SCTEX

As discussed in Note 2, NLEX Corp. 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. Additions during 2016 pertain to the cost of pavement rehabilitation in certain portion of SCTEX and other costs incurred for upgrading the toll road facilities and equipment in SCTEX.

The concession term for SCTEX is until October 30, 2043. As at December 31, 2016 and 2015, the remaining concession term is 27 years and 28 years, respectively.

#### NLEX-SLEX Connector Road

As discussed in Note 2, NLEX Corp. and DPWH signed the Concession Agreement for the NLEX-SLEX Connector Road on November 23, 2016. Additions during 2016 pertain mainly to the present value of the service concession fees payable of ₱2,318.8 million and pre-construction costs of ₱171.9 million.

Borrowing costs capitalized amounted to ₱17.1 million for the year ended December 31, 2016. The borrowing rate used to determine the amount of borrowing costs eligible for capitalization is 7.1% in 2016.

The expected concession period for NLEX-SLEX Connector Road is until 2055, which is 37 years after the expected issuance by the DPWH of the NTP to start the construction of the NLEX-SLEX Connector Road.

#### *Impairment Testing of Service Concession Assets Not Yet Available for Use*

For the purposes of impairment testing related to an intangible asset (service concession asset) not yet available for use under the requirements of PAS 36, *Impairment of Assets*, the Company has performed the analysis by comparing the recoverable amount and the carrying amount of the service concession assets as at reporting date.

As at December 31, 2016 and 2015, the total carrying amount of Segment 10 (portion of Phase II of MNEP) and NLEX-SLEX Connector Road which are not yet available for use amounted to ₱8,773.7 million and ₱3,742.7 million, respectively.

The recoverable amount of Segment 10 (portion of Phase II of MNEP) and NLEX-SLEX Connector Road have been determined based on a value in use computation using the cash flow projections from most recent financial budgets and forecast of NLEX Corp. For the impairment testing conducted, average traffic volume growth rates used were 1.2% to 2.3% and the pre-tax discount rates applied range from 10.33% to 10.56%, which was based on the weighted average cost of capital with estimated premium of 2.0% over cost of equity. The average forecast period



used in the computation is 21 years for Segment 10 and 39 years for NLEX-SLEX Connector Road. The forecast period is greater than 5 years as management can reliably estimate the cash flow for the entire duration of the concession period.

Based on the impairment test, management did not identify an impairment loss for these service concession assets. Management also believes that no reasonably possible change in any of the key assumptions would cause the carrying values of the service concession assets not yet available for use to materially exceed their respective recoverable amounts.

## 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, 2015	₱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
Additions	22,500	23,086,472	22,273,961	45,382,933
Disposals	–	(9,827,443)	(3,469,102)	(13,296,545)
<b>At December 31, 2016</b>	<b>₱94,223,954</b>	<b>₱87,863,961</b>	<b>₱175,162,079</b>	<b>₱357,249,994</b>
Accumulated depreciation:				
At January 1, 2015	₱31,641,654	₱40,159,650	₱100,816,618	₱172,617,922
Depreciation (see Notes 21 and 22)	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
Depreciation (see Notes 21 and 22)	3,572,702	10,292,564	16,113,232	29,978,498
Disposals	–	(8,376,549)	(3,409,133)	(11,785,682)
<b>At December 31, 2016</b>	<b>₱40,087,596</b>	<b>₱49,059,865</b>	<b>₱133,131,173</b>	<b>₱222,278,634</b>
Net book value:				
<b>At December 31, 2016</b>	<b>₱54,136,358</b>	<b>₱38,804,096</b>	<b>₱42,030,906</b>	<b>₱134,971,360</b>
At December 31, 2015	57,686,560	27,461,082	35,930,146	121,077,788

Proceeds from the sale of property and equipment amounted to ₱2.4 million, ₱2.0 million and ₱1.6 million in 2016, 2015 and 2014, respectively. Gain on disposal of property and equipment amounted to ₱0.9 million, ₱0.5 million and ₱0.4 million for the years ended December 31, 2016, 2015 and 2014, respectively. The gross carrying amounts of fully depreciated property and equipment that are still in use amounted to ₱139.4 million and ₱115.0 million as at December 31, 2016 and 2015, respectively.

## 10. Investment Properties

Details of this account as at December 31, 2016 are as follows:

Land	₱37,761,269
Land improvements	3,682,610
<b>Total</b>	<b>₱41,443,879</b>



In 2016, NVC purchased parcels of land located in Valenzuela City from certain land owners. A parcel of land acquired is presently the site of a service facility while the other parcels of land will be developed as a service facility and/or for lease with business proponents.

As discussed in Note 28, the land acquired with a service facility was leased to RDL Fuel Point, Inc. Rental income earned from this investment property amounted to ₱4.3 million in 2016.

Fair value of investment properties

As at December 31, 2016, the fair value of investment properties amounting to ₱50.3 million is based on valuation performed by an accredited independent appraiser. A valuation model in accordance with that recommended by the International Valuation Standards Committee has been applied.

	<b>Valuation Technique</b>	<b>Significant unobservable input</b>	<b>Range (Weighted Average)</b>
Land and land improvements	Direct Sales Comparison Approach	Price per square meter (sqm)	₱6,200 per sqm

The Market Data (or Direct Sales Comparison) Approach is an appraisal technique in which the market value estimate is predicated based upon prices paid in actual market transactions and current listings, the former fixing the lower limit of value in a static or advancing market (price wise), and fixing the higher limit of value in a declining market; and the latter fixing the higher limit in any market. It is a process of correlation and analysis of similar recently sold properties.

The reliability of this technique is dependent upon: (a) the degree of comparability of each property with the property under appraisal; (b) the time of the sale; (c) the verification of the sale data, and; (d) the absence of unusual conditions affecting the sale. The weight given to this approach is dependent on the availability of recent confirmed listings/sales of properties considered comparable to the property under appraisal. These listings/sold properties are compared to the subject in key units of comparison. Appropriate adjustments are made for differences between the subject and the comparables, resulting in adjusted sales values for each of the comparables. These adjusted values are then reconciled for a value conclusion by the Sales Comparison Data Grid.

The Market Data (or Direct Sales Comparison) Approach relies on the comparison of recent sale transactions or offerings of similar properties which have occurred and/or offered with close proximity to the subject property. The reliability of this method depends on the number of comparables utilized and their overall similarity to the property being appraised.

Significant increases (decreases) in estimated price per sqm in isolation would result in a significantly higher (lower) fair value.

The determination of the fair value of investment properties is categorized under Level 3 fair value hierarchy measurement.

The Company has no restriction on the realizability of its investment properties and no obligation to either purchase, construct or develop, or for repairs, maintenance and enhancements.





## 11. 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:

	2016	2015
Cost:		
Balance at the beginning of the year	₱99,033,490	₱93,567,919
Additions	7,501,925	5,465,571
Balance at end of the year	106,535,415	99,033,490
Accumulated amortization:		
Balance at beginning of year	82,352,212	71,398,156
Amortization (see Note 22)	5,924,711	10,954,056
Balance at end of the year	88,276,923	82,352,212
Net book value	₱18,258,492	₱16,681,278

## 12. Available-for-sale Financial Assets

Details of AFS financial assets are shown below:

Maturity Date	Interest Rate	2016		2015	
		Fair Value	Principal Amount	Fair Value	Principal Amount
<b>UITF*</b>					
Short-term		₱82,407,389	₱82,221,409	₱1,225,420,748	₱1,220,988,850
<b>ROP Retail Treasury Bonds</b>					
March 3, 2016	6.00%	-	-	150,870,000	150,000,000
August 15, 2023	3.25%	524,017,230	565,100,000	525,712,530	565,100,000
		524,017,230	565,100,000	676,582,530	715,100,000
<b>Fixed Rate Treasury Notes</b>					
April 25, 2016	1.63%	-	-	49,775,000	50,000,000
May 23, 2018	2.13%	246,600,000	250,000,000	434,254,716	449,260,000
July 19, 2019	4.75%	11,179,465	11,230,000	-	-
August 20, 2020	3.38%	20,560,000	20,000,000	-	-
		278,339,465	281,230,000	484,029,716	499,260,000
<b>LTNCD</b>					
PNB - June 12, 2020	4.13%	49,613,000	50,000,000	49,460,000	50,000,000
Metrobank - November 21, 2021	4.25%	48,603,000	50,000,000	48,135,000	50,000,000
		98,216,000	100,000,000	97,595,000	100,000,000
<b>Corporate Bonds</b>					
FMIC - August 10, 2019	5.75%	48,781,000	50,000,000	52,745,000	50,000,000
Meralco - December 12, 2020	4.38%	197,300,000	200,000,000	202,142,000	200,000,000
PLDT - February 6, 2021	5.23%	207,014,000	200,000,000	202,034,000	200,000,000
		453,095,000	450,000,000	456,921,000	450,000,000
		₱1,436,075,084	₱1,478,551,409	₱2,940,548,994	₱2,985,348,850

\* Presented as "Short-term deposits" in the consolidated 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 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:

	2016	2015
Balance at beginning of year	<b>₱2,940,548,994</b>	₱6,727,635,157
Additions	<b>7,063,921,689</b>	5,407,332,256
Maturity	<b>(200,000,000)</b>	(250,000,000)
Sale of AFS financial assets	<b>(8,366,733,682)</b>	(8,865,590,303)
Loss on AFS financial assets during the year (see Note 19)	<b>(1,661,917)</b>	(78,828,116)
<b>Balance at end of year</b>	<b>₱1,436,075,084</b>	<b>₱2,940,548,994</b>
Current	<b>₱82,407,389</b>	₱1,426,065,748
Noncurrent	<b>1,353,667,695</b>	1,514,483,246
	<b>₱1,436,075,084</b>	<b>₱2,940,548,994</b>

The fair value is based on the quoted market price of the financial instruments as at December 31, 2016 and 2015. The movements in the net unrealized gain (loss) on fair value change in AFS financial assets under “Other comprehensive income (loss) reserve” account for the years ended December 31, 2016, 2015 and 2014 follow:

	2016	2015	2014
Balance at beginning of year	<b>(₱37,532,107)</b>	₱41,296,009	₱20,178,038
Changes in fair value during the year	<b>25,673,283</b>	11,121,533	27,759,214
Reclassification to profit or loss*	<b>(27,335,200)</b>	(89,949,649)	(6,641,243)
Balance at end of year	<b>(39,194,024)</b>	(37,532,107)	41,296,009
Tax effects of items taken directly in equity (see Note 27)	<b>1,464,533</b>	2,657,153	(2,826,741)
	<b>(₱37,729,491)</b>	<b>(₱34,874,954)</b>	<b>₱38,469,268</b>

\* Includes gain on sale of AFS amounting to P22,635,560 and P87,917,303 in 2016 and 2015, respectively, that was deducted from borrowing costs capitalized to service concession assets.

### 13. Other Current Assets

Details of other current assets follow:

	2016	2015
Advances to contractors and consultants (Notes 16 and 28)	<b>₱298,617,715</b>	₱101,181,578
Input VAT	<b>412,113,258</b>	447,522,931
Deferred input VAT	<b>186,898,381</b>	166,091,789
Prepayments	<b>67,638,138</b>	31,926,400
Creditable tax	<b>19,545,453</b>	17,247,862
	<b>984,812,945</b>	763,970,560
Less allowance for non-recoverability of creditable tax	<b>15,380,461</b>	15,380,461
	<b>₱969,432,484</b>	<b>₱748,590,099</b>



#### 14. Accounts Payable and Other Current Liabilities

This account consists of:

	2016	2015
Trade payables:		
Related parties (see Note 16)	<b>₱135,325,540</b>	₱236,879,437
Third parties	<b>171,054,098</b>	741,450,643
Accrued expenses:		
Related parties (see Note 16)	<b>362,310,718</b>	376,017,263
Third parties	<b>1,899,350,895</b>	554,290,122
Retention payable:		
Related parties (see Note 16)	<b>19,776,883</b>	18,010,626
Third parties	<b>315,671,166</b>	121,939,251
Output VAT	<b>141,308,092</b>	124,354,201
Withholding taxes payable	<b>93,142,828</b>	95,145,493
Interest payable	<b>24,517,438</b>	41,996,378
Unearned toll revenue	<b>2,571,857</b>	1,646,827
Unearned rental income (see Note 28)	<b>2,132,223</b>	-
Others	<b>11,593,503</b>	12,437,620
	<b>₱3,178,755,241</b>	₱2,324,167,861

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

Accrued expenses consist of:

	2016	2015
Construction costs	<b>₱1,551,445,903</b>	₱239,316,532
Operator's fee (see Note 16)	<b>253,612,988</b>	329,024,746
Professional fees	<b>94,300,662</b>	8,732,323
Concession fees (see Note 2)	<b>87,422,800</b>	78,025,151
Operating and maintenance cost	<b>61,249,421</b>	64,700,365
Advertising and marketing expenses	<b>52,599,331</b>	32,522,105
PNCC fee	<b>52,539,032</b>	47,895,086
Salaries and employee benefits	<b>27,206,476</b>	41,368,543
Outside services	<b>18,668,329</b>	17,665,604
Management fees (see Note 16)	<b>17,851,424</b>	29,890,097
Project insurance	<b>12,806,822</b>	10,670,039
Repairs and maintenance	<b>7,405,068</b>	7,405,068
Toll collection and medical services	<b>6,494,316</b>	3,339,113
Others	<b>18,059,041</b>	19,752,613
	<b>₱2,261,661,613</b>	₱930,307,385

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 three to six months.



## 15. Provisions

The movements in this account follow:

	Heavy Maintenance	Others	Total
At January 1, 2015	₱167,851,682	₱90,124,571	₱257,976,253
Additions (see Notes 21 and 22)	168,917,287	5,101,457	174,018,744
Accretion (see Note 26)	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
Additions (see Notes 21 and 22)	127,647,874	29,537,324	157,185,198
Accretion (see Note 26)	14,957,803	–	14,957,803
Payments	(91,888,750)	–	(91,888,750)
At December 31, 2016	<b>₱313,969,415</b>	<b>₱105,739,274</b>	<b>₱419,708,689</b>
At December 31, 2016:			
Current	<b>₱228,915,410</b>	<b>₱91,899,092</b>	<b>₱320,814,502</b>
Noncurrent	<b>85,054,005</b>	<b>13,840,182</b>	<b>98,894,187</b>
	<b>₱313,969,415</b>	<b>₱105,739,274</b>	<b>₱419,708,689</b>
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

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.

## 16. 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 22)	Operator's Fee (see Note 21)	Outside Services (see Note 21)	Repairs and Maintenance (see Note 21)	Communication, Light and Water (see Notes 21 and 22)	Advertising and Marketing Expenses (see Note 22)	Income from Advertising (see Note 20)	Income from Utility Facilities (see Note 20)
MPTC	Intermediate Parent Company	<b>2016</b>	<b>₱60,702,628</b>	<b>₱-</b>	<b>₱-</b>	<b>₱-</b>	<b>₱-</b>	<b>₱42,966,485</b>	<b>₱-</b>	<b>₱-</b>
		2015	60,702,628	-	-	-	-	-	-	-
		2014	44,832,143	-	-	-	-	-	-	-
TMC	Associate of MPTDC	<b>2016</b>	-	<b>2,001,498,970</b>	-	<b>6,234,952</b>	-	-	-	-
		2015	-	1,741,674,430	-	5,524,377	-	-	-	-
		2014	-	1,710,956,357	-	3,230,823	-	-	-	-
Easytrip Services Corp. (ESC)	Joint Venture of MPTDC	<b>2016</b>	-	-	<b>67,861,426</b>	-	-	-	<b>920,000</b>	-
		2015	-	-	61,167,420	-	-	-	60,000	-
		2014	-	-	54,442,444	-	-	-	620,000	-
Smart Communications Inc. (Smart)	Associate of FPC	<b>2016</b>	-	-	-	-	-	-	<b>43,480,000</b>	<b>357,756</b>
		2015	-	-	-	-	-	-	72,850,000	342,350
		2014	-	-	-	-	-	-	58,492,000	327,608
PLDT	Associate of FPC	<b>2016</b>	-	-	-	-	-	-	<b>1,009,000</b>	<b>6,628,069</b>
		2015	-	-	-	-	-	-	-	2,423,099
		2014	-	-	-	-	-	-	-	1,889,481
Digitel Mobile Philippines, Inc. (Digitel)	Associate of FPC	<b>2016</b>	-	-	-	-	-	-	-	-
		2015	-	-	-	-	-	-	7,579,000	-
		2014	-	-	-	-	-	-	10,880,000	-
Manila Electric Company (Meralco)	Associate of MPIC	<b>2016</b>	-	-	-	-	<b>5,975,142</b>	-	-	-
		2015	-	-	-	-	-	-	-	-
		2014	-	-	-	-	-	-	-	-
<b>Total</b>		<b>2016</b>	<b>₱60,702,628</b>	<b>₱2,001,498,970</b>	<b>₱67,861,426</b>	<b>₱6,234,952</b>	<b>₱5,975,142</b>	<b>₱42,966,485</b>	<b>₱45,409,000</b>	<b>₱6,985,825</b>
		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 consolidated balance sheets under the following accounts:

Name	Relationship		Advances to Contractors and Consultants (see Note 13)	Trade Receivables <sup>(2)</sup> (see Note 7)	Due from Related Parties <sup>(1)</sup> (see Note 7)	Accounts Payable and Other Current Liabilities <sup>(2)</sup> (see Note 14)	Terms	Conditions
MPTC	Intermediate Parent Company	<b>2016</b> 2015	<b>₱-</b> -	<b>₱-</b> 647,529	<b>₱188,934</b> 2,201,450	<b>₱64,272,100</b> 65,192,328	(1) On demand; noninterest-bearing (2) 30-45 days; noninterest-bearing	Unsecured; no impairment
MPTDC	Parent Company	<b>2016</b> 2015	- -	- -	<b>1,496</b> -	<b>161,459</b> 8,624,846	(1) On demand; noninterest-bearing (2) 30-45 days; noninterest-bearing	Unsecured; no impairment
MPCALA Holdings, Inc. (MHI)	Subsidiary of MPTDC	<b>2016</b> 2015	- -	- -	<b>1,437,464</b> 55,408	- -	On demand; noninterest-bearing	Unsecured; no impairment
TMC	Associate of MPTDC	<b>2016</b> 2015	<b>58,000</b> 58,000	<b>43,010</b> 25,455	<b>481,152</b> 109,177	<b>343,641,076</b> 479,494,299	(1) On demand; noninterest-bearing (2) 30-45 days; noninterest-bearing	Unsecured; no impairment
CaviteX Infrastructure Corp. (CIC)	Subsidiary of MPTC	<b>2016</b> 2015	- -	- -	<b>1,604,368</b> 342,507	<b>69,300</b> -	On demand; noninterest-bearing	Unsecured; no impairment
ESC	Joint Venture of MPTDC	<b>2016</b> 2015	- -	<b>246,967,216</b> 228,352,174	<b>99,000</b> 99,000	<b>89,360,507</b> 59,366,617	(1) On demand; noninterest-bearing (2) 7 days; noninterest-bearing	Unsecured; no impairment
Indra Philippines, Inc. (Indra)	Associate of MPIC	<b>2016</b> 2015	<b>493,728</b> 425,045	- -	- -	<b>19,776,883</b> 18,010,626	Within one year; noninterest-bearing	Unsecured; no impairment
Smart	Associate of FPC	<b>2016</b> 2015	- -	<b>44,949,254</b> 24,727,200	- -	<b>129,035</b> 125,761	30-45 days; noninterest-bearing	Unsecured; no impairment
PLDT	Associate of FPC	<b>2016</b> 2015	- -	<b>7,057,761</b> 892,697	- -	- 92,849	30-45 days; noninterest-bearing	Unsecured; no impairment
Digitel	Associate of FPC	<b>2016</b> 2015	- -	<b>5,107,200</b> 8,286,880	- -	<b>2,781</b> -	30-45 days; noninterest-bearing	Unsecured; no impairment
Meralco	Associate of MPIC	<b>2016</b> 2015	<b>6,727,892</b> -	- -	- -	- -	Within one year; noninterest-bearing	Unsecured; no impairment
Total		<b>2016</b> 2015	<b>₱7,279,620</b> 483,045	<b>₱304,124,441</b> 262,931,935	<b>₱3,812,414</b> 2,807,542	<b>₱517,413,141</b> 630,907,326		



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 NLEX Corp. in 2016, 2015, and 2014. On January 1, 2014, NLEX Corp. and MPTC renewed their Management Services Agreement where NLEX Corp. shall pay MPTC a fixed monthly fee of ₱3.7 million (exclusive of VAT) for the services rendered by MPTC. The agreement is effective January 1, 2014, and shall remain in effect for twelve (12) months. As at February 16, 2017, NLEX Corp. and MPTC are in the process of renewing the Management Services Agreement for years 2016 and 2015 with an increase in the monthly fee to ₱5.1 million.
- In 2016, MPTC billed NLEX Corp. for its share in the compensation, bonuses and other benefits of the NLEX Road Warriors Philippine Basketball Association team.

##### ***MPTDC***

- In 2016 and 2015, MPTDC billed NLEX Corp. for various expenses paid in behalf of NLEX Corp. 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 NLEX Corp. as operator to the existing NLEX, and Segment 7 under the Operations and Management Agreement (O&M) entered into by NLEX Corp. 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, NLEX Corp. 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, NLEX Corp. and TMC agreed to extend the O&M to cover Segment 8.1 from June 1, 2010 until December 31, 2037. Consequently, NLEX Corp. 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, NLEX Corp. 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, NLEX Corp. 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, NLEX Corp. 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, NLEX Corp. 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, NLEX Corp. 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, NLEX Corp. 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 CPI values issued in July 2011, with different commodity grouping compared with those stipulated in the O&M, NLEX Corp. 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. NLEX Corp. 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, NLEX Corp. engaged TMC to operate and maintain Segment 9, portion of Phase II of MNEP, for a proposed annual fee of ₱31.6 million (inclusive of VAT) until December 31, 2037. On May 13, 2016, pursuant to the O&M and TRB's letter dated March 18, 2015, giving NLEX Corp. the authority to operate and maintain Segment 9, NLEX Corp. gave a notice to TMC that the scope of O&M shall correspondingly cover Segment 9, from March 19, 2015 until December 31, 2037. Consequently, NLEX Corp. agreed to pay TMC an annual base fee of ₱31.6 million (inclusive of VAT). NLEX Corp. and TMC further agreed that the Segment 9 base fee may be escalated after the lapse of one (1) year from March 19, 2015.

#### SCTEX

- On May 27, 2015, in view of the turn-over of the management, operation and maintenance of the SCTEX to NLEX Corp. by the BCDA (see Note 2), NLEX Corp. 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 (inclusive of VAT). TMC commenced the operation and maintenance of the SCTEX on October 27, 2015.

#### *ESC*

- On December 5, 2007, NLEX Corp. engaged the services of ESC, a joint venture of MPTDC, to assist NLEX Corp. in increasing the usage of the electronic toll collection (ETC) facility along the NLEX which ended on April 30, 2010. On November 24, 2010, NLEX Corp. 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, NLEX Corp. 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 CPI. NLEX Corp. 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 NLEX Corp. arising from the use of Easytrip tags in the NLEX shall be remitted by ESC to the designated NLEX Corp. 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 NLEX Corp. to the designated ESC bank accounts within seven (7) days immediately following the date of reloading.

### ***Indra***

- On June 14, 2013, NLEX Corp. entered into a Contract Agreement with Egis Projects Philippines Inc. (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, NLEX Corp. 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, NLEX Corp. issued a letter of acceptance to EPPI and Indra Consortium relating to the 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). The project was completed on March 15, 2016.

### ***PLDT, Smart and Digital***

- On March 17, 2010, NLEX Corp. 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 NLEX Corp. 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 NLEX Corp. and PLDT.
- NLEX Corp. and PLDT entered into an agreement in relation to the installation of Fiber Optic Cable (FOC) along SFEX on August 24, 2016. Pursuant to the agreement, PLDT shall pay an annual fee of ₱0.2 million starting September 3, 2016 which shall be escalated annually using the inflation rate as determined by the National Economic and Development Authority but in no case lower than 5%. The contract shall be effective for a period of 5 years from the date of



its execution and may be renewed or extended upon mutual agreement by NLEX Corp. and PLDT.

- On January 5, 2011, NLEX Corp. and Smart (a subsidiary of PLDT) signed a Utility Facilities Contract where NLEX Corp. 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 NLEX Corp. and Smart.

On September 19, 2016, NLEX Corp. and Smart renewed its Utility Facilities Contract. The renewed contract shall be for a period of 5 years from April 27, 2015 to April 26, 2020. The annual fee shall be ₱0.3 million which shall be subject to 4.5% increase annually starting at the second year of the new contract period.

- On March 26, 2012, NLEX Corp. 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 2016, 2015 and 2014, NLEX Corp. 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. In 2015, the advertising arrangement with Digitel has ended.

#### ***Meralco***

- The Company was billed by Meralco for its electric consumption in its head office; in Segment 9, portion of Phase II of MNEP, and for its drainage system in Balintawak and Valenzuela.
- As at December 31, 2016, NLEX Corp. has advances to Meralco for its new electric line applications for Segment 9, portion of Phase II of MNEP, and Balintawak and Valenzuela drainage system. These advances are either refundable or consumable upon activation of the electric lines in Segment 9 and Balintawak and Valenzuela drainage system.

#### Other Transactions

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

	2016	2015	2014
Short-term employee benefits	<b>₱96,657,884</b>	₱90,576,679	₱96,765,803
Retirement expense (see Note 23)	<b>9,059,351</b>	10,924,834	9,726,985
ESOP expense (see Notes 23 and 24)	<b>1,244,843</b>	1,244,843	2,345,037
LTIP expense (see Note 23)	<b>58,964,008</b>	48,735,905	55,171,612
	<b>₱165,926,086</b>	₱151,482,261	₱164,009,437

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



- The Company paid directors fees amounting to ₱0.7 million, ₱0.5 million and ₱0.7 million in 2016, 2015 and 2014, respectively, recorded under “General and administrative expenses” account in the consolidated statements of income (see Note 22).
- Advances to officers and employees has an outstanding balance of ₱15.3 million and ₱7.4 million as at December 31, 2016 and 2015, respectively (see Note 7).

## 17. Long-term Debt

This account consists of:

	2016	2015
Peso-denominated Notes, Loans and Bonds:		
Series A Notes	₱4,949,719,307	₱5,961,821,616
Term Loan Facilities	7,000,000,000	5,000,000,000
Fixed-rate Bonds	7,000,000,000	7,000,000,000
	<b>18,949,719,307</b>	17,961,821,616
Less unamortized debt issue costs	<b>127,056,818</b>	147,239,671
	<b>18,822,662,489</b>	17,814,581,945
Less current portion of long-term debt - net of unamortized debt issue costs of ₱23,364,569 in 2016 and ₱19,598,895 in 2015	<b>278,737,740</b>	992,503,413
	<b>₱18,543,924,749</b>	₱16,822,078,532

The unamortized debt issue costs incurred in connection with the availment of long-term debt amounting to ₱127.1 million and ₱147.2 million as at December 31, 2016 and 2015, respectively, were deducted against the long-term debt. The movements in debt issue costs are as follows:

	2016	2015
Balance at beginning of year	₱147,239,671	₱170,354,436
Amortization during the year* (see Note 26)	<b>(32,071,661)</b>	(38,114,765)
Debt issue costs incurred during the year	<b>11,888,808</b>	15,000,000
Balance at end of year	<b>₱127,056,818</b>	₱147,239,671

\*Includes amortization of debt issue costs capitalized to service concession assets amounting to ₱12,158,913 and ₱9,322,837 in 2016 and 2015, respectively.

### Series A Notes

On April 15, 2011, NLEX Corp. 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.

### Term Loan Facilities

*The Insular Life Assurance Company, Ltd. (Insular) and the Philippine American Life and General Insurance Company (Philam).* On December 12, 2011, NLEX Corp. 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, NLEX Corp. 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 26).

*Sun Life of Canada (Philippines), Inc. (Sun Life).* On October 8, 2013, NLEX Corp. 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, NLEX Corp. 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, NLEX Corp. 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 NLEX Corp.

*Philippine National Bank (PNB).* On December 4, 2015, NLEX Corp. 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, NLEX Corp. made its initial drawdown amounting to ₱3.0 billion. The undrawn amount will be available for drawing until December 4, 2017. 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 Philippine Dealing System Treasury Reference Rate PM (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.

*Unionbank of the Philippines (Unionbank).* On January 29, 2016, NLEX Corp. entered into a new ten-year term loan facility agreement with Unionbank for a facility amount of ₱5.0 billion to finance capital expenditures which include Segment 10 and its exit ramps and the NLEX-SLEX Connector Road. On February 3 and December 29, 2016, NLEX Corp. made its initial and second drawdown amounting to ₱1.0 billion each. 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 with an extension period up to July 24, 2017, or such longer period as the parties may agree upon in writing. Total debt issue costs incurred on the initial and second drawdown amounted to ₱11.0 million.



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.

Fixed-rate Bonds

On March 31, 2014, NLEX Corp. 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 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 NLEX Corp. 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, 2016 and 2015, NLEX Corp. is in compliance with the required financial ratios and other loan covenants. NLEX Corp.'s long-term debt are unsecured as at December 31, 2016 and 2015.

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**18. Service Concession Fees Payable**

The movements in the service concession fees payable are as follows:

	Amount
At January 1, 2016	₱-
Additions	2,318,800,856
Accretion	17,115,373
At December 31, 2016	<u>₱2,335,916,229</u>

As discussed in Note 2, NLEX Corp. shall pay DPWH periodic payments in consideration for the grant of the basic right of way. The periodic payments are computed using the rate of four percent (4%) per annum applied to the agreed valuation of such portion of the basic right of way assigned for the use by the NLEX-SLEX Connector Road. The payment will commence on the first anniversary of the construction completion deadline, as extended, until the expiry of the concession period and will be subject to an agreed escalation every two years based on the prevailing CPI for the two-year period immediately preceding the adjustment or escalation.

The service concession fees payable is based on the discounted value of future fixed cash flows using the prevailing peso interest rates on November 23, 2016.

The undiscounted estimated future periodic payments, excluding the effect of the CPI, is ₱8,510.4 billion.



## 19. Equity

### Capital Stock

Details of common shares of the Parent Company as at December 31, 2016 and 2015 follow:

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

### Cash Dividends

The Parent Company's BOD declared the following cash dividends in 2016, 2015 and 2014:

Declaration Date	Record Date	Payment Date	Cash Dividend per Share	Total
<b>July 8, 2016</b>	<b>July 19, 2016</b>	<b>August 18, 2016</b>	<b>₱70.38</b>	<b>₱1,250,000,000</b>
<b>December 15, 2016</b>	<b>December 25, 2016</b>	<b>December 28, 2016</b>	<b>76.01</b>	<b>1,350,000,000</b>
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	55.00	976,800,000
December 17, 2014	December 7, 2014	January 6, 2015	67.20	1,193,472,000

Unpaid dividends of ₱1,422.6 million as at December 31, 2015 was subsequently paid in January 2016.

### Other Comprehensive Income (Loss) Reserve

	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, 2016	(₱37,532,107)	₱2,657,153	₱11,864,970	(₱3,559,491)	(₱26,569,475)
Change in fair value of AFS (see Note 12)	(1,661,917)	(1,192,620)	-	-	(2,854,537)
Remeasurement loss (see Note 23)	-	-	(10,697,673)	3,209,302	(7,488,371)
Balance at December 31, 2016	(₱39,194,024)	₱1,464,533	₱1,167,297	(₱350,189)	(₱36,912,383)

	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 30)	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 23)	-	-	-	-	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 30)	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 23)	-	-	-	-	(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



## 20. Non-toll Revenues

Details of non-toll revenues follow:

	2016	2015	2014
Income from advertising (see Note 16)	<b>₱106,466,110</b>	₱112,313,888	₱95,112,651
Income from TSF	<b>36,414,084</b>	32,661,844	21,540,542
Income from utility facilities (see Note 16)	<b>7,836,678</b>	5,088,001	2,354,089
Rental income (see Notes 10 and 28)	<b>4,307,205</b>	-	-
Service revenue	<b>2,410,563</b>	-	-
	<b>₱157,434,640</b>	₱150,063,733	₱119,007,282

Service revenue pertains to the traffic management services, supply and application of pavement markings of NVC to various customers.

## 21. Cost of Services

This account consists of:

	2016	2015	2014
Operator's fee (see Note 16)	<b>₱2,001,498,970</b>	₱1,741,674,430	₱1,710,956,357
Concession fees (see Note 2)	<b>791,493,044</b>	132,146,972	-
Amortization of service concession assets (see Note 8)	<b>615,120,463</b>	575,097,888	483,626,911
PNCC fee (see Note 28)	<b>527,740,201</b>	482,149,955	442,714,079
Provision for heavy maintenance (see Note 15)	<b>113,971,317</b>	150,819,004	224,653,876
Insurance	<b>78,074,708</b>	52,976,575	48,781,314
Repairs and maintenance (see Note 16)	<b>77,200,629</b>	108,201,070	108,050,774
Outside services (see Note 16)	<b>72,496,308</b>	64,279,224	54,442,444
Salaries and employee benefits (see Note 23)	<b>51,244,292</b>	53,303,999	43,603,408
Toll collection and medical services	<b>25,484,409</b>	17,636,666	15,612,000
Depreciation of property and equipment (see Note 9)	<b>4,977,014</b>	8,956,180	-
Others	<b>33,587,100</b>	33,383,888	14,044,597
	<b>₱4,392,888,455</b>	₱3,420,625,851	₱3,146,485,760



## 22. General and Administrative Expenses

This account consists of:

	2016	2015	2014
Salaries and employee benefits (see Notes 16, 23 and 24)	<b>₱190,906,315</b>	₱184,339,652	₱203,587,291
Advertising and marketing expenses (see Note 16)	<b>135,303,974</b>	220,221,143	93,756,686
Professional fees	<b>105,085,770</b>	50,619,790	17,718,074
Taxes and licenses	<b>62,504,339</b>	57,258,388	51,740,610
Management fees (see Note 16)	<b>60,702,628</b>	60,702,628	44,832,143
Representation and travel	<b>31,245,455</b>	27,495,494	22,064,000
Provisions (see Note 15)	<b>29,537,324</b>	5,101,457	13,840,182
Depreciation of property and equipment (see Note 9)	<b>25,001,484</b>	29,069,236	30,963,982
Outside services	<b>21,802,034</b>	23,201,107	26,072,527
Repairs and maintenance	<b>13,649,163</b>	6,837,414	6,430,205
Provision for doubtful accounts (see Note 7)	<b>10,776,531</b>	4,278,862	4,339,110
Communication, light and water (see Note 16)	<b>10,428,199</b>	10,251,450	10,472,969
Amortization of other intangible assets (see Note 11)	<b>5,924,711</b>	10,954,056	6,056,952
Training and development costs	<b>5,042,927</b>	5,416,536	3,997,548
Office supplies	<b>4,301,753</b>	2,365,137	5,807,068
Rentals	<b>1,612,882</b>	1,168,873	-
Directors' fees (see Note 16)	<b>695,000</b>	530,000	680,000
Miscellaneous	<b>11,648,913</b>	9,151,143	9,722,740
	<b>₱726,169,402</b>	₱708,962,366	₱552,082,087

## 23. Personnel Cost and Employee Benefits

This account consists of:

	2016	2015	2014
Salaries expense	<b>₱165,166,190</b>	₱169,520,573	₱171,404,655
LTIP	<b>58,964,008</b>	48,735,905	55,171,612
Retirement expense	<b>10,772,390</b>	13,256,495	12,811,988
ESOP expense (see Note 24)	<b>1,244,843</b>	1,244,843	2,345,037
Other employee benefits	<b>6,003,176</b>	4,885,835	5,457,407
	<b>₱242,150,607</b>	₱237,643,651	₱247,190,699
Cost of services (see Note 21)	<b>₱51,244,292</b>	₱53,303,999	₱43,603,408
General and administrative expenses (see Note 22)	<b>190,906,315</b>	184,339,652	203,587,291
	<b>₱242,150,607</b>	₱237,643,651	₱247,190,699





### LTIP

On April 27, 2012, MPTC's BOD approved the implementation of 2012 to 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. Subsequently on April 21, 2016, MPTC's BOD and its Compensation and Remuneration Committee approved the implementation of MPTC Group LTIP effective January 1, 2015.

MPTC's LTIP is a cash plan that is intended to provide meaningful and contingent financial incentive compensation for eligible executives and officers of the MPTC Group, who are consistent performers and contributors to the achievement of the long-term financial targets, strategic plans and objective, as well as the functional strategy and goals of the MPTC Group. Likewise, the MPTC Group LTIP is intended to attract and retain 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 2016, 2015 and 2014 included in "Salaries and employee benefits" account under "General and administrative expenses" in the consolidated statements of income amounted to ₱59.0 million, ₱48.7 million and ₱55.2 million, respectively. Total long-term incentive plan payable amounted to ₱129.4 million and ₱70.5 million as at December 31, 2016 and 2015, respectively.

### Retirement Costs

NLEX Corp. 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, 2016 by a certified actuary.

The funds are administered by a trustee bank. Subject to the specific instructions provided by Company in writing, NLEX Corp. 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, RA No. 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 2016 are as follows:

	Present Value of Defined Benefit Obligation	Fair Value of Plan Assets	Pension Asset
At January 1, 2016	<b>(₱110,939,146)</b>	<b>₱122,994,910</b>	<b>₱12,055,764</b>
Net benefit income (cost) in statement of consolidated statement of income:			
Current service cost	(11,325,749)	–	(11,325,749)
Net interest	(5,092,107)	5,645,466	553,359
	<b>(16,417,856)</b>	<b>5,645,466</b>	<b>(10,772,390)</b>
Benefits paid	73,647	(73,647)	–
Remeasurement gain (loss) in other comprehensive income (see Note 19):			
Return on plan assets (excluding amount included in net interest)	–	(2,268,322)	(2,268,322)
Actuarial changes arising from changes in financial assumptions	2,679,135	–	2,679,135
Actuarial changes due to experience adjustment	(11,108,486)	–	(11,108,486)
	<b>(8,429,351)</b>	<b>(2,268,322)</b>	<b>(10,697,673)</b>
Contributions	–	10,318,979	10,318,979
At December 31, 2016	<b>(₱135,712,706)</b>	<b>₱136,617,386</b>	<b>₱904,680</b>

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 consolidated 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 (see Note 19):			
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	<b>(₱110,939,146)</b>	<b>₱122,994,910</b>	<b>₱12,055,764</b>



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 consolidated 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 (see Note 19):			
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 ₱3.4 million, ₱4.0 million and ₱1.9 million in 2016, 2015 and 2014, respectively.

NLEX Corp. expects to contribute ₱15.6 million in 2017.

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

	2016		2015		2014	
	Amount	Percentage	Amount	Percentage	Amount	Percentage
Investments in:						
Government securities	₱72,305,424	52.93%	₱76,878,679	62.51%	₱77,778,679	60.11%
Debt securities	34,170,670	25.01%	39,818,321	32.37%	31,283,347	24.18%
UITFs	3,811,041	2.79%	–	–	–	–
Equity securities	1,625,600	1.19%	–	–	–	–
Cash and cash equivalents	21,900,203	16.03%	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	2,804,448	2.05%	1,153,784	0.94%	3,184,712	2.46%
	<b>₱136,617,386</b>	<b>100.00%</b>	<b>₱122,994,910</b>	<b>100.00%</b>	<b>₱129,393,284</b>	<b>100.00%</b>

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 8.63% per annum and have maturities from 2017 to 2032.
- Investments in debt instruments consist of quoted, unsecured, long-term corporate bonds and subordinated notes, which bear interest ranging from 4.63% to 6.27% per annum and have maturities from 2017 to 2024.
- Investment in equity securities consist of non-voting perpetual preferred shares Series A of GTCHI amounting to ₱1.6 million as at December 31, 2016. Gain on change in the fair value of the equity securities amounted to ₱25,600 in 2016.
- Cash and cash equivalents include regular savings and time deposits, which bear interest of ranging 1.25% to 3.47% per annum.
- 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, investments in UITFs, and investments in debt securities.

The principal assumptions used to determine accrued retirement costs as at December 31, 2016 and 2015 are as follows:

	2016	2015	2014
Discount rate	<b>4.86%</b>	4.59%	4.09%
Salary increase rate	<b>7.00%</b>	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, 2016 and 2015, assuming if all other assumptions were held constant:

		Amount	
Discount rate			
<b>2016</b>	<b>(Actual + 1.00%)</b>	<b>5.86%</b>	<b>₱126,890,914</b>
	<b>(Actual - 1.00%)</b>	<b>3.86%</b>	<b>146,178,372</b>
2015	(Actual + 1.00%)	5.59%	102,803,333
	(Actual - 1.00%)	3.59%	120,324,656
Salary increase rate			
<b>2016</b>	<b>(Actual + 1.00%)</b>	<b>8.00%</b>	<b>₱145,344,195</b>
	<b>(Actual - 1.00%)</b>	<b>6.00%</b>	<b>127,335,282</b>
2015	(Actual + 1.00%)	8.00%	119,614,630
	(Actual - 1.00%)	6.00%	103,213,151

The management performed an Asset-Liability Matching Study (ALM) annually. The overall investment policy and strategy of NLEX Corp.'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. NLEX Corp.'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, 2016 and 2015 is 15 years and 14 years, respectively.

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

	<b>2016</b>	2015
Less than 1 year	<b>₱37,985,441</b>	₱30,476,517
More than 1 year to 5 years	<b>38,188,286</b>	24,525,496
More than 5 years to 10 years	<b>94,485,721</b>	91,278,048
More than 10 years to 15 years	<b>79,026,306</b>	68,161,913
More than 15 years to 20 years	<b>110,873,443</b>	98,944,707
More than 20 years	<b>290,308,553</b>	178,590,037

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#### 24. 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 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 Philippine Stock Exchange (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). Of the total shares granted, 12,200,000 common shares were allocated to MPTC Group. 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 Group (includes the Company). Of the total shares granted, 14,000,000 common shares were allocated to MPTC Group. 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, 2016, 2015 and 2014 follows:

	2010 Grant		2013 Grant	
	Number of Shares	Exercise Price	Number of Shares	Exercise Price
Outstanding at January 1, 2014	485,000	₱2.73	4,000,000	₱4.60
Exercised during the year	(485,000)	2.73	–	–
Outstanding at December 31, 2016, 2015 and 2014	–	–	4,000,000	₱4.60
Exercisable at:				
<b>December 31, 2016</b>	–	₱–	<b>4,000,000</b>	<b>₱4.60</b>
December 31, 2015	–	–	4,000,000	4.60

The weighted average remaining contractual life for the 2013 share options outstanding as at December 31, 2016 and 2015 is 1.8 years and 2.8 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.

ESOP expense, recognized by the Company in "Salaries and employee benefits" account under "General and administrative expenses" in the consolidated statements of income amounted to ₱1.2 million in 2016 and 2015 and ₱2.3 million in 2014 (see Notes 22 and 23).



Carrying value of the ESOP, recognized under “Other reserve” in the consolidated statement of changes in equity, amounted to ₱13.0 million, ₱11.8 million and ₱10.5 million as at December 31, 2016, 2015 and 2014, respectively.

## 25. Interest Income

Sources of interest income follow:

	2016	2015	2014
Cash and cash equivalents (see Note 6)	<b>₱20,600,148</b>	₱19,108,129	₱11,129,626
AFS financial assets	<b>40,128,011</b>	53,776,152	50,136,496
Others	<b>1,361,545</b>	12,708	–
	<b>₱62,089,704</b>	₱72,896,989	₱61,266,122

## 26. Interest Expense and Other Finance Costs

Sources of interest expense and other finance costs follow:

	2016	2015	2014
Interest expense on:			
Loans (see Notes 17 and 30)	<b>₱405,396,398</b>	₱546,748,317	₱563,162,098
Provision for heavy maintenance (see Note 15)	<b>13,355,182</b>	11,939,460	11,978,840
Deferred lease income	<b>7,148</b>	–	–
Finance costs:			
Amortization of debt issue costs (see Note 17)	<b>19,912,748</b>	28,791,928	23,742,514
Lenders’ fees	<b>3,726,452</b>	3,998,564	1,793,373
Bank charges	<b>514,689</b>	816,880	537,382
Loan prepayment fees (see Note 17)	–	30,000,000	–
	<b>₱442,912,617</b>	₱622,295,149	₱601,214,207

## 27. Income Taxes

The provisions for current income tax for the years ended December 31, 2016, 2015 and 2014 are as follows:

	2016	2015	2014
Regular corporate income tax (RCIT)	<b>₱1,140,798,359</b>	₱949,581,001	₱742,156,676
Final tax on interest income from banks	<b>12,008,044</b>	14,145,924	10,611,174
	<b>₱1,152,806,403</b>	₱963,726,925	₱752,767,850



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

	2016	2015
Deferred tax assets:		
Service concession fees payable	₱700,774,869	₱-
Provision for heavy maintenance	85,657,300	72,072,409
LTIP payable	38,832,694	21,143,492
Accrued expenses and provisions	28,642,907	25,849,075
Unamortized past service cost	7,036,469	8,710,551
Allowance for doubtful accounts	7,481,577	4,248,618
Fair value changes on AFS financial assets (see Note 12)	1,464,533	2,657,153
Unearned rental income	639,667	-
Deferred lease income	42,341	-
	<b>870,572,357</b>	134,681,298
Deferred tax liabilities:		
Present value of concession fees capitalized as service concession assets	(700,774,869)	-
Difference in amortization of service concession assets	(636,952,861)	(632,176,295)
Unamortized realized foreign exchange losses capitalized	(18,702,313)	(19,592,899)
Pension asset	(271,404)	(3,616,729)
Unrealized foreign exchange gain	(73,649)	(743,146)
Present value of rental deposits	(36,904)	-
	<b>(1,356,812,000)</b>	(656,129,069)
Deferred tax liabilities – net	<b>(₱486,239,643)</b>	(₱521,447,771)

Reflected in the consolidated balance sheet as follows:

Deferred tax assets – net	₱645,104	₱-
Deferred tax liabilities – net	(486,884,747)	(521,447,771)
	<b>(₱486,239,643)</b>	(₱521,447,771)

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.

As at December 31, 2015, NVC has NOLCO of ₱277,690 that can be claimed as deduction for future taxable income and will expire in year 2018. In 2016, NVC applied its 2015 NOLCO as tax credit against its income tax due. The deferred tax asset on NOLCO of ₱83,307 as at December 31, 2015 was not recognized since management believes that it is more likely than not that these will not be realized in the future.





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

	2016	2015	2014
Income before income tax	<b>₱5,206,692,229</b>	₱3,938,269,273	₱3,404,123,118
Income tax computed at statutory tax rate of 30%	<b>1,562,007,669</b>	1,181,480,782	1,021,236,935
Add (deduct) the tax effects of:			
Effect of optional standard deduction	<b>(443,264,106)</b>	(228,320,466)	(175,204,186)
Interest income already subjected to final tax	<b>(18,218,447)</b>	(21,865,284)	(18,379,836)
Nondeductible expenses and others	<b>7,081,797</b>	(301,826)	417,974
Final tax on interest income	<b>12,008,044</b>	14,145,924	10,611,174
Provision for income tax	<b>₱1,119,614,957</b>	₱945,139,130	₱838,682,061

On December 18, 2008, the 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 2016, 2015 and 2014.

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

	2016	2015	2014
Balance at beginning of year	<b>₱521,447,771</b>	₱542,379,105	₱460,788,929
Provision for (benefit from) income tax during the year recognized in the consolidated statements of income	<b>(33,191,446)</b>	(18,587,795)	85,914,211
Income tax effect during the year recognized in the consolidated statements of comprehensive income	<b>(2,016,682)</b>	(2,343,539)	(4,324,035)
Balance at end of year	<b>₱486,239,643</b>	₱521,447,771	₱542,379,105

## 28. 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, NLEX Corp. 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, NLEX Corp. continues to accrue and pay the PNCC entitlement.

On December 2, 2010, NLEX Corp. received a letter from the TRB dated November 30, 2010, citing a decision of the Supreme Court (SC) dated October 19, 2010 directing NLEX Corp. 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 STOAAs, 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 NLEX Corp. 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, 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 ₱527.7 million, ₱482.1 million and ₱442.7 million in 2016, 2015 and 2014, respectively (see Note 21).

#### Construction of Segment 10, part of Phase II of the Project

On April 28, 2014, NLEX Corp. 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, NLEX Corp. issued the NTP to LCAL, signaling the start of the pre-construction activities. Pursuant to the contract, NLEX Corp. 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.

On January 12, 2017, pursuant to the escrow agreement, NLEX Corp. exercised its option to reduce the escrow account balance to the new minimum balance of ₱669.0 million. The new minimum balance is the amount equal to the forecast of LCAL's maximum committed costs over any given seven (7) weeks from the relevant calculation date until the forecast completion date plus a reasonable contingency allowance as agreed upon by both parties. The reduction of ₱220.0 million was released to the Company on January 18, 2017.

Construction of the 5.65 km fully-elevated segment is now underway. Project is estimated to be completed in May 2018.

#### NLEX Widening Project

On February 22, 2016, NLEX Corp. signed a construction contract with First Balfour, Inc. and Haidee Construction and Development Corporation / 4B Construction Corporation for the NLEX lane widening covering the construction of an additional lane on each direction in Segment 2,



portion of Phase 1 of MNEP (from Sta. Rita to San Fernando), and the expansion of the carriageway in Segment 3, portion of Phase 1 of MNEP (from Dau to Sta. Ines) from one by two to two by two lanes. It also covers the lane configuration of Candaba Viaduct from 2 to 3 lanes. The total project cost including civil works, independent design checking services, detailed engineering design and financing cost amounted to ₱2.4 billion for both Segment 2 and Segment 3. On December 2, 2016, the Segment 3 of the NLEX widening project has started commercial operations while Segment 2 of the NLEX widening project is expected to be completed by February 2017.

Unapplied advances payment to First Balfour, Inc. amounted to ₱195.5 million as at December 31, 2016 (see Note 13).

#### NLEX-SCTEX Integration Agreement

On February 5, 2015, NLEX Corp. 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 total project cost including civil works, FOE design supply and installation, and independent design checker and certification engineer amounted to ₱786.1 million and completed in March 2016.

#### Lease Contract

On January 1, 2016, NVC, as lessor, entered into a contract of lease with RDL Fuel Point, Inc, as lessee, covering a parcel of land adjacent to the NLEX and is presently the site of a service facility. The lease term shall be for 14 years starting from January 1, 2016, unless earlier terminated or otherwise extended by the parties in writing. The amount of the rent for the first 2 years shall be ₱3.6 million per year (inclusive of VAT). On the third year of the lease and every year thereafter, the rent shall be escalated by 5%. The lessee shall likewise pay the lessor additional fees based on the sales proceeds of the service facility.

Upon signing of the lease contract, the lessee paid an advance rent amounting to ₱7.2 million which shall be applied equally for the first 2 years. The lessee also paid security deposit amounting to ₱0.3 million which shall be returned to the lessee after the expiration or termination of the lease contract.

Unearned rental income related to the advance rent amounted to ₱2.1 million as at December 31, 2016.

As at December 31, 2016, the minimum lease receivables are as follows:

Within one year	₱3,214,286
After one year but not more than five years	18,649,005
After five years	35,071,297
	<u>₱56,934,588</u>

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## 29. 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 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 is not significantly exposed to interest rate risk since the Company's interest-bearing financial instruments, particularly its long-term debt, bears fixed interest rates as at December 31, 2016 and 2015. 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, 2016						
	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 <sup>(a)</sup>	0.10%-4.00%	₱331,603	₱-	₱-	₱-	₱331,603
AFS financial assets	1.63%-6.00%	-	311,230	520,000	565,100	1,396,330
Restricted cash <sup>(b)</sup>	1.00%	-	889,000	-	-	889,000
		<b>₱331,603</b>	<b>₱1,200,230</b>	<b>₱520,000</b>	<b>₱565,100</b>	<b>₱2,616,933</b>
Fixed-rate loans:						
Series A-7	7.27%	₱42,102	₱3,957,617	₱-	₱-	₱3,999,719
Series A-10	7.70%	10,000	20,000	920,000	-	950,000
Term-loan facility	5.00%-5.80%	250,000	500,000	500,000	5,750,000	7,000,000
Fixed-rate bonds	5.07%-5.50%	-	-	4,400,000	2,600,000	7,000,000
		<b>₱302,102</b>	<b>₱4,477,617</b>	<b>₱5,820,000</b>	<b>₱8,350,000</b>	<b>₱18,949,719</b>

<sup>(a)</sup> Excluding cash on hand

<sup>(b)</sup> Included under "Other noncurrent assets" account in the consolidated balance sheets.

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 <sup>(a)</sup>	0.25%-2.50%	₱2,607,948	₱-	₱-	₱-	₱2,607,948
AFS financial assets	1.63%-6.00%	200,000	449,260	300,000	815,100	1,764,360
Restricted cash <sup>(b)</sup>	1.00%	-	889,000	-	-	889,000
		<b>₱2,807,948</b>	<b>₱1,338,260</b>	<b>₱300,000</b>	<b>₱815,100</b>	<b>₱5,261,308</b>
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
		<b>₱1,012,102</b>	<b>₱4,319,719</b>	<b>₱320,000</b>	<b>₱12,310,000</b>	<b>₱17,961,821</b>

<sup>(a)</sup> Excluding cash on hand

<sup>(b)</sup> Included under "Other noncurrent assets" account in the consolidated balance sheets.



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.

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 NLEX Corp. 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 49% and 67% of the Company's financial assets, except cash and cash equivalents, as at December 31, 2016 and 2015, 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.

	<b>December 31, 2016</b>	December 31, 2015
Cash and cash equivalents <sup>(a)</sup>	<b>₱331,602,950</b>	₱2,607,948,946
Short-term deposits	<b>82,407,389</b>	1,225,420,748
Receivables <sup>(b)</sup>	<b>577,859,970</b>	556,743,422
AFS financial assets	<b>1,353,667,695</b>	1,715,128,246
Refundable deposits <sup>(c)</sup>	<b>3,694,561</b>	3,694,561
Restricted cash <sup>(c)</sup>	<b>889,000,000</b>	889,000,000
<b>Total credit risk exposure</b>	<b>₱3,238,232,565</b>	₱6,997,935,923

<sup>(a)</sup> Excluding cash on hand.

<sup>(b)</sup> Excluding advances to officers and employees.

<sup>(c)</sup> Included in "Other noncurrent assets" account in the consolidated 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, 2016 and 2015, 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, 2016 and 2015.

Year	Neither Past	Past Due but not Impaired					Total	Total
	Due nor Impaired	<31 Days	31-60 Days	61-90 Days	91-180 Days	Over 180 Days		
2016	₱261,417,478	₱11,135,229	₱41,126,262	₱10,338,069	₱8,075,166	₱28,644,523	₱99,319,249	₱360,736,727
2015	248,866,172	54,219,711	1,069,731	975,781	746,254	5,660,897	62,672,374	311,538,546

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, 2016				
	Neither Past Due nor Impaired - High-grade	Past Due but not Impaired	Impaired	Total
Cash and cash equivalents <sup>(a)</sup>	₱331,602,950	₱-	₱-	₱331,602,950
Short-term deposits	82,407,389	-	-	82,407,389
Receivables:				
Trade receivables	261,417,478	99,319,249	3,053,951	363,790,678
Advances to DPWH	180,361,049	-	-	180,361,049
Interest receivables	14,307,194	-	-	14,307,194
Due from related parties	3,812,414	-	-	3,812,414
Other receivables	18,642,586	-	21,884,639	40,527,225
AFS financial assets	1,353,667,695	-	-	1,353,667,695
Refundable deposits <sup>(b)</sup>	3,694,561	-	-	3,694,561
Restricted cash <sup>(b)</sup>	889,000,000	-	-	889,000,000
	<b>₱3,138,913,316</b>	<b>₱99,319,249</b>	<b>₱24,938,590</b>	<b>₱3,263,171,155</b>

<sup>(a)</sup> Excluding cash on hand.

<sup>(b)</sup> Included in "Other noncurrent assets" account in the consolidated balance sheets.

December 31, 2015				
	Neither Past Due nor Impaired - High-grade	Past Due but not Impaired	Impaired	Total
Cash and cash equivalents <sup>(a)</sup>	₱2,607,948,946	₱-	₱-	₱2,607,948,946
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
Advances to DPWH	202,883,464	-	-	202,883,464
Interest receivables	15,943,301	-	-	15,943,301
Due from related parties	2,807,542	-	-	2,807,542
Other receivables	23,570,569	-	11,772,227	35,342,796
AFS financial assets	1,715,128,246	-	-	1,715,128,246
Refundable deposits <sup>(b)</sup>	3,694,561	-	-	3,694,561
Restricted cash <sup>(b)</sup>	889,000,000	-	-	889,000,000
	<b>₱6,935,263,549</b>	<b>₱62,672,374</b>	<b>₱14,162,059</b>	<b>₱7,012,097,982</b>

<sup>(a)</sup> Excluding cash on hand.

<sup>(b)</sup> Included in "Other noncurrent assets" account in the consolidated 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, 2016 and 2015, 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 and accounts payables as at December 31, 2016 and 2015.

#### 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 ₱12,750.0 million and ₱2,450.0 million as at December 31, 2016 and 2015, respectively, and cash and cash equivalents amounting to ₱390.0 million and ₱2,669.3 million as at December 31, 2016 and 2015, 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, 2016 and 2015 based on undiscounted payments:

	December 31, 2016				Total
	Within the Year	2-3 Years	4-5 Years	More than 5 Years	
<b>Financial Assets</b>					
Cash and cash equivalents	₱389,912,852	₱-	₱-	₱-	₱389,912,852
Short-term deposits	82,407,389	-	-	-	82,407,389
Receivables <sup>(a)</sup>	577,859,970	-	-	-	577,859,970
AFS financial assets <sup>(b)</sup>	50,895,971	404,460,065	585,477,806	597,648,190	1,638,482,032
Refundable deposits	-	-	-	3,694,561	3,694,561
Restricted cash	-	889,000,000	-	-	889,000,000
	<b>₱1,101,076,182</b>	<b>₱1,293,460,065</b>	<b>₱585,477,806</b>	<b>₱601,342,751</b>	<b>₱3,581,356,804</b>
<b>Financial Liabilities</b>					
Accounts payable and other current liabilities <sup>(c)</sup>	₱2,939,600,242	₱-	₱-	₱-	₱2,939,600,242
Long-term debt <sup>(d)</sup>	1,409,598,803	6,165,684,725	7,137,934,352	9,844,549,546	24,557,767,426
Service concession fees payable	-	-	243,154,581	8,267,255,768	8,510,410,349
Rental deposits	-	-	-	124,936	124,936
	<b>₱4,349,199,045</b>	<b>₱6,165,684,725</b>	<b>₱7,381,088,933</b>	<b>₱18,111,930,250</b>	<b>₱36,007,902,953</b>

<sup>(a)</sup> Excluding advances to officers and employees.

<sup>(b)</sup> Including interest to be received.

<sup>(c)</sup> Excluding statutory liabilities, unearned toll revenues and unearned rental income.

<sup>(d)</sup> Including interest to be paid.



December 31, 2015

	Within the Year	2-3 Years	4-5 Years	More than 5 Years	Total
<b>Financial Assets</b>					
Cash and cash equivalents	₱2,669,324,105	₱-	₱-	₱-	₱2,669,324,105
Short-term deposits	1,225,420,748	-	-	-	1,225,420,748
Receivables <sup>(a)</sup>	556,743,422	-	-	-	556,743,422
AFS financial assets <sup>(b)</sup>	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
	<b>₱4,708,279,967</b>	<b>₱1,441,234,537</b>	<b>₱376,223,604</b>	<b>₱872,794,224</b>	<b>₱7,398,532,332</b>
<b>Financial Liabilities</b>					
Accounts payable and other current liabilities <sup>(c)</sup>	₱2,103,021,340	₱-	₱-	₱-	₱2,103,021,340
Dividends payable	1,422,576,000	-	-	-	1,422,576,000
Long-term debt <sup>(d)</sup>	2,042,011,488	6,121,358,466	1,697,568,817	13,977,224,180	23,838,162,951
	<b>₱5,567,608,828</b>	<b>₱6,121,358,466</b>	<b>₱1,697,568,817</b>	<b>₱13,977,224,180</b>	<b>₱27,363,760,291</b>

<sup>(a)</sup> Excluding advances to officers and employees.

<sup>(b)</sup> Including interest to be received.

<sup>(c)</sup> Excluding statutory liabilities and unearned toll revenues.

<sup>(d)</sup> 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, NLEX Corp. 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 NLEX Corp. 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's long-term debt to equity ratio stood at 1.96 times and 2.19 times for 2016 and 2015, respectively, indicating that the Company has the capacity to incur additional long-term debt to build up its capital.

	2016	2015
Long-term debt	<b>₱18,822,662,489</b>	₱17,814,581,945
Total equity	<b>9,611,617,735</b>	8,133,638,528
Total capital	<b>₱28,434,280,224</b>	₱25,948,220,473
Debt to equity ratio	<b>1.96 times</b>	2.19 times

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





### 30. 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, 2016 and 2015 follows:

	2016		2015	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Financial Assets</b>				
AFS financial assets:				
UITF*	<b>₱82,407,389</b>	<b>₱82,407,389</b>	₱1,225,420,748	₱1,225,420,748
Investment in treasury bonds and notes	<b>802,356,695</b>	<b>802,356,695</b>	1,160,612,246	1,160,612,246
Investment in corporate bonds	<b>453,095,000</b>	<b>453,095,000</b>	456,921,000	456,921,000
Investment in LTNCD	<b>98,216,000</b>	<b>98,216,000</b>	97,595,000	97,595,000
	<b>₱1,436,075,084</b>	<b>₱1,436,075,084</b>	₱2,940,548,994	₱2,940,548,994
<b>Financial Liabilities</b>				
Other financial liabilities:				
Long-term debt	<b>₱18,822,662,489</b>	<b>₱19,049,957,430</b>	₱17,814,581,945	₱18,328,964,217
Service concession fees payable	<b>2,335,916,229</b>	<b>2,450,579,759</b>	—	—
Rental deposits	<b>123,013</b>	<b>117,192</b>	—	—
	<b>₱21,158,701,731</b>	<b>₱21,500,654,381</b>	₱17,814,581,945	₱18,328,964,217

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

The management assessed that fair values of cash and cash equivalents, receivables, 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, 2016 and 2015. 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, 2016 and 2015.

#### Long-term Debt

For fixed 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, 2016 and 2015, estimated fair value is based on the discounted value of future cash flows using the prevailing peso interest rates. In 2016 and 2015, the prevailing peso interest rates ranged from 3.0% to 6.4% and 3.2% to 6.1%, respectively.

#### Service Concession Fee Payable

The estimated fair value of the service concession fees payable is based on the discounted value of future cash flows using the prevailing peso interest rates. In 2016, the prevailing peso interest rates ranged from 4.0% and 6.9%.

#### Rental Deposits

The estimated fair value of the rental deposits is based on the discounted value of future cash flow using the prevailing peso interest rates. In 2016, the prevailing peso interest is 6.4%.



Fair Value Hierarchy

As at December 31, 2016 and 2015, the Company held the following financial instruments measured at fair value:

	2016	Level 1	Level 2	Level 3
<b>Assets measured at fair value</b>				
AFS financial assets:				
UITF*	₱82,407,389	₱-	₱82,407,389	₱-
Investment in treasury bonds and notes	802,356,695	267,160,000	535,196,695	-
Investment in corporate bonds	453,095,000	453,095,000	-	-
Investment in LTNCD	98,216,000	98,216,000	-	-
	<b>₱1,436,075,084</b>	<b>₱818,471,000</b>	<b>₱617,604,084</b>	<b>₱-</b>
<b>Liabilities for which fair values are disclosed</b>				
Other financial liabilities:				
Long-term debt	₱19,049,957,430	₱7,027,185,480	₱12,022,771,950	₱-
Service concession fees payable	2,450,579,759	-	-	2,450,579,759
Rental deposits	117,192	-	-	117,192
	<b>₱21,500,654,381</b>	<b>₱7,027,185,480</b>	<b>₱12,022,771,950</b>	<b>₱2,450,696,951</b>

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

	2015	Level 1	Level 2	Level 3
<b>Assets measured at fair value</b>				
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	-	-
	<b>₱2,940,548,994</b>	<b>₱1,514,483,246</b>	<b>₱1,426,065,748</b>	<b>₱-</b>
<b>Liabilities for which fair values are disclosed</b>				
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 consolidated balance sheets.

During the years ended December 31, 2016 and 2015, portions of the investment in treasury bonds and notes amounting to ₱524.0 million and ₱200.6 million were 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 2016 and 2015, as well as no availability of bid-offer on value date.

Derivative Instruments

*PNB Term Loan*

On March 11, 2011, NLEX Corp. 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, NLEX Corp. 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, 2016 and 2015, the unamortized amount deferred in equity amounted to nil (after amortization of ₱3.8 million in 2015).

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.

On December 28, 2012, NLEX Corp. issued a notice for early termination of the interest rate swap transaction with PNB effective December 15, 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 (see Note 19):

	2015	2014
Balance at beginning of year	(₱3,775,752)	(₱12,710,899)
Transferred to consolidated 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 26).

### 31. Contingencies and Others

#### a. VAT

NLEX Corp. received the following VAT assessments from the BIR:

- The BIR issued a Formal Letter of Demand on March 16, 2009 requesting NLEX Corp. to pay deficiency VAT plus penalties amounting to ₱1,010.5 million for taxable year 2006.
- A Final Assessment Notice was received from the BIR dated November 15, 2009 assessing NLEX Corp. deficiency VAT plus penalties amounting to ₱557.6 million for taxable year 2007.
- The BIR issued a Notice of Informal Conference dated October 5, 2009 assessing NLEX Corp. 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, NLEX Corp. 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 NLEX Corp. deficiency VAT plus penalties amounting to ₱1,026.6 million for taxable year 2009. On June 11, 2010, NLEX Corp. 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 NLEX Corp.'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 NLEX Corp., ROP, acting by and through the TRB, and PNCC, provides NLEX Corp. with legal recourse in order to protect its lawful interests in case there is a change in existing laws which makes the performance by NLEX Corp. of its obligations materially more expensive.

b. RPT

In July 2008 and April 2013, NLEX Corp. filed Petitions for Review under Section 226 of the Local Government Code with the Local Board of Assessment Appeals (LBAA) of the Province of Bulacan seeking to declare as null and void tax declarations issued by the Provincial Assessor of the Province of Bulacan. The said tax declarations were issued in the name of NLEX Corp. as owner/administrator/beneficial user of the NLEX and categorized the NLEX as a commercial property subject to RPT. The LBAA has yet to conduct an ocular inspection to determine whether the properties, subject of the tax declarations, form part of the NLEX, which NLEX Corp. argues is property of the public dominion and exempt from RPT.

In September 2013, NLEX Corp. received notices of realty tax delinquencies for the years 2006 to 2012 and 2013 issued by the Provincial Treasurer of Bulacan stating that if NLEX Corp. fails to pay or remit the alleged delinquent taxes, the remedies provided for under the law for the collection of delinquent taxes shall be applied to enforce collection. In September 27, 2013, the Bureau of Local Government Finance of the Department of Finance (DOF-BLGF) wrote a letter to the Province of Bulacan advising it to hold in abeyance any further course of action pertaining to the alleged real property tax delinquency. In October 2013, the Provincial Treasurer of Bulacan has respected 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 NLEX Corp.'s consolidated financial statements. Management and its legal counsel also believes that the STOA also provides NLEX Corp. with legal recourse in order to protect its lawful interests in case there is a change in existing laws which makes the performance by NLEX Corp. of its obligations materially more expensive.

c. Toll Rate Adjustments

In June 2012, NLEX Corp., as petitioner-applicant, filed a Petition for Approval of Periodic Toll Rate Adjustment with the TRB praying for the adjustment of the toll rates for the NLEX, effective January 1, 2013 (2012 Petition).



In addition, in September 2014, NLEX Corp., as petitioner-applicant, filed a Petition for Approval of Periodic Toll Rate Adjustment with the TRB praying for the adjustment of the toll rate for the NLEX, effective January 1, 2015 (2014 Petition).

On September 30, 2016, NLEX Corp. as petitioner-applicant, filed a Petition for Approval of Periodic Toll Rate Adjustment with the TRB praying for the adjustment of the toll rate for the NLEX effective January 1, 2017 (2016 Petition).

On October 27, 2015, NLEX Corp. has been granted the right and obligation to manage, operate, and maintain the SCTEX under the terms of the BA between the Company and BCDA. Under the agreements covering the SCTEX, toll rate adjustment petitions shall be filed with the TRB yearly. Prior to October 27, 2015, the BCDA filed petitions for toll rate adjustment effective in 2012, 2013, 2014, and 2016. Thereafter, on September 29, 2016, NLEX Corp., as petitioner-applicant, filed a petition for toll rate adjustment effective January 1, 2017. The TRB approval of the foregoing SCTEX toll rate adjustment petitions remains pending.

NLEX Corp. has yet to receive regulatory approval for the 2012 Petition, 2014 Petition and 2016 Petition.

In August 2015, NLEX Corp. 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, NLEX Corp. stated that the ROP's/TRB's inexcusable refusal to act on the 2012 Petition and 2014 Petition is in total disregard and a culpable violation of applicable laws and contractual provisions on the matter, to the great prejudice of NLEX Corp., 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.

In view of the failure of the ROP/TRB to heed the Final Demand, NLEX Corp. sent a Notice of Dispute to the ROP/TRB dated September 11, 2015 invoking STOA Clause 19 (Settlement of Disputes). STOA Clause 19.1 states that the parties shall endeavor to amicably settle the dispute within sixty (60) calendar days. The TRB sent several letters to NLEX Corp. requesting the extension of the amicable settlement period. However, NLEX Corp. has not received any feasible settlement offer from the ROP/TRB.

Accordingly, on April 4, 2016, NLEX Corp. was compelled to issue a Notice of Arbitration and Statement of Claim (Notice of Arbitration) to the ROP, acting by and through the TRB, consistent with STOA Clause 19 in order to preserve its rights under the STOA. In the Notice of Arbitration, NLEX Corp. appointed retired SC Justice Jose C. Vitug as its nominee to the arbitral tribunal.

In a letter dated May 3, 2016, the ROP, acting by and through the Office of the Solicitor General (OSG), notified NLEX Corp. of its appointment of retired SC Chief Justice Reynato S. Puno as its nominee to the arbitral tribunal.

In a letter dated June 1, 2016, NLEX Corp. proposed that the arbitration be held in Singapore which is the seat of arbitration that the ROP has chosen for its various PPP projects, and proposed the Singapore International Arbitration Center as the Appointing Authority.



In a letter dated July 13, 2016, the ROP, acting by and through the OSG, stated that it accepts Singapore as the venue of arbitration, but reiterated its previous proposal that a Philippine-based institution/person be the Appointing Authority.

As of December 31, 2016 and 2015, total amount of compensation for TRB's inaction on lawful toll rate adjustments which were due since January 1, 2013 for NLEX, is approximately at ₱4.4 billion and ₱3.0 billion (VAT-exclusive), respectively.

- d. Garlitos, Jr. vs. Bases Conversion and Development Authority, Manila North Tollways Corporation and the Executive Secretary, SC (G.R. No. 217001)

Atty. Onofre G. Garlitos, Jr. filed with the SC a Petition for Prohibition and Mandamus with Prayer for Issuance of Temporary Restraining Order and/or Writ of Preliminary Injunction dated March 17, 2015 (Petition) against the BCDA, NLEX Corp., and the Executive Secretary. The Petition prays that (a) a writ of preliminary mandatory and prohibitory injunction be issued enjoining the BCDA, NLEX Corp., and Executive Secretary from proceeding with the SCTEX project and compelling the BCDA to rebid the SCTEX operation and maintenance project, and (b) an order be issued (i) annulling the bidding procedure, direct negotiations, and the Price Challenge conducted by the BCDA, and the Concession Agreement, Business and Operating Agreement, and all subsequent amendments and modifications thereto and (ii) compelling the BCDA to rebid the operation and maintenance of the SCTEX.

NLEX Corp. filed its comment praying that the Petition be denied. The BCDA, through the Office of the Government Corporate Counsel, and the Executive Secretary, through the OSG, also filed their respective Comment praying that the Petition be denied due course and dismissed for lack of merit. The case is pending as at February 16, 2017.

- e. NLEX Corp. 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.

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### 32. Supplemental Cash Flow Information

The following table shows the Company's significant non-cash investing and financing activities and corresponding transaction amounts for the year ended December 31, 2016:

Non-cash investing and financing activities	
Additions to service concession asset and service concession fees payable pertaining to present value of concession fees recognized on effective date of the concession agreement (see Notes 8 and 18)	₱2,318,800,856
Additions to service concession asset and service concession fees payable pertaining to accretion of service concession fees payable (see Notes 8 and 18)	17,115,373
Additions to service concession asset pertaining to the transfer from deferred project cost (see Note 8)	132,205,353



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### 33. Standards Issued but Not Yet Effective

Pronouncements issued but not yet effective are listed below. Unless otherwise indicated, the Company does not expect that the future adoption of the said pronouncements to have a significant impact on its consolidated financial statements. The Company intends to adopt the following pronouncements when they become effective.

*Effective beginning on or after January 1, 2017*

- Amendment to PFRS 12, *Clarification of the Scope of the Standard (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)*

The amendments clarify that the disclosure requirements in PFRS 12, other than those relating to summarized financial information, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale.

- Amendments to PAS 7, *Statement of Cash Flows, Disclosure Initiative*

The amendments to PAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). On initial application of the amendments, entities are not required to provide comparative information for preceding periods. Early application of the amendments is permitted.

Application of amendments will result in additional disclosures in the 2017 consolidated financial statements.

- Amendments to PAS 12, *Income Taxes, Recognition of Deferred Tax Assets for Unrealized Losses*

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognized in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact. Early application of the amendments is permitted.

These amendments are not expected to have any impact on the Company.



*Effective beginning on or after January 1, 2018*

- Amendments to PFRS 2, *Share-based Payment, Classification and Measurement of Share-based Payment Transactions*

The amendments to PFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and if other criteria are met. Early application of the amendments is permitted.

The Company is currently assessing the potential effect of the amendments on its consolidated financial statements.

- Amendments to PFRS 4, *Insurance Contracts, Applying PFRS 9, Financial Instruments, with PFRS 4*

The amendments address concerns arising from implementing PFRS 9, the new financial instruments standard before implementing the forthcoming insurance contracts standard. They allow entities to choose between the overlay approach and the deferral approach to deal with the transitional challenges. The overlay approach gives all entities that issue insurance contracts the option to recognize in other comprehensive income, rather than profit or loss, the volatility that could arise when PFRS 9 is applied before the new insurance contracts standard is issued. On the other hand, the deferral approach gives entities whose activities are predominantly connected with insurance an optional temporary exemption from applying PFRS 9 until the earlier of application of the forthcoming insurance contracts standard or January 1, 2021.

The overlay approach and the deferral approach will only be available to an entity if it has not previously applied PFRS 9.

The amendments are not applicable to the Company.

- PFRS 15, *Revenue from Contracts with Customers*

PFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under PFRS 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 PFRS 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 PFRSs. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018.

The Company is currently assessing the impact of adopting the new revenue standard.





- PFRS 9, *Financial Instruments*

PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, 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 providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

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 Group's application of hedge accounting and on the amount of its credit losses. The Company is currently assessing the impact of adopting the new financial instruments standard.

- Amendments to PAS 28, *Measuring an Associate or Joint Venture at Fair Value* (Part of *Annual Improvements to PFRSs 2014 - 2016 Cycle*)

The amendments clarify that an entity that is a venture capital organization, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. They also clarify that if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognized; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent. The amendments should be applied retrospectively, with earlier application permitted.

- Amendments to PAS 40, *Investment Property, Transfers of Investment Property*

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments should be applied prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. Retrospective application is only permitted if this is possible without the use of hindsight.

- Philippine Interpretation IFRIC 22, *Foreign Currency Transactions and Advance Consideration*

The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the nonmonetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or



receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. The interpretation may be applied on a fully retrospective basis. Entities may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognized on or after the beginning of the reporting period in which the entity first applies the interpretation or the beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

*Effective beginning on or after January 1, 2019*

- PFRS 16, *Leases*

Under the new standard, lessees will no longer classify their leases as either operating or finance leases in accordance with PAS 17, *Leases*. 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 loss. Leases with a term of 12 months or less or for which the underlying asset is of low value are exempted from these requirements.

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

Entities may early adopt PFRS 16 but only if they have also adopted PFRS 15. When adopting PFRS 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 adopting PFRS 16.

*Deferred effectivity*

- Amendments to PFRS 10 and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3, *Business Combinations*. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

On January 13, 2016, the FRSC postponed the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board has completed its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

