Tollways Management Corporation

Financial Statements
December 31, 2016 and 2015

and

Independent Auditor's Report

SGV
Building a better working world

A member firm of Ernst & Young Global Limited

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Tel: (632) 891 0307
Fax: (632) 819 0872
ey.com/ph

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

INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors
Tollways Management Corporation

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Tollways Management Corporation (the Company), which comprise the statements of financial position as at December 31, 2016 and 2015 and statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2016 and 2015, and its financial performance and its cash flows for the years then ended 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 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 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.

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

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

In preparing the 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 Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 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 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 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 financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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.

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

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

SYCIP GORRES VELAYO & CO.

Belinda T. Beng Hui
Belinda T. Beng Hui
Partner
CPA Certificate No. 88823
SEC Accreditation No. 0923-AR-2 (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

TOLLWAYS MANAGEMENT CORPORATION
STATEMENTS OF FINANCIAL POSITION

	December 31	
	2016	2015
ASSETS		
Current Assets		
Cash (Notes 4, 18 and 19)	**₱129,377,484**	₱120,267,343
Receivables (Notes 5, 11, 18 and 19)	**497,008,153**	716,329,295
Inventories	**11,554,675**	9,938,297
Other current assets (Note 6)	**51,002,426**	27,586,088
Total Current Assets	**688,942,738**	874,121,023
Noncurrent Assets		
Property and equipment (Note 7)	**75,869,162**	72,785,041
Deferred tax assets (Note 17)	**21,386,088**	24,006,580
Retirement asset (Note 15)	**–**	7,632,534
Deposits and other noncurrent assets (Notes 8, 18 and 19)	**46,869,529**	38,113,086
Total Noncurrent Assets	**144,124,779**	142,537,241
	₱833,067,517	₱1,016,658,264
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and other current liabilities (Notes 9, 11, 18 and 19)	**₱390,124,799**	₱425,121,483
Provisions (Notes 10, 18 and 19)	**251,120,543**	197,987,360
Income tax payable	**41,109,147**	28,550,392
Retention payable (Notes 18 and 19)	**20,418,897**	11,854,014
Total Current Liabilities	**702,773,386**	663,513,249
Noncurrent Liability		
Retirement liability (Note 15)	**4,240,729**	–
Total Liabilities	**707,014,115**	663,513,249
Equity		
Capital stock - ₱100 par value Authorized, issued and outstanding - 380,000 shares	**38,000,000**	38,000,000
Other comprehensive loss	**(17,796,664)**	(14,241,216)
Retained earnings (Note 12)	**105,850,066**	329,386,231
Total Equity	**126,053,402**	353,145,015
	₱833,067,517	₱1,016,658,264

See accompanying Notes to Financial Statements.

TOLLWAYS MANAGEMENT CORPORATION
STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2016	2015
SERVICE REVENUES (Note 11)	**₱2,046,814,922**	₱2,018,093,331
COST OF SERVICES (Notes 11 and 13)	**1,086,449,883**	1,029,084,784
GROSS PROFIT	**960,365,039**	989,008,547
GENERAL AND ADMINISTRATIVE EXPENSES (Notes 11 and 14)	**308,990,678**	240,003,212
OTHER INCOME (EXPENSES)		
Provision for claims and losses (Note 10)	**(61,095,866)**	(16,595,395)
Reversal of provisions (Notes 5 and 10)	**63,995,751**	34,999,876
Gain on disposal of property and equipment - net (Note 7)	**5,825,803**	378,540
Interest income (Note 4)	**1,692,980**	1,766,620
Foreign exchange gain - net	**10,446**	290,273
Other income - net (Note 16)	**231,684,909**	56,802,252
	242,114,023	77,642,166
INCOME BEFORE INCOME TAX	**893,488,384**	826,647,501
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 17)		
Current	**213,522,830**	191,300,523
Deferred	**3,305,773**	(1,961,896)
	216,828,603	189,338,627
NET INCOME	**676,659,781**	637,308,874
OTHER COMPREHENSIVE INCOME (LOSS)		
Items that will not be reclassified subsequently to profit or loss:		
Remeasurement gain (loss) on defined benefit plan (Note 15)	**(4,240,729)**	7,632,534
Income tax effect (Note 17)	**685,281**	(1,145,517)
	(3,555,448)	6,487,017
TOTAL COMPREHENSIVE INCOME	**₱673,104,333**	₱643,795,891

See accompanying Notes to Financial Statements.

TOLLWAYS MANAGEMENT CORPORATION
STATEMENTS OF CHANGES IN EQUITY

	Years Ended December 31	
	2016	2015
CAPITAL STOCK	**₱38,000,000**	₱38,000,000
OTHER COMPREHENSIVE INCOME (LOSS)		
Balance at beginning of year	**(14,241,216)**	(20,728,233)
Remeasurement gain (loss) on defined benefit plan - net (Note 15)	**(3,555,448)**	6,487,017
Balance at end of year	**(17,796,664)**	(14,241,216)
RETAINED EARNINGS		
Balance at beginning of year	**329,386,231**	346,376,061
Net income	**676,659,781**	637,308,874
Dividends declared (Note 12)	**(900,195,946)**	(654,298,704)
Balance at end of year	**105,850,066**	329,386,231
	₱126,053,402	₱353,145,015

See accompanying Notes to Financial Statements.

TOLLWAYS MANAGEMENT CORPORATION
STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱893,488,384**	₱826,647,501
Adjustments for:		
Provisions (Note 10)	**145,294,157**	92,226,900
Depreciation (Notes 7, 13 and 14)	**35,657,673**	32,301,541
Retirement benefits cost (Note 15)	**11,089,574**	12,895,050
Reversal of provisions (Note 10)	**(6,000,000)**	(6,000,000)
Gain on disposal of property and equipment (Note 7)	**(5,825,803)**	(378,540)
Interest income (Note 4)	**(1,692,980)**	(1,766,620)
Operating income before working capital changes	**1,072,011,005**	955,925,832
Decrease (increase) in:		
Receivables	**219,321,142**	(89,530,951)
Other current assets	**(66,315,639)**	(17,840,854)
Inventories	**(1,616,378)**	(3,593,093)
Increase (decrease) in:		
Provisions	**(86,160,974)**	(102,515,334)
Accounts payable and other current liabilities	**(34,996,684)**	42,333,287
Retention payable	**8,564,883**	2,641,252
Cash generated from operations	**1,110,807,355**	787,420,139
Income tax paid	**(158,064,774)**	(190,171,722)
Net cash provided by operating activities	**952,742,581**	597,248,417
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to property and equipment (Note 7)	**(40,458,231)**	(41,425,148)
Proceeds from disposal of property and equipment	**7,542,240**	1,594,388
Increase in deposits and other noncurrent assets	**(8,756,443)**	(3,809,344)
Retirement plan asset contribution (Note 15)	**(3,457,040)**	(22,933,503)
Interest received	**1,692,980**	1,766,620
Net cash used in investing activities	**(43,436,494)**	(64,806,987)
CASH FLOWS FROM A FINANCING ACTIVITY		
Dividends paid (Note 12)	**(900,195,946)**	(654,298,704)
NET DECREASE IN CASH	**9,110,141**	(121,857,274)
CASH AT BEGINNING OF YEAR	**120,267,343**	242,124,617
CASH AT END OF YEAR (Note 4)	**₱129,377,484**	₱120,267,343

See accompanying Notes to Financial Statements.

TOLLWAYS MANAGEMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS

1. General Information

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

The Company is 46% owned by Metro Pacific Tollways Development Corporation (MPTDC), 34% by Egis Road Operation S.A. (Egis) and 20% by the Republic of the Philippines as at December 31, 2015.

On December 28, 2016, a Deed of Absolute Sale of Shares ("Deed of Absolute Sale") was executed between Egis as seller, and MPTDC, as buyer with respect to 53,200 shares of the Company equivalent to 14% of the outstanding capital stock of the Company (the "Acquired Shares")

The Company is 60% owned by MPTDC, 20% owned by Egis and 20% owned by the Republic of the Philippines as at December 31, 2016.

On October 19, 2016, the Board of Directors (BOD) of the Company approved the merger between the Company and NLEX Corporation (NLEX Corp.), formerly Manila North Tollways Corporation or MNTC, with NLEX Corp. as the surviving Corporation. The revised plan of merger was approved by the majority of stockholders on December 15, 2016.

As at February 16, 2017, the Company is in the process of filing its articles of merger with the SEC.

The Company, under an Operation and Maintenance Agreement (O&M Agreement) with NLEX Corp. , a subsidiary of MPTDC, is the operator of Phase I consisting of Segments 1, 2, 3,7 and Segments 8.1 and 9, portions of Phase II of the North Luzon Expressway (NLEX) Project of NLEX Corp. The Phase I of the NLEX Project includes an 84-km stretch of road extending from Metro Manila to Sta. Inez Exit, Mabalacat, Pampanga, and an 8.5-km stretch of road linking Tipo, Hermosa, Bataan to Subic. On the other hand, the Phase II of the NLEX Project consists of Segment 8.1, a 2.7-km stretch of road linking NLEX to Mindanao Avenue and Segment 9, a 2.4- km road that links NLEX to MacArthur Highway in Valenzuela City. The O&M Agreement is effective until December 31, 2037. In 2012, TMC was engaged by NLEX Corp. to operate and maintain the Balagtas Interchange, a 1.5-km stretch connecting Plaridel to NLEX. The Company was also engaged by NLEX Corp. to operate the Bocaue Interchange Northbound Exit from July 29, 2012 until December 31, 2037.

The Company, Egis, and First Philippine Holdings Corporation (FPHC) have a joint venture agreement (JVA) for the interim operation and maintenance of the Subic-Clark-Tarlac Expressway (SCTEX) (the Project) of Bases Conversion and Development Authority (BCDA). On November 13, 2008, FPHC and Metro Pacific Investments Corporation (MPIC) executed a letter pursuant to Share Purchase Agreement whereby FPHC granted to MPIC an assignable option (the "SCTEX

Option") to acquire all the rights and interests of FPHC under the JVA, in consideration for the assumption by MPIC or its assignee of all of the obligations of FPHC under all the SCTEX Agreements. MPIC exercised the SCTEX Option on February 11, 2009. Under the JVA, the Company has a 20% interest in the Project. However, consistent with the allocation of respective duties to each other and to the BCDA, as well as the mutually agreed upon rights and to simplify operational set-up with BCDA, the parties agreed that the Company shall receive payments in its name and instructions from the BCDA pertaining to the operations and maintenance of the SCTEX. The Project which had been extended several times from an initial period of six (6) months can be extended on a monthly basis but any extension should not exceed six (6) months. The last contract extension of the Project expired on October 27, 2015.

On October 27, 2015, upon turnover of SCTEX from BCDA to NLEX Corp., NLEX Corp. also engaged the Company to operate and maintain the 94-kilometer SCTEX traversing the provinces of Bataan, Pampanga and Tarlac. The engagement to operate and maintain the SCTEX was formalized through a Letter Agreement executed by NLEX Corp. and the Company on May 27, 2015.

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

Authorization for Issuance of the Financial Statements
The accompanying financial statements were authorized for issue by the BOD on February 16, 2017.

2. Basis of Preparation and Summary of Accounting Policies

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

Statement of Compliance
The accompanying financial statements of the Company have been prepared in accordance with Philippine Financial Reporting Standards (PFRS).

Changes in Accounting Policies and Disclosures
The accounting policies adopted are consistent with those of the previous financial year, except that the Company has adopted the following new accounting pronouncements starting January 1, 2016. Adoption of these pronouncements did not have any significant impact on the Company's financial position or performance unless otherwise indicated.

- Amendments to PFRS 10, PFRS 12 and 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'*

Standards Issued but not yet Effective
The Company will adopt the following standards and interpretations enumerated below when these become effective. Except as otherwise indicated, the Company does not expect the adoption of these new and amended PFRS and Philippine Interpretations from Financial Reporting Interpretations Committee (IFRIC) to have significant impact on its financial statements.

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)
- Amendments to PAS 7, *Statement of Cash Flows*, *Disclosure Initiative*
- Amendments to PAS 12, *Income Taxes*, *Recognition of Deferred Tax Assets for Unrealized Losses*

Effective beginning on or after January 1, 2018

- Amendments to PFRS 2, *Share-based Payment*, *Classification and Measurement of Share-based Payment Transactions*
- Amendments to PFRS 4, *Insurance Contracts*, *Applying PFRS 9, Financial Instruments, with PFRS 4*
- Amendments to PAS 28, *Measuring an Associate or Joint Venture at Fair Value* (Part of *Annual Improvements to PFRSs* 2014 - 2016 Cycle)
- Amendments to PAS 40, *Investment Property*, *Transfers of Investment Property*
- Philippine Interpretation IFRIC-22, *Foreign Currency Transactions and Advance Consideration*
- 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 this 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 Company is currently assessing the impact of adopting this standard.

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 statements of financial position, 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.

Deferred effectivity

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

Current versus Noncurrent Classification
The Company presents assets and liabilities in the statements of financial position 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 the 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 the normal operating cycle;
- held primarily for the purpose of trading;
- due to be settled within twelve months after the reporting period; or

- there is no unconditional right to defer settlement of the liability for at least twelve months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

All other liabilities are classified as noncurrent.

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

Cash
Cash includes cash on hand and in banks.

Fair Value Measurement
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 of liability.

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

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

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

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

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

- Level 2: valuation techniques for which the lowest level of input that is significant to the fair value measurement is observable, either directly or indirectly;

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

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

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

Financial Instruments - Initial Recognition and Subsequent Measurement
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.

Financial Assets

Date of Recognition of Financial Assets. The Company recognizes financial assets in the statement of financial position when it becomes a party to the contractual provisions of the instrument. 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 trade date, i.e., the date that the company commits to purchase or sell the asset.

Initial Recognition of Financial Assets. Financial assets are recognized initially at fair value plus, in the case of investments not at fair value through profit or loss (FVPL), transaction costs that are attributable to the acquisition of the financial asset.

Categories of Financial Assets and Subsequent Measurement. Financial assets are classified as financial assets at FVPL, loans and receivables, held-to-maturity (HTM) investments, available-for-sale (AFS) financial assets or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial assets at initial recognition and where allowed and appropriate, re-evaluates such classification every financial reporting date.

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

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 carried at amortized cost using the effective interest rate (EIR) method, less any impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are not integral part of the EIR. Gains and losses are recognized in profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortization process.

Loans and receivables are classified as current assets when the Company expects to realize the asset within 12 months from reporting date. Otherwise, these are classified as noncurrent assets.

This category includes the Company’s cash, receivables and refundable deposits (included as part of “Deposit and other noncurrent assets” account).

Financial Liabilities

Initial Recognition of Financial Liabilities. Financial liabilities are recognized initially at fair value and in the case of other financial liabilities, inclusive of any directly attributable transaction costs.

Categories of Financial Liabilities. Financial liabilities are classified as financial liabilities at FVPL or other financial liabilities which are measured at amortized cost or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial liabilities at initial recognition and where allowed and appropriate, re-evaluates such classification every financial reporting date.

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

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

After initial recognition, other financial liabilities are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in profit or loss in the statement of comprehensive income when the liabilities are derecognized as well as through the amortization process. Other financial liabilities are included in current liabilities if maturity is within 12 months from the reporting date or the Company does not have an unconditional right to defer payment for at least 12 months from the reporting date. Otherwise, these are classified as noncurrent liabilities.

This Company's liabilities arising from operations such as accounts payable and other current liabilities (excluding statutory payables), provisions and retention payable are classified under this category.

Offsetting of Financial Assets and Financial Liabilities

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable right to offset the recognized amounts and there is 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" Difference

When 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" difference) in profit or loss unless it qualifies for recognition as some other type of asset. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Company determines the appropriate method of recognizing the "Day 1" difference amount.

Classification of Financial Assets and Financial Liabilities between Debt and Equity

A financial asset and financial liability is classified as debt if it provides for a contractual obligation to:

- Deliver cash of another financial asset to another entity; or
- Exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Company; or
- Satisfy the obligation other than by the exchange if a fixed amount of cash or another financial asset for a fixed number of own equity shares

If the Company does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.

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

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

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the financial asset is reduced through use of an allowance account and the amount of the loss is recognized in profit or loss. Interest income continues to be accrued on the reduced carrying amount based on the effective interest rate of the asset.

The Company provides an allowance for loans and receivables which they deemed to be uncollectible despite the Company's continuous effort to collect such balances from the respective clients. The Company considers those past due receivables as still collectible if they become past due only because of a delay on the fulfillment of certain conditions as agreed in the contract and not due to incapability of the customers to fulfill their obligation.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognized in profit or loss, 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.

Derecognition of Financial Assets and Financial Liabilities

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

- the rights to receive cash flows from the assets 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 right 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 the risks and rewards of the asset nor transferred control of the asset, the Company continues to recognize the transferred asset to the extent of its 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 the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Financial Liabilities. A financial liability is derecognized when the obligation under the liability is discharged, 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 is recognized in profit or loss.

Inventories

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

Property and Equipment

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

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

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

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

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

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

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

Construction in-progress is included in property and equipment and stated at cost which includes cost of construction and other direct costs. It is not depreciated until such time the relevant assets are ready for operational use.

Impairment of Nonfinancial Assets

The carrying values of property and equipment and other nonfinancial assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists, the Company estimates the asset's recoverable amount. An asset's recoverable amount is higher of an asset's cash-generating unit's (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other fair value indicators. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. When the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Any impairment loss is recognized in the statement of comprehensive income.

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

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

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

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

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

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

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

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

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

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

Retirement Costs

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

The cost of providing benefits under the defined benefit plan 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, the 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 other comprehensive income 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.

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

<u>Foreign Currency-denominated Transactions and Translation</u>
Transactions denominated in foreign currency are recorded in Philippine peso by applying to the foreign currency amount the exchange rate between the Philippine peso and the foreign currency at the date of transaction. Monetary assets and monetary liabilities denominated in foreign currencies are restated using the closing exchange rate at the reporting date. All differences are taken to statement of comprehensive income with the exception of differences on foreign currency exchange borrowings that provide a hedge against a net investment in a foreign entity. These are recorded as part of other comprehensive income and taken to equity until the disposal of the net investment, at which time they are recognized in net loss in the statement of comprehensive income. Tax charges and credits attributable to exchange rate differences on those borrowings are also dealt with in equity. Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rate at the date when the fair value was determined.

Taxes

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

Current income tax relating to items recognized directly in equity is recognized in equity and not in profit or loss.

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

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of taxable temporary differences associated with investments in subsidiaries and associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and by the parent, venture or investor, respectively, it is probable that the temporary differences will not reverse in the foreseeable future.

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

- where 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; and
- in respect of deductible temporary differences associated with investments in subsidiaries and associates and interests in joint ventures, 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 reporting date and reduced to the extent that it is no longer probable that sufficient future taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that sufficient future taxable profit will allow the deferred tax asset to be recovered.

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

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity.

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

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

- where the 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; and
- receivables and payables that 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 “Accounts payable and other current liabilities” accounts in the statement of financial position.

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. When the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented as part of profit or loss in the statement of comprehensive income, net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pretax 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.

Contingencies

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

Events After the Reporting Date

Post year-end events that provide additional information on the Company’s financial position at the reporting date (adjusting events) are reflected in the financial statements. Post year-end events that are not adjusting events are disclosed in the notes to financial statements when material.

3. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the Company’s financial statements requires management to make judgments, estimates, and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment in the future to the carrying amount of the asset or liability affected.

Judgments and estimates are continually evaluated and are based on experience and other factors, including expectations of future events that are to believe to be reasonable under the circumstances.

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

Judgment

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

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

Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at reporting 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:

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

Impairment loss recognized in 2016 and 2015 amounted to ₱45.3 million and nil, respectively. Reversal of impairment loss in 2016 and 2015 amounted to ₱58.0 million and ₱29.0 million, respectively. Allowance for doubtful accounts amounted to ₱49.6 million and ₱62.4 million as at December 31, 2016 and 2015, respectively. The carrying values of receivables amounted to ₱497.0 million and ₱716.3 million as at December 31, 2016 and 2015, respectively (see Note 5).

There were no impairment loss recognized on refundable deposits in 2016 and 2015. The carrying value of refundable deposits amounted to ₱2.8 million as at December 31, 2016 and 2015 (see Note 8).

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

There were no changes in the estimated useful lives of property and equipment as at December 31, 2016 and 2015. The carrying values of the Company's property and equipment amounted to ₱75.9 million and ₱72.8 million as at December 31, 2016 and 2015, respectively (see Note 7).

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

There were no impairment loss recognized in 2016 and 2015. The carrying values of property and equipment amounted to ₱75.9 million and ₱72.8 million as at December 31, 2016 and 2015, respectively (see Note 7).

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

The Company recognized retirement benefit cost in the profit or loss amounting to ₱11.1 million and ₱12.9 million in 2016 and 2015, respectively (see Note 15). The Company recognized remeasurement gain (loss) in the other comprehensive income, net of tax, amounting to (₱3.6 million) and ₱6.5 million in 2016 and 2015, respectively (see Notes 15 and 17).

The Company's retirement liability amounted to ₱4.2 million as at December 31, 2016 and retirement asset amounted to ₱7.6 million as at December 31, 2015 (see Note 15).

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

The Company recognized deferred tax assets for all temporary differences amounting to ₱21.4 million and ₱24.0 million as at December 31, 2016 and 2015, respectively (see Note 17).

4. **Cash**

This account consists of:

	2016	2015
Cash on hand	**₱18,193,650**	₱17,828,047
Cash in banks	**111,183,834**	102,439,296
	₱129,377,484	₱120,267,343

Cash in banks earn interest at the respective bank deposit rates.

Interest income earned from bank deposits amounted to ₱1.7 million and ₱1.8 million in 2016 and 2015, respectively.

5. Receivables

This account consists of:

	2016	2015
Trade:		
Related parties (see Note 11)	**₱368,954,150**	₱497,794,384
Third party	**164,804,889**	270,760,406
Others	**12,891,093**	10,150,848
	546,650,132	778,705,638
Less allowance for doubtful accounts	**49,641,979**	62,376,343
	₱497,008,153	₱716,329,295

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

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

The individually assessed impaired receivable amounted to ₱49.6 million and ₱62.4 million as at December 31, 2016 and 2015, respectively.

The movements in allowance for doubtful accounts are as follows:

	2016	2015
Balance at beginning of year	**₱62,376,343**	₱91,376,219
Provision (see Note 14)	**45,261,387**	–
Reversal of provision	**(57,995,751)**	(28,999,876)
Balance at end of year	**₱49,641,979**	₱62,376,343

6. Other Current Assets

This account consists of:

	2016	2015
Advances to contractors and suppliers	**₱32,381,442**	₱11,518,446
Prepaid expenses	**13,593,632**	10,431,911
Others	**5,027,352**	5,635,731
	₱51,002,426	₱27,586,088

Others include advances to employees and car plan loan receivable.

7. Property and Equipment

The movements in this account are as follows:

	2016					
	Transportation Equipment	**Office Furniture, Fixtures and Equipment**	**Leasehold Improvements**	**Tools, Construction and Engineering Equipment**	**Construction in Progress**	**Total**
Cost:						
Balance at beginning of year	**₱184,444,950**	**₱91,840,687**	**₱26,172,398**	**₱118,625,735**	**₱9,599,922**	**₱430,683,692**
Additions	**32,387,470**	**6,372,439**	**–**	**1,635,822**	**62,500**	**40,458,231**
Disposals	**(13,821,414)**	**(1,033,510)**	**(565,356)**	**(1,505,047)**	**–**	**(16,925,327)**
Reclassifications	**–**	**–**	**9,662,422**	**–**	**(9,662,422)**	**–**
Balance at end of year	**203,011,006**	**97,179,616**	**35,269,464**	**118,756,510**	**–**	**454,216,596**
Accumulated depreciation:						
Balance at beginning of year	**152,776,330**	**78,989,923**	**16,154,243**	**109,978,155**	**–**	**357,898,651**
Depreciation for the year (see Notes 13 and 14)	**21,551,773**	**5,902,214**	**3,004,411**	**5,199,275**	**–**	**35,657,673**
Disposals	**(12,800,828)**	**(503,334)**	**(565,356)**	**(1,339,372)**	**–**	**(15,208,890)**
Balance at end of year	**161,527,275**	**84,388,803**	**18,593,298**	**113,838,058**	**–**	**378,347,434**
Net book value	**₱41,483,731**	**₱12,790,813**	**₱16,676,166**	**₱4,918,452**	**₱–**	**₱75,869,162**

	2015					
	Transportation Equipment	Office Furniture, Fixtures and Equipment	Leasehold Improvements	Tools, Construction and Engineering Equipment	Construction in Progress	Total
Cost:						
Balance at beginning of year	₱206,895,996	₱82,112,717	₱26,041,038	₱109,512,182	₱–	₱424,561,933
Additions	11,953,393	10,360,055	131,360	9,380,418	9,599,922	41,425,148
Disposals	(34,404,439)	(632,085)	–	(266,865)	–	(35,303,389)
Reclassifications	–	–	–	–	–	–
Balance at end of year	184,444,950	91,840,687	26,172,398	118,625,735	9,599,922	430,683,692
Accumulated depreciation:						
Balance at beginning of year	165,602,919	74,212,374	13,762,998	106,106,360	–	359,684,651
Depreciation for the year (see Notes 13 and 14)	20,362,002	5,409,634	2,391,245	4,138,660	–	32,301,541
Disposals	(33,188,591)	(632,085)	–	(266,865)	–	(34,087,541)
Balance at end of year	152,776,330	78,989,923	16,154,243	109,978,155	–	357,898,651
Net book value	₱31,668,620	₱12,850,764	₱10,018,155	₱8,647,580	₱9,599,922	₱72,785,041

Gain on disposal of property and equipment in 2016 and 2015 amounted to ₱5.8 million and ₱0.4 million, respectively.

Fully depreciated assets that are still in use in the Company's operations amounted to ₱308.4 million and ₱318.1 million as at December 31, 2016 and 2015, respectively. The Company has no temporary idle property and equipment as at December 31, 2016 and 2015.

8. Deposits and Other Noncurrent Assets

This account consists of:

	2016	2015
Deferred input VAT	**₱39,215,827**	₱30,459,384
Refundable deposits	**2,830,768**	2,830,768
Others	**4,822,934**	4,822,934
	₱46,869,529	₱38,113,086

9. Accounts Payable and Other Current Liabilities

This account consists of:

	2016	2015
Trade	**₱51,131,249**	₱43,510,536
Accrued expenses:		
Outside services (see Note 11)	**167,033,382**	202,226,178
Personnel expenses	**46,696,337**	52,682,053
Guarantee fee (see Note 11)	**23,969,347**	23,969,347
Output VAT – net	**66,174,564**	69,389,294
Withholding taxes	**25,755,020**	19,054,340
Payable to related parties (see Note 11)	**88,647**	11,130,303
Others	**9,276,253**	3,159,432
	₱390,124,799	₱425,121,483

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

Accrued expenses, output VAT-net, withholding taxes, payable to related parties and others are noninterest bearing and are normally settled within the next financial year.

10. Provisions

This account consists of:

	2016	2015
Provision for:		
Personnel expenses	**₱84,198,291**	₱75,631,505
Claims and losses (see Note 11)	**25,853,352**	31,202,166
Other provisions	**141,068,900**	91,153,689
	₱251,120,543	₱197,987,360

Movements in provisions as at December 31 are presented below:

	2016	2015
Balance at beginning of year	**₱197,987,360**	₱214,275,794
Provisions (see Notes 13 and 14)	**145,294,157**	92,226,900
Payments	**(86,160,974)**	(102,515,334)
Reversal	**(6,000,000)**	(6,000,000)
Balance at the end of year	**₱251,120,543**	₱197,987,360

The Company recognized provision based on estimates of incentives to employees and claims and losses arising from operations.

In 2016 and 2015, reversals of provisions, which is included under "Reversal of provisions and accruals" account in the statement of comprehensive income, amounted to ₱6.0 million.

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

11. **Related Party Transactions**

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

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

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

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

Moreover, on May 27, 2010, pursuant to the O&M and the Toll Regulatory Board's approval to integrate the operations period of Phase I and Segment 8.1, portion of Phase II of the NLEX project, and to extend the concession term, the Company and NLEX Corp. 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 the Company an annual base fee for the operations and maintenance of Segment 8.1 in the amount of ₱33.6 million effective in June 2010.

In 2012, TMC was engaged by NLEX Corp. to operate and maintain the Balagtas Interchange, effective on June 25, 2012 until December 31, 2037. NLEX Corp. agreed to pay TMC an annual base fee of ₱15.6 million for the O&M of the said Balagtas Interchange. In June 2015, NLEX Corp. and TMC executed side letter agreement to reduce the annual base fee for the Balagtas Interchange to ₱13.7 million. The annual base fee is subject to escalation, after one year from the start of operation, based on consumer price index values as published by National Statistics Office (NSO).

TMC was also engaged by NLEX Corp. to operate the Bocaue Interchange Northbound Exit, effective July 29, 2012 until December 31, 2037. NLEX Corp. agreed to pay TMC an annual base fee of ₱7.7 million for the operations and maintenance of the said Bocaue Interchange Northbound Exit. The annual base fee is subject to escalation, after one year from the start of operation, based on consumer price index values as published by NSO.

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

On March 15, 2015, NLEX Corp. engaged TMC to operate and maintain Segment 9, also an integral part of Phase II of the NLEX project, and is also effective until December 31, 2037. NLEX Corp. agreed to pay TMC an annual base fee of ₱28.2 million for the operation and maintenance of Segment 9. The foregoing was formalized through the Side Letter Agreement executed by NLEX Corp. and TMC on May 13, 2016.

On May 27, 2015, NLEX Corp. has authorized the Company to commence the operation and maintenance of the SCTEX upon turn-over of BCDA to NLEX Corp. to operate and collect toll revenue in SCTEX. The engagement to operate and maintain the SCTEX was formalized through a Letter Agreement executed by NLEX Corp. and TMC, effective October 27, 2015.

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

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

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

			Outstanding balances					
Related Party	**Year**	**Amount/ Volume of Transactions**	**Receivables** (see Note 5)	**Accrued expenses** (see Note 9)	**Payable to related parties** (see Note 9)	**Provision for claims and losses** (see Note 10)	**Terms**	**Conditions**
MPTDC								
Management fees expense (see Note 14)	**2016**	**₱27,086,419**	**₱–**	**₱–**	**₱–**	**₱–**	Noninterest-bearing	Unsecured
	2015	32,103,605	–	32,103,605	–	–		
Guarantee fees	**2016**	**–**	**–**	**19,894,558**	**–**	**–**	Noninterest-bearing	Unsecured
	2015	–	–	19,894,558	–	–		
Dividends declared	**2016**	**414,090,135**	**–**	**–**	**–**	**–**	Noninterest-bearing	Unsecured
	2015	300,977,404	–	–	–	–		
Recoverable cost	**2016**	**954,350**	**612,630**	**–**	**–**	**–**	Noninterest-bearing	Unsecured; no impairment
	2015	–	–	–	–	–		
Reimbursement of expenses	**2016**	**89,250**	**–**	**–**	**–**	**–**	Noninterest-bearing	Unsecured
	2015	102,000	–	–	–	–		
EGIS								
Guarantee fees	**2016**	**–**	**–**	**4,074,789**	**–**	**–**	Noninterest-bearing	Unsecured
	2015	–	–	4,074,789	–	–		
Dividends declared	**2016**	**306,066,622**	**–**	**–**	**–**	**–**	Noninterest-bearing	Unsecured
	2015	222,461,559	–	–	–	–		
EGIS Projects Philippines Inc. [a]								
Outside and technical service (see Note 13)	**2016**	**17,785,714**	**–**	**8,964,285**	**–**	**–**	Noninterest-bearing	Unsecured
	2015	17,785,714	–	5,039,286	–	–		
Additional services	**2016**	**25,031,667**	**231**	**–**	**–**	**–**	Noninterest-bearing	Unsecured; no impairment
	2015	–	–	–	–	–		
Reimbursement of expenses	**2016**	**75,599**	**–**	**–**	**75,599**	**–**	Noninterest-Bearing	Unsecured
	2015	561,009	–	–	–	–		

(Forward)

Related Party	Year	Amount/ Volume of Transactions	Outstanding balances Receivables (see Note 5)	Accrued expenses (see Note 9)	Payable to related parties (see Note 9)	Provision for claims and losses (see Note 10)	Terms	Conditions
NLEX Corp. [(a)]								
Operator's fee	**2016**	**₱1,942,274,197**	**₱200,137,602**	**₱–**	**₱–**	**₱–**	Noninterest-bearing	Unsecured; ₱0.2 million impairment in 2012
	2015	1,677,831,506	380,751,945	–	–	–		
Reimbursement of expenses	**2016**	**120,000**	**–**	**–**	**13,048**	**–**	Noninterest-bearing	Unsecured
	2015	7,307,951	–	–	7,510,189	–		
Additional services	**2016**	**122,937,794**	**165,874,763**	**–**	**–**	**–**	Noninterest-bearing	Unsecured; no impairment
	2015	121,758,714	113,323,698	–	–	–		
Provision for claims and losses (see Note 10)	**2016**	**–**	**–**	**–**	**–**	**840,261**	Noninterest-bearing	Unsecured
	2015	–	–	–	–	840,261		
MPTC [(b)]								
Management fees expense (see Note 14)	**2016**	**29,165,927**	**–**	**8,384,692**	**–**	**–**	Noninterest-bearing	Unsecured
	2015	29,165,926	–	29,165,926	–	–		
Recoverable cost	**2016**	**1,600,412**	**1,525,065**	**–**	**–**	**–**	Noninterest-bearing	Unsecured; no impairment
	2015	100,838	–	–	–	–		
Reimbursement of expenses	**2016**	**4,343,621**	**–**	**–**	**–**	**–**	Noninterest-bearing	Unsecured
	2015	11,854,498	–	–	3,613,938	–		
Cavitex Infrastructure Corp. [(a)]								
Additional services	**2016**	**1,235,165**	**–**	**–**	**–**	**–**	Noninterest-bearing	Unsecured; no impairment
	2015	3,187,592	3,243,164	–	–	–		
Reimbursement of expenses	**2016**	**416,320**	**328,282**	**–**	**–**	**–**	Noninterest-bearing	Unsecured; no impairment
	2015	40,605	–	–	–	–		
MPIC [(a)]								
Additional services	**2016**	**377,936**	**475,577**	**–**	**–**	**–**	Noninterest-bearing	Unsecured; no impairment
	2015	475,577	475,577	–	–	–		
Reimbursement of expenses	**2016**	**43,812**	**–**	**–**	**–**	**–**	Noninterest-bearing	Unsecured
	2015	6,176	–	–	6,176	–		
	2016		**₱368,954,150**	**₱41,318,324**	**₱88,647**	**₱840,261**		
	2015		497,794,384	90,278,164	11,130,303	840,261		

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

Other Transactions

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

	2016	2015
Short-term employee benefits	**₱71,359,654**	₱73,317,925
Retirement benefits costs	**2,842,993**	2,721,351
	₱74,202,647	₱76,039,276

12. Retained Earnings

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

As at December 31, 2016 and 2015, the Company's retained earnings is in excess of 100% of its paid-up capital. The Company intends to use the excess in retained earnings for future dividend declaration pursuant to the SEC Memorandum, Circular No. 11 series of 2008 on December 5, 2008, which provides guidance on retained earnings available for dividend declaration.

On February 17, 2016, July 8, 2016 and December 15, 2016, the BOD declared cash dividends amounting to ₱311.7 million or ₱820.3 per share, ₱333.5 million or ₱877.6 per share and ₱255.0 million or ₱671.1 per share, respectively, of record as at February 17, 2016, July 1, 2016 and December 15, 2016, respectively. The cash dividends were already paid in full as at December 31, 2016.

On February 12, 2015, the BOD declared cash dividends totaling ₱326.7 million or ₱859.80 per share to stockholders of record as at February 12, 2015. In addition, on July 23, 2015, the BOD declared cash dividends totaling ₱327.6 million or ₱862.04 per share to stockholders of record as at July 23, 2015. The cash dividends were already paid in full as at December 31, 2015.

13. Cost of Services

This account consists of:

	2016	2015
Outside services	**₱398,065,951**	₱295,469,102
Personnel expenses:		
Salaries and wages	**341,221,982**	380,231,155
Other personnel expenses (see Note 15)	**49,663,462**	66,151,203
Communications, light and water	**68,652,826**	71,683,050
Provisions (see Note 10)	**67,183,472**	57,479,943
Repairs and maintenance	**52,938,243**	42,800,055
Transportation and travel	**31,384,723**	39,800,894
Depreciation (see Note 7)	**28,464,116**	26,805,676
Supplies	**24,183,465**	22,438,409
Technical services (see Note 11)	**17,785,714**	17,785,714
Taxes and licenses	**683,873**	689,618
Entertainment, amusement and recreation	**620,709**	1,071,791
Others	**5,601,347**	6,678,174
	₱1,086,449,883	₱1,029,084,784

14. General and Administrative Expenses

This account consists of:

	2016	2015
Outside services (see Note 11)	**₱79,235,370**	₱84,508,787
Personnel expenses:		
Salaries and wages	**67,361,235**	49,962,502
Other personnel expenses (see Note 15)	**28,948,941**	19,118,014
Provision for doubtful accounts (see Note 5)	**45,261,387**	–
Taxes and licenses	**28,366,402**	22,213,546
Provisions (see Note 10)	**17,014,819**	18,151,562
Depreciation (see Note 7)	**7,193,557**	5,495,865
Entertainment, amusement and recreation	**6,586,442**	14,896,117
Transportation and travel	**5,381,642**	6,579,635
Communications, light and water	**5,345,486**	3,818,750
Supplies	**2,339,782**	1,802,855
Repairs and maintenance	**1,691,681**	601,620
Advertising and promotions	**1,257,096**	2,116,467
Others	**13,006,838**	10,737,492
	₱308,990,678	₱240,003,212

15. **Retirement Plan**

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

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

The latest actuarial valuation of the Company is as at December 31, 2016.

The following tables summarize the components of retirement cost included in personnel expenses under "Cost of services" and "General and administrative expenses" accounts in the statement of comprehensive income and "Retirement asset" and "Retirement liability" accounts in the statement of financial position, which are based on the 2016 and 2015 actuarial valuations.

Changes in the retirement asset (liability) in 2016 are as follows:

	Present Value of Defined Benefit Obligation	**Fair Value of Plan Assets**	**Retirement Asset (Retirement Liability)**
At January 1, 2016	**(₱103,887,172)**	**₱111,519,706**	**₱7,632,534**
Net benefit income (cost) in profit or loss (see Notes 13 and 14):			
Current service cost	**(11,463,569)**	**–**	**(11,463,569)**
Net interest	**(5,090,471)**	**5,464,466**	**373,995**
	(16,554,040)	**5,464,466**	**(11,089,574)**
Benefits paid	**4,642,191**	**(4,642,191)**	**–**
Contributions	**–**	**3,457,040**	**3,457,040**
Remeasurement gain (loss) in other comprehensive income:			
Actuarial changes arising from changes in financial assumptions	**2,313,993**	**–**	**2,313,993**
Actuarial changes due to experience adjustment	**(5,053,006)**	**–**	**(5,053,006)**
Return on plan assets (excluding amount included in net interest)	**–**	**(1,501,716)**	**(1,501,716)**
	(2,739,013)	**(1,501,716)**	**(4,240,729)**
At December 31, 2016	**(₱118,538,034)**	**₱114,297,305**	**(₱4,240,729)**

Changes in retirement asset (liability) in 2015 are as follows:

	Present Value of Defined Benefit Obligation	Fair Value of Plan Assets	Retirement Asset (Retirement Liability)
At January 1, 2015	(₱108,143,698)	₱98,105,245	(₱10,038,453)
Net benefit income (cost) in profit or loss (see Notes 13 and 14):			
Current service cost	(12,443,320)	–	(12,443,320)
Net interest	(4,866,466)	4,414,736	(451,730)
	(17,309,786)	4,414,736	(12,895,050)
Benefits paid	9,441,153	(9,441,153)	–
Contributions	–	22,933,503	22,933,503
Remeasurement gain (loss) in other comprehensive income:			
Actuarial changes arising from changes in financial assumptions	17,788,544	–	17,788,544
Actuarial changes due to experience adjustment	(5,663,385)	–	(5,663,385)
Return on plan assets (excluding amount included in net interest)	–	(4,492,625)	(4,492,625)
	12,125,159	(4,492,625)	7,632,534
At December 31, 2015	(₱103,887,172)	₱111,519,706	₱7,632,534

The actual return on plan assets amounted to ₱4.0 million and (₱0.1 million) in 2016 and 2015, respectively.

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

The following table presents the categories of the plan assets and fair values as at December 31, 2016 and 2015

	2016	2015
Investments in:		
Government securities/bonds	**₱60,591,137**	₱32,699,915
Stocks	**21,611,869**	19,892,291
Other securities and debt instruments	**10,060,513**	9,035,885
Deposit in banks	**12,685,254**	46,174,934
Loans/notes receivables	**8,805,900**	3,395,600
Other receivables	**542,632**	321,081
	₱114,297,305	₱111,519,706

As at December 31, 2016 and 2015, 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% and 3.25% to 8.63% per annum in 2016 and 2015, respectively and have maturities from 2017 to 2037.

- Investments in debt instruments consist of quoted, unsecured, long-term corporate bonds and subordinated notes, which bear interest ranging from 3.92% to 6% and 5.22% to 6.8% per annum in 2016 and 2015, respectively, and have maturities from 2017 to 2025.
- Cash and cash equivalents include regular savings and time deposits, which bear 1.60% to 2.0% and 0.25% to 2.88% interest in 2016 and 2015, respectively.
- Loans and notes receivables consist of unsecured debt securities classified as loans that bear interest ranging from 5.64% to 6.26% per annum and will mature in 2022.

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

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

	2016	2015
Discount rate	**5.09%**	4.90%
Salary increase rate	**3.00%**	3.00%

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 assuming if all other assumptions were held constant:

		Increase (Decrease) in Defined Benefit Obligation	
	Increase (Decrease)	**2016**	2015
Discount rate	1.00%	**(₱11,146,538)**	(₱10,456,776)
	(1.00%)	**12,905,884**	12,202,144
Salary increase rate	1.00%	**13,117,826**	12,356,959
	(1.00%)	**(11,636,002)**	(10,857,199)

The average duration of the defined benefit obligation is 16 years in 2016 and 2015.

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

	December 31, 2016	December 31, 2015
Less than 1 year	**₱7,874,736**	₱6,263,620
More than 1 year to 5 years	**41,119,401**	36,715,111
More than 5 years to 10 years	**74,124,801**	62,180,348
More than 10 years	**413,666,296**	375,839,502

The Company expects to contribute ₱17.2 million to its defined benefit retirement plan in 2017.

Defined Contribution Plan. The Company also has a funded, contributory defined contribution plan covering all of its regular and full-time employees. The plan provides for retirement benefit payment equal to the accumulated fund in the hands of the trustee. The Company made contributions to the plan amounting to ₱5.2 million and ₱12.6 million in 2016 and 2015, respectively.

16. **Other income - net**

This account consists of:

	2016	2015
Additional services	**₱207,759,988**	₱20,971,960
Reversal of accruals	**18,321,492**	24,894,180
Scrap sales	**6,385,884**	9,539,786
Advertising	**75,000**	305,116
Others – net	**(857,455)**	1,091,210
	₱231,684,909	₱56,802,252

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

In 2016, the Company entered into sub-contract agreement with First Balfour, Inc., for the installation of guardrails in the Segment 2 road widening project of NLEX Corp.

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

17. **Income Taxes**

The components of income tax expense for the year ended December 31, 2016 and 2015 are as follows:

Profit or loss:

	2016	2015
Current income tax change	**₱213,522,830**	₱191,300,523
Deferred income tax relating to origination and reversal of temporary difference	**3,305,773**	(1,961,896)
	₱216,828,603	₱189,338,627

Other comprehensive income:

	2016	2015
Deferred tax change directly to equity during the year - Benefit from remeasurement (gain) loss on defined benefit plan	**₱685,281**	(₱1,145,517)

The Company's provision for current income tax in 2016 and 2015 represents regular corporate income tax (RCIT).

The components of the Company's deferred tax assets as at December 31, 2016 and 2015 are as follows:

	2016	2015
Accrued expenses and provisions	**₱17,335,210**	₱19,170,033
Accrued retirement cost	**1,182,115**	1,119,102
Unamortized past service costs	**2,868,763**	3,644,095
Allowance for impairment on inventory	**–**	73,350
	₱21,386,088	₱24,006,580

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

	2016	2015
Income tax computed at statutory tax rate	**₱268,046,515**	₱247,994,250
Add (deduct) the tax effects of:		
Benefit from availment of Optional Standard Deduction (OSD)	**(50,710,018)**	(58,125,637)
Interest income subjected to final tax	**(507,894)**	(529,986)
	₱216,828,603	₱189,338,627

Pursuant to the implementing terms of Revenue Regulations No. 16-2008 on Republic Act (R.A.) No. 9504, the Company opted to use the OSD instead of the itemized deductions for the year ended December 31, 2016 and 2015 in the computation of RCIT.

18. Financial Assets and Liabilities

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

The carrying value of refundable deposits (included as part of "Deposits and other noncurrent assets" account in the statement of financial position) approximates fair value as at December 31, 2016 and 2015 due to unavailability of information as to the repayment date that would provide a reasonable basis for the fair value measurement.

Fair Value Hierarchy
The Company has no financial instruments measured at fair value using valuation technique as at December 31, 2016 and 2015.

19. Financial Risk Management Objectives and Policies

The Company's principal financial instruments comprises cash, receivables and accounts payable and other current liabilities. The main purpose of these financial instruments is to fund the Company's operations. The Company's other financial instruments include refundable deposits (recognized as part of "Deposits and other noncurrent assets" account), provisions for claims and losses and retention payable.

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

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

Credit Risk

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

The credit exposure of the Company which arises from default of the counterparty has a maximum exposure equal to the carrying amounts of cash in banks, receivables and refundable deposits.

The table below shows the aging of the Company's financial assets.

	2016					
		Past Due but not Impaired				
	Current	**1 to 30 days**	**31-60 days**	**Over 61 days**	**Impaired**	**Total**
Cash in banks	**₱111,183,834**	**₱–**	**₱–**	**₱–**	**₱–**	**₱111,183,834**
Receivables	**253,872,654**	**174,276,309**	**3,291,166**	**65,568,024**	**49,641,979**	**546,650,132**
Refundable deposits [(a)]	**2,830,768**	**–**	**–**	**–**	**–**	**2,830,768**
	₱367,887,256	**₱174,276,309**	**₱3,291,166**	**₱65,568,024**	**₱49,641,979**	**₱660,664,734**

[(a)]*Included as part of "Deposits and other noncurrent assets" account in the statement of financial position.*

	2015					
		Past Due but not Impaired				
	Current	1 to 30 days	31-60 days	Over 61 days	Impaired	Total
Cash in banks	₱102,439,296	₱–	₱–	₱–	₱–	₱102,439,296
Receivables	339,597,077	145,324,088	25,677,614	205,730,516	62,376,343	778,705,638
Refundable deposits [(a)]	2,830,768	–	–	–	–	2,830,768
	₱444,867,141	₱145,324,088	₱25,677,614	₱205,730,516	₱62,376,343	₱883,975,702

[(a)] *Included as part of "Deposits and other noncurrent assets" account in the statement of financial position.*

Credit Quality

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

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

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

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

	2016		
	Neither Past-due nor Impaired		
	High Grade	**Standard Grade**	**Total**
Cash in banks	**₱111,183,834**	**₱–**	**₱111,183,834**
Receivables	**156,613,716**	**97,258,938**	**253,872,654**
Refundable deposits [(a)]	**2,830,768**	**–**	**2,830,768**
	₱270,628,318	**₱97,258,938**	**₱367,887,256**

[(a)] *Included as part of "Deposits and other noncurrent assets" account in the statement of financial position.*

	2015		
	Neither Past-due nor Impaired		
	High Grade	Standard Grade	Total
Cash in banks	₱102,439,296	₱–	₱102,439,296
Receivables	217,515,549	122,081,528	339,597,077
Refundable deposits [(a)]	2,830,768	–	2,830,768
	₱322,785,613	₱122,081,528	₱444,867,141

[(a)] *Included as part of "Deposits and other noncurrent assets" account in the statement of financial position.*

Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. The Company is not exposed to significant liquidity risk because of the nature of its operations which provides inflows of cash from the O&M Agreement with NLEX Corp. and BCDA. The Company is able to build up sufficient cash from operating revenues prior to the maturity of its payment obligations. The Company has short-term credit lines amounting to ₱470.0 million as at December 31, 2016 and 2015 and cash on hand and cash in banks amounting ₱129.4 million and ₱120.3 million as at December 31, 2016 and 2015, respectively that are allocated to meet the Company's short-term liquidity needs.

The table below summarizes the maturity profile of the Company's financial assets and financial liabilities as at December 31, 2016 and 2015 based on undiscounted payments.

	2016			
	On Demand	**1 to 30 Days**	**Over 30 Days**	**Total**
Financial Assets				
Cash in banks	**₱111,183,834**	**₱–**	**₱–**	**₱111,183,834**
Receivables	**292,777,478**	**253,872,654**	**–**	**546,650,132**
Refundable deposits [(a)]	**–**	**–**	**2,830,768**	**2,830,768**
	₱403,961,312	**₱253,872,654**	**₱2,830,768**	**₱660,664,734**
Financial Liabilities				
Trade	**₱28,373,674**	**₱22,757,575**	**₱–**	**₱51,131,249**
Accrued expenses:				
Outside services	**–**	**87,798,346**	**79,235,036**	**167,033,382**
Personnel expenses	**41,229,813**	**–**	**5,466,524**	**46,696,337**
Guarantee fee	**23,969,347**	**–**	**–**	**23,969,347**
Payable to related parties	**88,647**	**–**	**–**	**88,647**
Provisions [(b)]	**110,051,643**	**–**	**–**	**110,051,643**
Retention payable	**17,433,252**	**1,171,903**	**1,813,742**	**20,418,897**
Others	**–**	**9,276,253**	**–**	**9,276,253**
	₱221,146,376	**₱121,004,077**	**₱86,515,302**	**₱428,665,755**

[(a)] *Included as part of "Deposits and other noncurrent assets" account in the statement of financial position.*
[(b)] *Included under "Provisions" account.*

	2015			
	On Demand	1 to 30 Days	Over 30 Days	Total
Financial Assets				
Cash in banks	₱102,439,296	₱–	₱–	₱102,439,296
Receivables	439,108,561	339,597,077	–	778,705,638
Refundable deposits [(a)]	–	–	2,830,768	2,830,768
	₱541,547,857	₱339,597,077	₱2,830,768	₱883,975,702
Financial Liabilities				
Trade	₱34,790,433	₱8,720,103	₱–	₱43,510,536
Accrued expenses:				
Outside services	–	158,196,091	44,030,087	202,226,178
Personnel expenses	46,273,329	–	6,408,724	52,682,053
Guarantee fee	23,969,347	–	–	23,969,347
Payable to related parties	193,736	10,930,391	6,176	11,130,303
Provisions [(b)]	106,833,671	–	–	106,833,671
Retention payable	10,635,584	1,124,745	93,685	11,854,014
Others	71,662	3,087,770	–	3,159,432
	₱222,767,762	₱182,059,100	₱50,538,672	₱455,365,534

[(a)] Included as part of "Deposits and other noncurrent assets" account in the statement of financial position.
[(b)] Included under "Provisions" account.

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

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

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

20. **Other Matters**

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

21. **Events After Reporting Date**

a. In January 2017, the Company received a notice from the Republic of the Philippines that it will exercise its appraisal right in accordance with Title X of the Corporation Code of the Philippines as it voted against the plan of merger as discussed in Note 1. The Republic of the Philippines shall be entitled to an amount equal to the fair value of its shares held payable upon approval of the merger by the SEC. An Appraisal Body is being convened to determine the fair value of Republic of the Philippines' shares. As at February 16, 2017, the Company is in the process of filing its articles of merger with the SEC.

b. On February 16, 2017, the BOD approved the declaration of cash dividends amounting to ₱87.5 million to stockholders of record as of February 16, 2017 payable on or before April 30, 2017.

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

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

VAT

Details of the Company's gross sales/receipts, output VAT and input VAT accounts as at December 31, 2016 are as follows:

a. Gross Sales/Receipts and Output VAT declared in the Company's VAT returns filed for 2016:

	Gross Receipts	Output VAT
Taxable sales:		
Vatable sales/receipts - Private	₱2,308,654,339	₱277,038,521
Sale to government	168,313,796	20,197,656
	₱2,476,968,135	₱297,236,177

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

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

Input VAT declared in the Company's VAT returns filed for 2016 are as follows:

Balance at January 1- Input tax deferred on capital goods exceeding ₱1 million from previous period	₱6,263,623
Current year's domestic purchases/payments for:	
Goods other than for resale or manufacture	4,942,452
Capital goods subject to amortization	4,607,935
Capital goods not subject to amortization	139,297
Importation of goods other than capital goods	996,016
Domestic purchase of services	44,366,941
Input tax claimed against output tax	(54,390,144)
Balance at December 31	
Input tax on purchases of capital goods exceeding ₱1 million deferred for the succeeding period	₱6,926,120

Landed Costs and Custom Duties

The landed cost of the Company's importations amounted to ₱14,202,845 for the year, with paid amount of ₱769,908 as customs duties/tariff fees. Input VAT on importations amounting to ₱996,016 was included as part of current year's purchases, presented under the breakdown of input VAT.

Taxes and Licenses
This includes all other taxes, local and national, including licenses and permit fees presented as taxes and licenses under the "Cost of Services" and "General and Administrative" accounts in the 2015 statement of comprehensive income:

Local taxes:		
Business permits		₱28,327,840
National taxes:		
Vehicle registration	407,073	
Security and firearms license	55,121	
Radio license	213,079	
Other licenses	47,162	722,435
		₱29,050,275

The Company paid fringe benefit tax amounting to ₱723,437 in 2016.

Withholding Taxes
Details of withholding taxes for 2016 are as follows:

Withholding taxes on compensation and benefits	₱65,465,595
Expanded withholding taxes	21,519,266
Final withholding taxes	31,075,972

Tax Contingencies
There are no tax assessments and cases pending before the BIR as at December 31, 2016 that has reached final stage. Likewise the Company has no tax cases outside the administration of BIR that has reached final stage as at December 31, 2016.