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

Consolidated Financial Statements
December 31, 2017 and 2016
and Years Ended December 31, 2017,
2016 and 2015

and

Independent Auditor's Report

SGV
Building a better working world

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

INDEPENDENT AUDITOR'S REPORT

The Stockholders and Board of Directors
NLEX Corporation

Opinion

We have audited the consolidated financial statements of NLEX Corporation (formerly Manila North Tollways Corporation, a subsidiary of Metro Pacific Tollways North Corporation (formerly Metro Pacific Tollways Development Corporation)) and its subsidiary (the Company), which comprise the consolidated balance sheets as at December 31, 2017 and 2016, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2017, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2017 in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

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

Key Audit Matters

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

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

Recoverability of service concession assets not yet available for use

The Company has entered into several service concession agreements with the Philippine Government and/or its agencies or instrumentalities, of which ₱10.4 billion of these service concession assets are not yet available for use. Under Philippine Accounting Standard (PAS) 36, *Impairment of Assets*, the Company is required to perform annual impairment test on the service concession assets not yet available for use. These annual impairment tests are significant to our audit because the balance of service concession assets is material to the consolidated financial statements. In addition, the determination of the recoverable amount of the cash-generating units (CGUs) to which the service concession assets relates, involves significant assumptions about the future results of business such as revenue growth, gross margins and discount rates which are applied to the cash flow forecasts. The assumption on revenue growth mainly relates to the expected volume of traffic of the toll roads. Refer to Notes 2 and 8 to the consolidated financial statements for the details of service concession assets.

Audit response

We obtained an understanding of the Company's impairment assessment process and the related controls. We also involved our internal specialist in evaluating the methodologies and the assumptions used. These assumptions include the expected volume of traffic, gross margins and discount rates. We compared the forecast revenue growth and gross margins against the historical data of the CGUs and reviewed Management's plans to support the forecast revenues and gross margins. We also compared the Company's key assumptions such as traffic volume against historical data. We reviewed the report of the management's specialists and gained an understanding of the methodology and the basis of computing the forecasted volumes. We evaluated the competence, capabilities and objectivity of management's specialists who estimated the forecasted volumes. We reviewed the weighted average cost of capital (WACC) used in the impairment test by comparing it with WACC of other comparable companies in the region where the Company operates. Furthermore, we reviewed the Company's disclosures about those assumptions to which the outcome of the impairment test is most sensitive, specifically those that have the most significant effect on determining the recoverable amount of the service concession assets not yet available for use.

Amortization of service concession assets using unit-of-production method

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

Audit response

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

Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement) and SEC Form 17-A for the year ended December 31, 2017, but does not include the consolidated financial statements and our auditor's report thereon. The SEC Form 20-IS (Definitive Information Statement) and SEC Form 17-A for the year ended December 31, 2017 are expected to be made available to us after the date of this auditor's report.

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

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

Building a better working world

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Mariecris N. Barbaso.

SYCIP GORRES VELAYO & CO.

Mariecris N. Barbaso

Mariecris N. Barbaso
Partner
CPA Certificate No. 97101
SEC Accreditation No. 1513-A (Group A),
October 6, 2015, valid until October 5, 2018
Tax Identification No. 202-065-716
BIR Accreditation No. 08-001998-108-2015,
March 4, 2015, valid until March 3, 2018
PTR No. 6621229, January 9, 2018, Makati City

February 14, 2018

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

CONSOLIDATED BALANCE SHEETS

	December 31	
	2017	2016
ASSETS		
Current Assets		
Cash and cash equivalents (Note 6)	**₱2,715,210,842**	₱389,912,852
Investments in unit investment trust funds (Notes 12 and 30)	**217,749,970**	82,407,389
Receivables (Notes 7 and 16)	**715,039,256**	593,177,913
Inventories - at cost	**112,594,013**	91,176,361
Available-for-sale financial assets (Notes 12 and 30)	**49,825,000**	–
Other current assets (Note 13)	**908,356,502**	700,725,834
Total Current Assets	**4,718,775,583**	1,857,400,349
Noncurrent Assets		
Service concession assets (Note 8)	**33,672,831,472**	30,672,147,592
Property and equipment (Note 9)	**180,556,890**	134,971,360
Investment properties (Note 10)	**128,980,520**	41,443,879
Other intangible assets (Note 11)	**10,314,314**	18,258,492
Available-for-sale financial assets (Notes 12 and 30)	**1,204,581,932**	1,353,667,695
Pension asset (Note 23)	**5,570,690**	904,680
Deferred tax assets - net (Note 27)	**–**	645,104
Advances to contractors and other noncurrent assets (Note 28)	**224,409,324**	1,209,257,732
Total Noncurrent Assets	**35,427,245,142**	33,431,296,534
	₱40,146,020,725	₱35,288,696,883
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and other current liabilities (Notes 14 and 16)	**₱3,272,383,362**	₱3,178,755,241
Long-term incentive plan payable within the next twelve months (Note 23)	**193,442,315**	–
Income tax payable	**329,435,810**	303,456,146
Dividends payable (Note 19)	**1,840,000,000**	–
Provisions (Note 15)	**272,861,598**	320,814,502
Current portion of long-term debt (Notes 17 and 30)	**4,304,208,838**	278,737,740
Total Current Liabilities	**10,212,331,923**	4,081,763,629
Noncurrent Liabilities		
Long-term debt - net of current portion (Notes 17 and 30)	**16,136,387,307**	18,543,924,749
Service concession fees payable (Notes 18 and 30)	**2,521,429,127**	2,335,916,229
Long-term incentive plan payable (Note 23)	**–**	129,442,315
Provisions (Note 15)	**114,161,673**	98,894,187
Deferred tax liabilities - net (Note 27)	**505,726,589**	486,884,747
Other noncurrent liabilities (Note 30)	**250,023**	253,292
Total Noncurrent Liabilities	**19,277,954,719**	21,595,315,519
Total Liabilities	**29,490,286,642**	25,677,079,148

(Forward)

	December 31	
	2017	2016
Equity		
Capital stock (Note 19)	**₱1,776,000,000**	₱1,776,000,000
Additional paid-in capital	**3,749,711,168**	3,749,711,168
Retained earnings (Note 19)	**5,154,024,882**	4,109,784,668
Other comprehensive loss reserve (Note 19)	**(37,036,249)**	(36,912,383)
Other reserve (Note 24)	**13,034,282**	13,034,282
Total Equity	**10,655,734,083**	9,611,617,735
	₱40,146,020,725	₱35,288,696,883

See accompanying Notes to Consolidated Financial Statements.

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

CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31		
	2017	2016	2015
OPERATING REVENUES			
Toll fees (net of discounts amounting to ₱154,788,618 in 2017, ₱136,344,787 in 2016, and ₱111,967,528 in 2015)	**₱11,586,054,532**	₱10,538,908,306	₱8,453,380,333
Sales of magnetic cards	**6,071**	5,000	13,482
Toll revenues	**11,586,060,603**	10,538,913,306	8,453,393,815
Non-toll revenues (Note 20)	**174,378,189**	157,434,640	150,063,733
Total revenues	**11,760,438,792**	10,696,347,946	8,603,457,548
COST OF SERVICES (Note 21)	**(4,554,360,218)**	(4,392,888,455)	(3,420,625,851)
GROSS PROFIT	**7,206,078,574**	6,303,459,491	5,182,831,697
CONSTRUCTION REVENUE (Note 8)	**3,763,478,479**	6,170,060,989	3,328,364,819
CONSTRUCTION COSTS (Note 8)	**(3,763,478,479)**	(6,170,060,989)	(3,328,364,819)
GENERAL AND ADMINISTRATIVE EXPENSES (Note 22)	**(845,452,952)**	(726,169,402)	(708,962,366)
INTEREST EXPENSE AND OTHER FINANCE COSTS (Note 26)	**(523,371,725)**	(442,912,617)	(622,295,149)
INTEREST INCOME (Note 25)	**51,344,156**	62,089,704	72,896,989
FOREIGN EXCHANGE GAIN (LOSS) - net	**1,509,499**	(254,488)	7,840,647
OTHER INCOME	**66,245,716**	10,479,541	5,957,455
INCOME BEFORE INCOME TAX	**5,956,353,268**	5,206,692,229	3,938,269,273
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 27)			
Current	**1,294,906,187**	1,152,806,403	963,726,925
Deferred	**17,206,867**	(33,191,446)	(18,587,795)
	1,312,113,054	1,119,614,957	945,139,130
NET INCOME	**₱4,644,240,214**	₱4,087,077,272	₱2,993,130,143

See accompanying Notes to Consolidated Financial Statements.

NLEX CORPORATION
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(Formerly Metro Pacific Tollways Development Corporation))
AND A SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2017	2016	2015
NET INCOME	**₱4,644,240,214**	₱4,087,077,272	₱2,993,130,143
OTHER COMPREHENSIVE INCOME (LOSS)			
Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:			
Net gain on cash flow hedges (Notes 19 and 30)	**–**	–	3,775,752
Income tax effect (Notes 19 and 27)	**–**	–	(1,132,726)
	–	–	2,643,026
Loss on available-for-sale financial assets - net (Notes 12 and 19)	**(418,469)**	(1,661,917)	(78,828,116)
Income tax effect (Notes 19 and 27)	**(1,507,674)**	(1,192,620)	5,483,894
	(1,926,143)	(2,854,537)	(73,344,222)
	(1,926,143)	(2,854,537)	(70,701,196)
Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods:			
Remeasurement gains (losses) on defined benefit retirement plan (Notes 19 and 23)	**2,574,682**	(10,697,673)	6,692,099
Income tax effect (Notes 19 and 27)	**(772,405)**	3,209,302	(2,007,629)
	1,802,277	(7,488,371)	4,684,470
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX	**(123,866)**	(10,342,908)	(66,016,726)
TOTAL COMPREHENSIVE INCOME	**₱4,644,116,348**	₱4,076,734,364	₱2,927,113,417

See accompanying Notes to Consolidated Financial Statements.

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015

	Capital Stock (Note 19)	Additional Paid-in Capital	Retained Earnings (Note 19)	Other Comprehensive Loss Reserve (Note 19)	Other Reserve (Note 24)	Total Equity
At January 1, 2017	**₱1,776,000,000**	**₱3,749,711,168**	**₱4,109,784,668**	**(₱36,912,383)**	**₱13,034,282**	**₱9,611,617,735**
Cash dividends (Note 19)	–	–	**(3,600,000,000)**	–	–	**(3,600,000,000)**
Net income	–	–	**4,644,240,214**	–	–	**4,644,240,214**
Other comprehensive loss (Note 19)	–	–	–	**(123,866)**	–	**(123,866)**
Total comprehensive income for the year	–	–	**4,644,240,214**	**(123,866)**	–	**4,644,116,348**
At December 31, 2017	**₱1,776,000,000**	**₱3,749,711,168**	**₱5,154,024,882**	**(₱37,036,249)**	**₱13,034,282**	**₱10,655,734,083**
At January 1, 2016	₱1,776,000,000	₱3,749,711,168	₱2,622,707,396	(₱26,569,475)	₱11,789,439	₱8,133,638,528
Cash dividends (Note 19)	–	–	(2,600,000,000)	–	–	(2,600,000,000)
Equity contribution - executive stock option plan (Note 24)	–	–	–	–	1,244,843	1,244,843
Net income	–	–	4,087,077,272	–	–	4,087,077,272
Other comprehensive loss (Note 19)	–	–	–	(10,342,908)	–	(10,342,908)
Total comprehensive income for the year	–	–	4,087,077,272	(10,342,908)	–	4,076,734,364
At December 31, 2016	₱1,776,000,000	₱3,749,711,168	₱4,109,784,668	(₱36,912,383)	₱13,034,282	₱9,611,617,735
At January 1, 2015	₱1,776,000,000	₱3,749,711,168	₱2,052,153,253	₱39,447,251	₱10,544,596	₱7,627,856,268
Cash dividends (Note 19)	–	–	(2,422,576,000)	–	–	(2,422,576,000)
Equity contribution - executive stock option plan (Note 24)	–	–	–	–	1,244,843	1,244,843
Net income	–	–	2,993,130,143	–	–	2,993,130,143
Other comprehensive loss (Note 19)	–	–	–	(66,016,726)	–	(66,016,726)
Total comprehensive income for the year	–	–	2,993,130,143	(66,016,726)	–	2,927,113,417
At December 31, 2015	₱1,776,000,000	₱3,749,711,168	₱2,622,707,396	(₱26,569,475)	₱11,789,439	₱8,133,638,528

See accompanying Notes to Consolidated Financial Statements.

NLEX CORPORATION
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AND A SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2017	2016	2015
OPERATING ACTIVITIES			
Income before income tax	**₱5,956,353,268**	₱5,206,692,229	₱3,938,269,273
Adjustments to reconcile income before income tax to net cash flows:			
Amortization of service concession assets (Notes 8 and 21)	**762,794,599**	615,120,463	575,097,888
Interest expense and other finance costs (Note 26)	**523,371,725**	442,912,617	622,295,149
Movements in:			
Provisions	**(67,990,132)**	66,899,069	69,538,725
Pension asset	**(2,091,328)**	453,411	(2,789,680)
Long-term incentive plan expense (Note 23)	**64,000,000**	58,964,008	48,735,905
Depreciation of property and equipment (Notes 9, 21 and 22)	**51,942,568**	29,978,498	38,025,416
Interest income (Note 25)	**(51,344,156)**	(62,089,704)	(72,896,989)
Amortization of other intangible assets (Notes 11 and 22)	**11,861,791**	5,924,711	10,954,056
Gain on disposal of available-for-sale financial assets (Note 12)	**(578,407)**	(4,699,640)	(2,032,346)
Unrealized foreign exchange gain - net	**(57,001)**	(245,495)	(2,477,153)
Gain on disposals of property and equipment (Note 9)	**(22,664)**	(861,043)	(506,685)
Executive stock option plan expense (Notes 23 and 24)	**–**	1,244,843	1,244,843
Working capital changes:			
Decrease (increase) in:			
Receivables	**(116,165,350)**	(30,697,442)	134,045,636
Inventories	**(21,417,652)**	(19,783,221)	(23,588,656)
Other current assets	**700,561,686**	(221,944,766)	(447,713,191)
Increase (decrease) in:			
Accounts payable and other current liabilities	**88,986,503**	887,319,612	235,070,699
Due to related parties	**833,430**	–	–
Long-term incentive plan payable	**–**	–	(98,257,610)
Income tax paid	**(1,268,926,523)**	(1,108,005,705)	(876,414,152)
Net cash flows from operating activities	**6,632,112,357**	5,867,182,445	4,146,601,128

(Forward)

	Years Ended December 31		
	2017	2016	2015
INVESTING ACTIVITIES			
Interest received	**₱45,648,163**	₱63,725,811	₱70,466,549
Acquisition of available-for-sale financial assets (Note 12)	**(5,882,500,287)**	(7,063,921,689)	(5,407,332,256)
Decrease (increase) in other noncurrent assets	**95,848,408**	(129,950,093)	(9,895,766)
Additions to:			
Service concession assets (Note 8)	**(3,573,526,690)**	(6,031,216,910)	(6,550,150,015)
Property and equipment (Note 9)	**(98,825,702)**	(45,382,933)	(31,071,973)
Investment properties (Note 10)	**(87,536,641)**	(40,341,498)	–
Other intangible assets (Note 11)	**(3,917,613)**	(7,501,925)	(5,465,571)
Proceeds from:			
Sale of available-for-sale financial assets (Note 12)	**5,854,947,596**	8,394,068,882	8,955,539,952
Sale of property and equipment (Note 9)	**1,320,268**	2,371,906	1,977,918
Maturity of investments in bonds (Note 12)	**–**	200,000,000	250,000,000
Net cash flows used in investing activities	**(3,648,542,498)**	(4,658,148,449)	(2,725,931,162)
FINANCING ACTIVITIES (Note 33)			
Proceeds from loans (Note 17)	**2,000,000,000**	2,000,000,000	3,000,000,000
Payments of:			
Dividends (Note 19)	**(1,760,000,000)**	(4,022,576,000)	(2,193,472,000)
Loans	**(402,102,309)**	(1,012,102,309)	(1,954,602,309)
Interest expense and other finance costs	**(482,015,091)**	(427,123,627)	(559,630,299)
Debt issue costs (Note 17)	**(14,211,470)**	(26,888,808)	–
Net cash flows used in financing activities	**(658,328,870)**	(3,488,690,744)	(1,707,704,608)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**2,325,240,989**	(2,279,656,748)	(287,034,642)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**57,001**	245,495	2,477,153
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR (Note 6)	**389,912,852**	2,669,324,105	2,953,881,594
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 6)	**₱2,715,210,842**	₱389,912,852	₱2,669,324,105

See accompanying Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

General
NLEX Corporation (NLEX Corp. or the Parent Company) (formerly Manila North Tollways Corporation or MNTC) and its subsidiary, NLEX Ventures Corporation (NVC), (collectively referred to as "the Company") were incorporated in the Philippines and registered with the Philippine Securities and Exchange Commission (SEC) on February 4, 1997 and September 23, 2015, respectively. NLEX Corp.'s primary purpose is to engage in, and carry on, a construction and contracting business, involving tollways, its facilities, interchanges and related works, including the operation and maintenance thereof, or otherwise engage in any work upon roads, bridges, buildings, and structures of all kinds.

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

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

On October 19, 2016, the Parent Company's BOD approved the proposed merger between NLEX Corp. and Tollways Management Corporation (TMC), with NLEX Corp. as the surviving corporation ("the Merger"). On November 17, 2016, at least two-thirds of the stockholders of NLEX Corp. confirmed and ratified the merger.

On April 17, 2017, NLEX Corp. and TMC executed the Plan and Articles of Merger. The Merger shall take effect 15 days from and after the approval by the SEC of the Plan and Articles of Merger and the issuance by the SEC of the Certificate of Filing of the Articles of Merger (the "Effective Merger Date"). Upon the Effective Merger date, NLEX Corp.'s corporate existence shall continue and NLEX Corp. shall be deemed to have: (a) acquired all respective rights, businesses, assets and other properties of TMC as of the Effective Merger Date, and (b) assumed all the debts and liabilities of TMC to the extent not fully discharged as of the Effective Merger Date. As at February 14, 2018, the Plan and Articles of Merger are being reviewed by the SEC.

Metro Pacific Tollways North Corporation (MPTNC) (formerly Metro Pacific Tollways Development Corporation), the parent company of NLEX Corp., is a wholly owned subsidiary of Metro Pacific Tollways Corporation (MPTC). MPTC is 99.9% owned by Metro Pacific Investments Corporation (MPIC). MPIC is a publicly listed Philippine corporation and is 42.0% owned by Metro Pacific Holdings, Inc. (MPHI). As sole holder of the voting Class A Preferred Shares, MPHI's combined voting interest as a result of all of its shareholdings is estimated at 55.0%. MPHI is a Philippine corporation whose stockholders are Enterprise Investment Holdings, Inc. (EIH) (60.0%), Intalink B.V. (26.7%) and First Pacific International Limited (FPIL) (13.3%). First Pacific Company Limited (FPC), a company incorporated in Bermuda and listed in Hong Kong, through its subsidiaries, Intalink B.V. and FPIL, holds 40.0% equity interest in EIH and an investment financing which under

Hong Kong Generally Accepted Accounting Principles, require FPC to account for the results and assets and liabilities of EIH and its subsidiaries as part of FPC group of companies in Hong Kong.

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

The consolidated financial statements as at December 31, 2017 and 2016 and for each of the three years in the period ended December 31, 2017 were authorized for issuance by the Parent Company's BOD on February 14, 2018, as reviewed and recommended for approval by the Parent Company's Audit Committee.

Toll Operations

Manila-North Expressway Project (MNEP). In April 1998, NLEX Corp. (then MNTC) was granted the concession for the rehabilitation, modernization, expansion and operation of the North Luzon Expressway (NLEX) and the installation of the appropriate collection system therein referred to as the MNEP.

The MNEP consists of three phases as follows:

Phase I	Rehabilitation and expansion of approximately 84 kilometers (km) of the existing NLEX and an 8.5-km stretch of a Greenfield expressway that connects Tipo in Hermosa, Bataan to Subic (Segment 7)
Phase II	Construction of the northern parts of the 17-km circumferential road C-5 which connects the current C-5 expressway to the NLEX and the 5.85-km road from McArthur Highway to Letre
Phase III	Construction of the 57-km Subic arm of the NLEX to Subic Expressway

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

Segment 8.1, a portion of Phase II, which is a 2.7 km-road designed to link Mindanao Avenue to the NLEX, had officially commenced tollway operation on June 5, 2010. Segment 9, a portion of Phase II, which is a 2.4 km-road connecting NLEX to the McArthur Highway, had officially commenced tollway operation on March 19, 2015. In May 2014, Segment 10, a portion of Phase II, which is a 5.76 km four-lane, elevated expressway that will start from the terminal of Segment 9 in Valenzuela City going to Circumferential Road 3 (C-3 Road) in Caloocan City above the alignment of Philippine National Railway (PNR) tracks, had commenced construction and is expected to be completed in June 2018. The estimated cost of construction of Segment 10 is ₱10.5 billion. The remaining portion of Phase II is under pre-construction works while Phase III of the MNEP has not yet been started as at February 14, 2018.

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

NLEX-South Luzon Expressway (SLEX) Connector Road Project (NLEX-SLEX Connector Road). On November 23, 2016, NLEX Corp. was awarded the concession for the design, financing, construction, operation and maintenance of the NLEX-SLEX Connector Road. The NLEX-SLEX Connector Road is an elevated four-lane toll expressway structure with a length of 8 km passing through and above the right of way of the PNR starting from NLEX Segment 10 at C-3 Road Caloocan City and seamlessly connecting to SLEX through Metro Manila Skyway Stage 3 Project in Manila. As at February 14, 2018, the construction of the NLEX-SLEX Connector Road has not yet started.

2. Service Concession Arrangements

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

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

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

The PNCC franchise expired on May 1, 2007. Pursuant to the STOA, the TRB issued the necessary TOC for the NLEX in order to allow the continuation of the Concession. As further discussed in Note 28, NLEX Corp. pays a certain amount to PNCC.

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

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

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

From 2007 to 2010, NLEX Corp. obtained TRB's approval for certain amendments to the STOA for the MNEP which includes (a) the integration of Segment 10 into Phase II - July 2007; (b) amendment of adjustment formula for the Authorized Toll Rate (ATR) by removing the foreign exchange factor - June 2008; (c) adoption of an integrated operations period for Phase I and Segment 8.1 and extension of the concession period until December 31, 2037 - October 2008; (d) modification of alignments of Phase II Segments 9 and 10 - February 2010; and (e) the following approvals in relation to Phase II Segments 9 and 10 project: (i) adoption of the 2008 TRB approved ATR formula ("ATRF") for five (5) years following the completion of Segment 9; (ii) continuation of the implementation of the ATRF for ten (10) years from commercial operation of Segment 10; and (iii) approval of the additional ₱6.00 (exclusive of value-added tax or VAT) adjustment to the Open System toll rate upon completion of Segment 10.

On November 6, 2017, pursuant to the 2013 Revised Rules of the TRB and in accordance with Clause 3.5 of the STOA, NLEX Corp. implemented the TRB approved add-on toll rate petition for the NLEX widening project amounting to an additional ₱0.25/km (exclusive of VAT) for the Closed System.

Agreements covering the SCTEX

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

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

The term of the BA shall be from October 27, 2015 (effective date), until October 30, 2043, and may be extended subject to mutual agreement of NLEX Corp. and BCDA and the relevant laws, rules and regulations and required government approvals. At the end of the contract term or upon termination of the BA, the SCTEX, as well as the as-built plans, specifications and operation/ repair/maintenance manuals relating to the same shall be turned over to BCDA or its successor-in-interest conformably with law, and in all cases in accordance with and subject to the terms and conditions of the STOA. The STOA, which was a supplement to and revision to the TOA, was entered into, by and among the ROP, acting through the TRB, BCDA and NLEX Corp. on May 22, 2015, in order to fully allow NLEX Corp. to exercise its rights and interests under the BA.

In consideration for the assignment by BCDA to NLEX Corp. of its rights to and interests in SCTEX, NLEX Corp. paid BCDA an upfront cash of ₱3.5 billion (inclusive of VAT) upon effectivity of the BA (the Upfront Payment). NLEX Corp. shall also pay BCDA monthly concession fees amounting to 50% of the Audited Gross Toll Revenues of SCTEX for the relevant month from effective date to October 30, 2043. NLEX Corp. shall gross up the concession fees by the 12% VAT. The Company recorded concession fees of ₱931.6 million, ₱791.5 million and ₱132.1 million in 2017, 2016 and 2015, respectively, which is included under "Cost of services" account in the consolidated statements of income (see Note 21).

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

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

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

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

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

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

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

Pursuant to the Concession Agreement, NLEX Corp. shall preserve the asset so it can be handed back to DPWH in a manner that complies with the pavement performance standards specified in the concession agreement and that all the building and equipment necessary to operate the expressway remain functional and in good condition that is equivalent to prudent industry practice. NLEX Corp. must also manage the maintenance of the assets so that there is a residual asset life that complies with the residual life standards stated in the concession agreement at the end of the concession period. As at February 14, 2018, the construction of the NLEX-SLEX Connector Road has not yet started.

3. Summary of Significant Accounting Policies

Basis of Preparation
The consolidated financial statements have been prepared on a historical cost basis, except for available-for-sale (AFS) financial assets which are measured at fair value. The consolidated financial statements are presented in Philippine peso, which is the Company's functional and presentation currency. All values are rounded to the nearest peso, except when otherwise indicated.

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

Basis of Consolidation
The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiary as at December 31, 2017 and 2016 and for each of the three years in the period ended December 31, 2017.

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

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

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

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

If the Company loses control over a subsidiary, it: (a) derecognizes the assets (including goodwill) and liabilities of the subsidiary; (b) derecognizes the carrying amount of any noncontrolling interest; (c) derecognizes any accumulated other comprehensive income related to the subsidiary; (d) recognizes the fair value of the consideration received; (e) recognizes the fair value of any investment retained; (f) recognizes any surplus or deficit in profit or loss; and (g) reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate.

Changes in Accounting Policies and Disclosures
The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of new and amended PFRSs which were adopted as at January 1, 2017. Adoption of these pronouncements did not have any significant impact to the Company's financial statements unless otherwise indicated.

- Amendments to PFRS 12, *Disclosure of Interests in Other Entities*, *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*

  The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses).

  The Company has provided the required information in Note 33 to the consolidated financial statements. As allowed under the transition provisions of the standard, the Company did not present comparative information for the year ended December 31, 2016.

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

Current versus Noncurrent Classification of Assets and Liabilities
The Company presents assets and liabilities in the consolidated balance sheet based on current or noncurrent classification.

An asset is current when it is:
- Expected to be realized or intended to be sold or consumed in normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realized within twelve months after the reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as noncurrent.

A liability is current when:

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

The Company classifies all other liabilities as noncurrent.

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

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

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

Initial Recognition and Measurement. Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss (FVPL), loans and receivables, held-to-maturity (HTM) investments, AFS financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

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

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

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

The Company has no financial assets and financial liabilities at FVPL and HTM investments as at December 31, 2017 and 2016.

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

a. Loans and Receivables

   Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, loans and receivables are subsequently measured at amortized cost using the effective interest rate (EIR) method, less any impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in finance income in the consolidated statement of income. The losses arising from impairment are recognized in the consolidated statement of income under general and administrative expenses.

Loans and receivables include cash and cash equivalents, receivables (excluding advances to officers and employees), and restricted cash (included in "Other current assets") and refundable deposits (included in "Other noncurrent assets" account in the consolidated balance sheet) (see Notes 6, 7 and 13).

b. AFS Financial Assets

AFS financial assets include equity and debt instruments. Equity investments classified as AFS are those which are neither classified as held for trading nor designated at FVPL. Debt instruments in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

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

As at December 31, 2017 and 2016, the Company's AFS financial assets consist of unit investment trust funds (UITFs); investments in notes of the ROP and fixed rate retail treasury bonds; long-term negotiable certificate of deposits (LTNCDs); and fixed rate corporate bonds of First Metro Investment Corporation (FMIC), Manila Electric Company (Meralco), and Philippine Long Distance Telephone Company (PLDT) (see Note 12).

c. Loans and Borrowings

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

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

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

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

Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated balance sheet, if and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The Company assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Company and all of the counterparties.

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

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

a. Financial Assets Carried at Amortized Cost

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

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

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

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

b. AFS Financial Assets

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

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

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

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

Derecognition of Financial Assets and Liabilities

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized (i.e., removed from the Company's consolidated balance sheet) when:

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

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

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

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

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

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

Derivatives and Hedge Accounting

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

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

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

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

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

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

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

Fair Value Measurement

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Service Concession Arrangements
The Company accounts for its concession arrangements in accordance with Philippine Interpretation International Financial Reporting Interpretations Committee (IFRIC) 12, *Service Concession Arrangements,* under the intangible asset model as it receives the right (license) to charge users of public service.

Revenue and Cost Recognition. The Company recognizes and measures construction revenue in accordance with PAS 11, *Construction Contracts*, and PAS 18, *Revenue,* for the services it performs. When the Company provides construction or upgrade services, the consideration received or receivable by the Company is recognized at its fair value. The revenue and cost from these services are recognized based on the percentage of completion measured principally on the basis of estimated completion of a physical proportion of the contract works, and by reference to the actual costs incurred to date over the estimated total cost of the project.

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

Service Concession Assets. The service concession assets (or the rights to charge users of the public service) are recognized initially at cost. The cost of the service concession assets consists of the construction or upgrade costs, including related borrowing costs; upfront fees payments on the concession agreements; and future fixed fee considerations in exchange for the license or right. The fixed fees are recognized at present value using the discount rate at the inception date with a corresponding liability recognized. Interest on the unwinding of discount of the liability is recognized as a borrowing cost that is capitalized as part of the service concession asset during construction of the infrastructure asset and as an expense in the period incurred starting from the commercial operations of the said infrastructure asset. Following initial recognition, the service concession assets are carried at cost less accumulated amortization and any impairment losses.

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

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

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

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

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

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

Property and Equipment

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

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

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

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

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

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

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

Investment Properties

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

Property that is being constructed or developed for future use as investment property is stated at cost and depreciated only when the relevant assets are completed and ready for intended use. Upon completion, these properties are reclassified to an appropriate investment property account.

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

Transfers are made to (or from) investment property only when there is a change in use, evidenced by: (a) commencement of owner-occupation, for a transfer from investment property to owner-occupied property; (b) commencement of development with a view to sale, for a transfer from investment property to inventories; (c) end of owner-occupation, for a transfer from owner-occupied property to investment property; or (d) commencement of an operating lease to another party, for a transfer from inventories to investment property. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the carrying value at the date of change in use. If owner-occupied property becomes an investment property, the Company accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

Other Intangible Assets (Software Cost)

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

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

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

Impairment of Nonfinancial Assets

The Company assesses at each balance sheet date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU's) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other available fair value indicators.

Impairment losses are recognized in the consolidated statement of income in those expense categories consistent with the function of the impaired asset.

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

Provisions

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

Equity

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

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

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

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

Revenue Recognition

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

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

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

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

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

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

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

- Rental revenue is accounted for on a straight-line basis over the lease term.

- Service revenue, included in "Non-toll revenues" account in the consolidated statement of income, is recognized as services are rendered in accordance with the terms of the agreements.

- Other income is recognized when there is an incidental economic benefit, other than the usual business operations, that will flow to the Company through an increase in asset or reduction in liability that can be measured reliably. This includes gain on disposal of property and equipment.

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

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

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

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

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

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

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

Foreign Currency-denominated Transactions and Translations
The Company’s consolidated financial statements are presented in Philippine peso, which is also the Company’s functional currency. The Parent Company and its subsidiary determine their own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency closing exchange rate at balance sheet date. All differences are taken to the consolidated statement of income with the exception of differences on foreign currency borrowings that are regarded as adjustments to interest cost, and are capitalized as part of the cost of the service concession assets during the construction period.

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

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

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

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

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

Defined benefit costs comprise the following:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Taxes

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

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

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

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

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss

- In respect of taxable temporary differences associated with its investment in a subsidiary, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future

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

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss

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

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

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

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

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

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

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

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

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

Contingencies

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

Events after the Balance Sheet Date

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

4. Significant Accounting Judgments, Estimates and Assumptions

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

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

Judgments

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

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

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

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

The Company also recognizes construction revenues and costs in accordance with PAS 11. It measures contract revenue at the fair value of the consideration received or receivable. Given that NLEX Corp. has subcontracted the construction to outside contractors, the construction revenue recognized is equal to the construction costs. Construction revenue and costs recognized in consolidated statements of income amounted to ₱3,763.5 million, ₱6,170.1 million, and ₱3,328.4 million for the years ended December 31, 2017, 2016 and 2015, respectively (see Note 8).

The Company also recognizes its contractual obligations to restore the toll roads to a specified level of serviceability. The Company recognizes a provision following PAS 37, as the obligation arises which is a consequence of the use of the toll roads and therefore it is proportional to the number of vehicles using the toll roads and increasing in measurable annual increments. Provision for heavy maintenance amounted to ₱247.1 million and ₱314.0 million as at December 31, 2017 and 2016, respectively (see Note 15).

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

Estimates and Assumptions

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

Allowance for Doubtful Accounts. Allowance for doubtful accounts is maintained at a level considered adequate to provide for potentially uncollectible receivables. The level of allowance is based on past collection experience and other factors that may affect collectability. An evaluation of the receivables using specific method, designed to identify potential charges to the allowance, is performed on a continuous basis throughout the year. There were no provisions under collective assessment in 2017, 2016 and 2015.

Receivables (excluding advances to officers and employees) amounted to ₱704.4 million and ₱577.9 million as at December 31, 2017 and 2016, respectively. Allowance for doubtful accounts amounted to ₱26.4 million and ₱24.9 million as at December 31, 2017 and 2016, respectively (see Note 7).

Amortization of Service Concession Assets. The service concession assets are amortized using UOP method, where the amortization is calculated based on the ratio of actual traffic volume of the underlying toll expressways compared to the total expected traffic volume of the underlying toll expressways over the remaining concession periods of the concession agreements. Adjustments may need to be made to the carrying amounts of service concession assets should there be a material difference between the total expected traffic volume and the actual results. The Company's management has reviewed the total expected traffic volume and made appropriate adjustments to the assumptions of the expected traffic volume with reference to the latest traffic studies. The management of the Company considers that these are calculated by reference to the best estimates of the total expected traffic volumes of the underlying toll expressways.

In 2017, 2016 and 2015, the Company reported amortization of service concession assets amounting to ₱762.8 million, ₱615.1 million, and ₱575.1 million, respectively (see Notes 8 and 21). The carrying values of the service concession assets as at December 31, 2017 and 2016 amounted to ₱33,672.8 million and ₱30,672.1 million, respectively (see Note 8).

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

There was no impairment loss recognized in the consolidated statements of income in 2017, 2016 and 2015. The carrying values of the Company's service concession assets not yet available for use amounted to ₱10,417.2 million and ₱8,773.7 million as at December 31, 2017 and 2016, respectively (see Note 8).

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

Deferred tax assets are recognized on deductible temporary differences and the carryforward benefits of net operating loss carry-over (NOLCO) to the extent that it is probable that taxable income will be available against which the deductible temporary differences and the carryforward benefits of NOLCO can be utilized. The Company's assessment on the recognition of deferred tax assets on deductible temporary differences is based on the expected future results of operations.

Deferred tax assets amounted to ₱912.8 million and ₱870.6 million as at December 31, 2017 and 2016, respectively (see Note 27).

Retirement Costs. The cost of defined benefit retirement plan and the present value of the defined benefit obligation are determined using actuarial valuations. The actuarial valuations involve making various assumptions about discount rates, future salary increases and mortality rates. Due to the complexity of the valuation, underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each balance sheet date. Further details about the assumptions used are given in Note 23.

Pension asset amounted to ₱5.6 million and ₱0.9 million as at December 31, 2017 and 2016, respectively (see Note 23).

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

LTIP payable amounted to ₱193.4 million and ₱129.4 million as at December 31, 2017 and 2016, respectively (see Note 23).

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

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

Provisions (current and noncurrent) amounted to ₱387.0 million and ₱419.7 million as at December 31, 2017 and 2016, respectively (see Note 15).

Contingencies. The Company is a party to certain lawsuits or claims arising from the ordinary course of business. However, the Company's management and legal counsel believe that the eventual liabilities under these lawsuits or claims, if any, will not have a material effect on the Company's consolidated financial statements (see Note 32).

5. Operating Segment Information

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

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

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

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

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

The revenues, net income, assets, liabilities, and other information of the Company's operations as at and for the years ended December 31, 2017, 2016 and 2015 are as follows:

	2017	2016	2015
Net toll revenues	**₱11,586,054,532**	₱10,538,908,306	₱8,453,380,333
Other income	**240,672,403**	163,219,541	154,002,324
Total revenues	**11,826,726,935**	10,702,127,847	8,607,382,657
Operating and maintenance costs	**(3,534,911,746)**	(3,663,871,264)	(2,694,832,558)
Operating expenses	**(745,944,612)**	(625,204,430)	(613,837,616)
EBITDA	**7,545,870,577**	6,413,052,153	5,298,712,483
Financing costs	**(444,619,744)**	(354,728,002)	(480,832,163)
Core income before depreciation, amortization and provisions	**7,101,250,833**	6,058,324,151	4,817,880,320
Depreciation, amortization and provisions*	**(2,366,443,346)**	(1,900,818,231)	(1,737,541,182)
Core income	**4,734,807,487**	4,157,505,920	3,080,339,138
Nonrecurring items	**(90,567,273)**	(70,428,648)	(87,208,995)
Net income	**₱4,644,240,214**	₱4,087,077,272	₱2,993,130,143
EBITDA margin for the year	**65%**	61%	63%
Core income margin for the year	**41%**	39%	36%
Net income margin for the year	**40%**	39%	35%
Total assets	**₱40,146,020,725**	₱35,288,696,883	
Total liabilities	**29,490,286,642**	25,677,079,148	
Total equity	**10,655,734,083**	9,611,617,735	
Other disclosures:			
Capital expenditure (consists of additions to service concession assets, property and equipment, investment properties and other intangible assets)	**₱3,763,806,646**	₱6,124,443,266	

** Includes provision for current and deferred taxes.*

The following table shows the reconciliation of EBITDA to consolidated net income for the years ended December 31, 2017, 2016 and 2015.

	2017	2016	2015
EBITDA	**₱7,545,870,577**	₱6,413,052,153	₱5,298,712,483
Amortization of service concession assets (see Note 21)	**(762,794,599)**	(615,120,463)	(575,097,888)
Interest expense and other finance costs (see Note 26)	**(523,371,725)**	(442,912,617)	(622,295,149)
Provision for heavy maintenance (see Note 21)	**(215,471,251)**	(113,971,317)	(150,819,004)
Interest income (see Note 25)	**51,344,156**	62,089,704	72,896,989
Depreciation of property and equipment	**(37,189,855)**	(25,001,484)	(29,069,236)
Amortization of other intangible assets (see Note 22)	**(11,861,791)**	(5,924,711)	(10,954,056)
Gain on sale on AFS financial assets	**(42,427)**	4,699,640	2,032,346
Nonrecurring items:			
Provisions	**(4,185,067)**	(3,737,064)	(5,101,457)
Foreign exchange gain - net	**1,509,498**	(254,488)	7,840,647
Other nonrecurring items	**(87,454,248)**	(66,227,124)	(49,876,402)
Income before income tax	**5,956,353,268**	5,206,692,229	3,938,269,273
Provision for (benefit from) income tax (see Note 27):			
Current	**1,294,906,187**	1,152,806,403	963,726,925
Deferred	**17,206,867**	(33,191,446)	(18,587,795)
	1,312,113,054	1,119,614,957	945,139,130
Net income	**₱4,644,240,214**	₱4,087,077,272	₱2,993,130,143

The following table shows the reconciliation of the consolidated core income to the net income for the years ended December 31, 2017, 2016 and 2015.

	2017	2016	2015
Core income for the year	**₱4,734,807,487**	₱4,157,505,920	₱3,080,339,138
Provisions	**(4,185,067)**	(3,737,064)	(5,101,457)
Foreign exchange gain (loss) - net	**1,072,042**	(254,488)	7,840,647
Other nonrecurring items	**(87,454,248)**	(66,437,096)	(89,948,185)
Net income	**₱4,644,240,214**	₱4,087,077,272	₱2,993,130,143

6. Cash and Cash Equivalents

This account consists of:

	2017	2016
Cash on hand and in banks	**₱181,262,438**	₱35,649,031
Short-term deposits as cash equivalents	**2,533,948,404**	354,263,821
	₱2,715,210,842	₱389,912,852

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

Interest earned from cash and cash equivalents amounted to ₱9.0 million, ₱20.6 million, and ₱19.1 million for the years ended December 31, 2017, 2016 and 2015, respectively (see Note 25).

As at December 31, 2017 and 2016, the Company had nil and ₱5.0 billion of available undrawn committed term loan facilities, respectively.

7. Receivables

This account consists of:

	2017	2016
Trade receivables:		
Related parties (see Note 16)	**₱375,858,264**	₱304,124,441
Third parties	**97,716,113**	59,666,237
Advances to DPWH	**179,535,742**	180,361,049
Interest receivables	**20,003,187**	14,307,194
Advances to officers and employees (see Note 16)	**10,641,020**	15,317,943
Due from related parties (see Note 16)	**5,982,581**	3,812,414
Other receivables	**51,741,514**	40,527,225
	741,478,421	618,116,503
Less allowance for doubtful accounts	**26,439,165**	24,938,590
	₱715,039,256	₱593,177,913

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

Advances to DPWH is pursuant to the Reimbursement Agreement entered into by NLEX Corp. with DPWH in 2013 where DPWH requested these advances in order to fast track the acquisition of right-of-way for the construction of Segments 9 and 10, portions of Phase II of MNEP. The balance also includes direct advances to certain Segment 9 landowners as consideration for the grant of immediate right-of-way possession to NLEX Corp. ahead of the expropriation proceedings. Under a Deed of Assignment with Special Power of Attorney agreement, these landowners agreed to assign their receivables from DPWH to NLEX Corp. in consideration for the direct advances received from NLEX Corp. These advances to DPWH are noninterest-bearing and are collectible within a year.

Interest receivables are collectible within three to six months.

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

Other receivables are noninterest-bearing and are collectible within a year. As at December 31, 2017 and 2016, other receivables include those receivables from motorists who caused accidental damage to NLEX properties from day-to-day operations amounting to ₱43.6 million and ₱38.2 million, respectively.

The movements in the allowance for individually assessed impaired receivables in 2017 and 2016 are as follows:

	2017		
	Trade Receivables	**Other Receivables**	**Total**
Balance at beginning of year	**₱3,053,951**	**₱21,884,639**	**₱24,938,590**
Provision for doubtful accounts (see Note 22)	**150,646**	**1,349,929**	**1,500,575**
Balance at end of year	**₱3,204,597**	**₱23,234,568**	**₱26,439,165**

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

8. **Service Concession Assets**

The movements in this account follow:

	MNEP	SCTEX	NLEX-SLEX Connector Road	Total
Cost:				
At January 1, 2016	₱26,133,955,768	₱3,177,555,625	₱–	₱29,311,511,393
Additions	5,602,509,835	378,504,587	2,507,847,423	8,488,861,845
At December 31, 2016	31,736,465,603	3,556,060,212	2,507,847,423	37,800,373,238
Additions	2,765,345,336	783,222,842	214,910,301	3,763,478,479
At December 31, 2017	**₱34,501,810,939**	**₱4,339,283,054**	**₱2,722,757,724**	**₱41,563,851,717**
Accumulated amortization:				
At January 1, 2016	₱6,501,741,058	₱11,364,125	₱–	₱6,513,105,183
Amortization (see Note 21)	540,223,703	74,896,760	–	615,120,463
At December 31, 2016	7,041,964,761	86,260,885	–	7,128,225,646
Amortization (see Note 21)	654,699,389	108,095,210	–	762,794,599
At December 31, 2017	**₱7,696,664,150**	**₱194,356,095**	**₱–**	**₱7,891,020,245**
Net book value:				
At December 31, 2017	**₱26,805,146,789**	**₱4,144,926,959**	**₱2,722,757,724**	**₱33,672,831,472**
At December 31, 2016	24,694,500,842	3,469,799,327	2,507,847,423	30,672,147,592

MNEP

Additions during 2017 and 2016 pertain mainly to lane widening project on Segments 2 and 3 (portions of Phase I); civil works construction for Segment 10 (portion of Phase II); and fixed operating equipment (FOE) design, supply and installation on Segment 10 (portion of Phase II). Additions also include the pre-construction costs of Segment 8.2, portion of Phase II.

Borrowing costs capitalized amounted to ₱653.8 million and ₱653.7 million for the years ended December 31, 2017 and 2016, respectively. The interest rates used to determine the amount of borrowing costs eligible for capitalization ranges from 5.0% to 5.8% in 2017 and 2016.

The concession term for fully operational Phase I and Segments 8.1 and 9 of Phase II of the MNEP is until December 31, 2037. As at December 31, 2017 and 2016, the remaining concession term is 20 years and 21 years, respectively.

As at February 14, 2018, Segment 10, portion of Phase II, with a carrying amount of ₱7,694.5 million and ₱6,265.9 million as at December 31, 2017 and 2016, respectively, has not yet started its tollway operation.

<u>SCTEX</u>
As discussed in Note 2, NLEX Corp. took over from BCDA the management, operation and maintenance of the SCTEX on October 27, 2015. Additions during 2017 and 2016 pertain to the cost of pavement rehabilitation in certain portion of SCTEX and other costs incurred for upgrading the toll road facilities and equipment in SCTEX.

The concession term for SCTEX is until October 30, 2043. As at December 31, 2017 and 2016, the remaining concession term is 26 years and 27 years, respectively.

<u>NLEX-SLEX Connector Road</u>
As discussed in Note 2, NLEX Corp. and DPWH signed the Concession Agreement for the NLEX-SLEX Connector Road on November 23, 2016. Additions during 2017 pertain to pre-construction costs of ₱29.4 million. Additions during 2016 pertain mainly to the present value of the service concession fees payable of ₱2,318.8 million and pre-construction costs of ₱171.9 million.

Borrowing costs capitalized amounted to ₱185.5 million and ₱17.1 million for the years ended December 31, 2017 and 2016, respectively (see Note 18). The borrowing rates used to determine the amount of borrowing costs eligible for capitalization is 7.1% in 2017 and 2016.

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

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

As at December 31, 2017 and 2016, the total carrying amount of Segment 10 (portion of Phase II of MNEP) and NLEX-SLEX Connector Road which are not yet available for use amounted to ₱10,417.2 million and ₱8,773.7 million, respectively.

The recoverable amount of Segment 10 (portion of Phase II of MNEP) and NLEX-SLEX Connector Road have been determined based on a value in use computation using the cash flow projections from most recent financial budgets and forecast of NLEX Corp. For the impairment testing conducted, average traffic volume growth rates used were 1.2% to 2.3% and the pre-tax discount rates applied range from 10.07% to 10.21%, which was based on the weighted average cost of capital with estimated premium of 2.0% over cost of equity. The average forecast period used in the computation is 20 years for Segment 10 and 39 years for NLEX-SLEX Connector Road. The forecast period is greater than 5 years as management can reliably estimate the cash flow for the entire duration of the concession period.

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

9. Property and Equipment

The movements in this account follow:

	Building, Building Improvements and Leasehold Improvements	Transportation Equipment	Office Equipment and Others	Total
Cost:				
At January 1, 2016	₱94,201,454	₱74,604,932	₱156,357,220	₱325,163,606
Additions	22,500	23,086,472	22,273,961	45,382,933
Disposals	–	(9,827,443)	(3,469,102)	(13,296,545)
At December 31, 2016	94,223,954	87,863,961	175,162,079	357,249,994
Additions	21,591,711	22,879,845	54,354,146	98,825,702
Disposals	–	(3,676,261)	(494,724)	(4,170,985)
At December 31, 2017	**₱115,815,665**	**₱107,067,545**	**₱229,021,501**	**₱451,904,711**
Accumulated depreciation:				
At January 1, 2016	₱36,514,894	₱47,143,850	₱120,427,074	₱204,085,818
Depreciation (see Notes 21 and 22)	3,572,702	10,292,564	16,113,232	29,978,498
Disposals	–	(8,376,549)	(3,409,133)	(11,785,682)
At December 31, 2016	40,087,596	49,059,865	133,131,173	222,278,634
Depreciation (see Notes 21 and 22)	4,056,291	13,528,884	34,357,393	51,942,568
Disposals	–	(2,378,657)	(494,724)	(2,873,381)
At December 31, 2017	**₱44,143,887**	**₱60,210,092**	**₱166,993,842**	**₱271,347,821**
Net book value:				
At December 31, 2017	**₱71,671,778**	**₱46,857,453**	**₱62,027,659**	**₱180,556,890**
At December 31, 2016	54,136,358	38,804,096	42,030,906	134,971,360

Proceeds from the sale of property and equipment amounted to ₱1.3 million, ₱2.4 million, and ₱2.0 million in 2017, 2016, and 2015, respectively. Gain on disposal of property and equipment amounted to ₱0.02 million, ₱0.9 million and ₱0.5 million for the years ended December 31, 2017, 2016 and 2015, respectively. The gross carrying amounts of fully depreciated property and equipment that are still in use amounted to ₱166.2 million and ₱139.4 million as at December 31, 2017 and 2016, respectively.

As at December 31, 2017 and 2016, there are no items of property and equipment with liens or encumbrances or used as security of any outstanding loan.

10. **Investment Properties**

Details of this account are as follows:

	2017	2016
Land	**₱117,401,719**	₱37,761,269
Land improvements	**11,578,801**	3,682,610
Total	**₱128,980,520**	₱41,443,879

In 2017 and 2016, NVC purchased parcels of land located in Valenzuela City from certain land owners. A parcel of land acquired in 2016 is presently the site of a service facility while the other parcels of land acquired in 2017 and 2016, respectively, are being developed as a service facility and/or a property for lease with business proponents.

As discussed in Note 28, the land acquired with a service facility was leased to RDL Fuel Point, Inc. Rental income earned from this investment property amounted to ₱4.3 million in 2017 and 2016 (see Note 20).

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

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

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

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

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

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

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

The fair value of the land acquired in August 2017 is based on its acquisition price. This parcel of land is being developed for the NLEX Drive and Dine Project (see Note 28).

While the fair value of the investment properties was not determined as at December 31, 2017, the Company believes that there were no conditions present in 2017 that would significantly reduce either the fair value of the investment properties from that determined on December 31, 2016 or the acquisition cost of the land acquired in 2017.

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

11. Other Intangible Assets

Other intangible assets pertain to computer software relating to the Company's accounting, reporting and asset management systems with estimated useful life of 5 years. The movements in this account follow	**2017**	2016
Cost:		
Balance at the beginning of the year	**₱106,535,415**	₱99,033,490
Additions	**3,917,613**	7,501,925
Disposal	**(455,240)**	–
Balance at end of the year	**109,997,788**	106,535,415
Accumulated amortization:		
Balance at beginning of year	**88,276,923**	82,352,212
Amortization (see Note 22)	**11,861,791**	5,924,711
Disposal	**(455,240)**	–
Balance at end of the year	**99,683,474**	88,276,923
Net book value	**₱10,314,314**	₱18,258,492

12. Available-for-sale Financial Assets

Details of AFS financial assets are shown below:

		2017		2016	
Maturity Date	Interest Rate	**Fair Value**	**Principal Amount**	Fair Value	Principal Amount
UITFs					
Short-term		**₱217,749,970**	**₱217,221,409**	₱82,407,389	₱82,221,409
ROP Retail Treasury Bonds					
April 11, 2020	4.25%	**100,112,000**	**100,000,000**	–	–
August 15, 2023	3.25%	**520,796,160**	**565,100,000**	524,017,230	565,100,000
		620,908,160	**665,100,000**	524,017,230	565,100,000
Fixed Rate Treasury Notes					
May 23, 2018	2.13%	**49,825,000**	**50,000,000**	246,600,000	250,000,000
July 19, 2019	4.75%	**11,301,872**	**11,230,000**	11,179,465	11,230,000
August 20, 2020	3.38%	**19,495,400**	**20,000,000**	20,560,000	20,000,000
		80,622,272	**81,230,000**	278,339,465	281,230,000

(Forward)

Maturity Date	Interest Rate	2017 Fair Value	2017 Principal Amount	2016 Fair Value	2016 Principal Amount
LTNCD					
PNB - June 12, 2020	4.13%	**₱50,498,500**	**₱50,000,000**	₱49,613,000	₱50,000,000
Metrobank - November 21, 2021	4.25%	**48,499,000**	**50,000,000**	48,603,000	50,000,000
		98,997,500	**100,000,000**	98,216,000	100,000,000
Corporate Bonds					
FMIC - August 10, 2019	5.75%	**51,079,000**	**50,000,000**	48,781,000	50,000,000
Meralco - December 12, 2020 (see Note 16)	4.38%	**198,956,000**	**200,000,000**	197,300,000	200,000,000
PLDT - February 6, 2021 (see Note 16)	5.23%	**203,844,000**	**200,000,000**	207,014,000	200,000,000
		453,879,000	**450,000,000**	453,095,000	450,000,000
		₱1,472,156,902	**₱1,513,551,409**	₱1,436,075,084	₱1,478,551,409

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

The movements in this account follow:

	2017	2016
Balance at beginning of year	**₱1,436,075,084**	₱2,940,548,994
Additions	**5,882,500,287**	7,063,921,689
Maturity	**–**	(200,000,000)
Sale of AFS financial assets	**(5,846,000,000)**	(8,366,733,682)
Changes in fair value during the year (see Note 19)	**8,529,127**	25,673,283
Recycling to profit or loss (see Note 19)	**(8,947,596)**	(27,335,200)
Balance at end of year	**₱1,472,156,902**	₱1,436,075,084
Current	**₱267,574,970**	₱82,407,389
Noncurrent	**1,204,581,932**	1,353,667,695
	₱1,472,156,902	₱1,436,075,084

The fair value is based on the quoted market price of the financial instruments as at December 31, 2017 and 2016. The movements in the net unrealized gain (loss) on fair value change in AFS financial assets under "Other comprehensive loss reserve" account for the years ended December 31, 2017, 2016 and 2015 follow:

	2017	2016	2015
Balance at beginning of year	**(₱39,194,024)**	(₱37,532,107)	₱41,296,009
Changes in fair value during the year	**8,529,127**	25,673,283	11,121,533
Recycling to profit or loss*	**(8,947,596)**	(27,335,200)	(89,949,649)
Balance at end of year	**(39,612,493)**	(39,194,024)	(37,532,107)
Tax effects of items taken directly in equity (see Note 27)	**(43,141)**	1,464,533	2,657,153
	(₱39,655,634)	(₱37,729,491)	(₱34,874,954)

* *Includes gain on sale of AFS amounting to ₱8,369,189* and *₱22,635,560 in 2017 and 2016, respectively, that was deducted from borrowing costs capitalized to service concession assets.*

13. **Other Current Assets**

Details of other current assets follow:

	2017	2016
Restricted cash (see Note 28)	**₱321,000,000**	₱–
Input VAT	**318,515,410**	412,113,258
Deferred input VAT	**152,582,388**	186,898,381
Advances to suppliers (see Note 16)	**60,582,643**	29,911,065
Prepayments	**52,286,554**	67,638,138
Creditable tax	**18,769,968**	19,545,453
	923,736,963	716,106,295
Less allowance for non-recoverability of creditable tax	**(15,380,461)**	(15,380,461)
	₱908,356,502	₱700,725,834

Prepayments include prepaid insurance covering the service concession assets of the Company.

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

This account consists of:

	2017	2016
Trade payables:		
Related parties (see Note 16)	**₱151,778,036**	₱135,325,540
Third parties	**788,543,395**	171,054,098
Accrued expenses:		
Related parties (see Note 16)	**381,959,364**	362,310,718
Third parties	**1,098,528,736**	1,899,350,895
Retention payable:		
Related parties (see Note 16)	**13,090,888**	19,776,883
Third parties	**545,511,744**	315,671,166
Output VAT	**163,555,157**	141,308,092
Withholding taxes payable	**85,633,460**	93,142,828
Interest payable	**28,314,769**	24,517,438
Unearned toll revenue	**1,883,284**	2,571,857
Due to related parties (see Note 16)	**833,430**	–
Unearned rental income (see Note 28)	–	2,132,223
Others	**12,751,099**	11,593,503
	₱3,272,383,362	₱3,178,755,241

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

Accrued expenses consist of:

	2017	2016
Construction costs	**₱749,593,043**	₱1,551,445,903
Operator's fee (see Note 16)	**307,065,152**	253,612,988
Professional fees	**112,852,747**	94,300,662
Concession fees (see Note 2)	**102,864,022**	87,422,800
PNCC fee	**60,483,648**	52,539,032
Operating and maintenance cost	**58,233,647**	61,249,421
Advertising and marketing expenses (see Note 16)	**36,567,994**	52,599,331
Outside services (see Note 16)	**13,261,969**	18,668,329
Toll collection and medical services	**8,268,476**	6,494,316
Repairs and maintenance (see Note 16)	**8,073,559**	7,405,068
Salaries and employee benefits	**1,237,466**	27,206,476
Management fees (see Note 16)	**–**	17,851,424
Project insurance	**–**	12,806,822
Others	**21,986,377**	18,059,041
	₱1,480,488,100	₱2,261,661,613

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

Interest payable is settled within three to six months.

15. Provisions

The movements in this account follow:

	Heavy Maintenance	Others	Total
At January 1, 2016	₱263,252,488	₱76,201,950	₱339,454,438
Additions (see Notes 21 and 22)	127,647,874	29,537,324	157,185,198
Accretion (see Note 26)	14,957,803	–	14,957,803
Payments	(91,888,750)	–	(91,888,750)
At December 31, 2016	313,969,415	105,739,274	419,708,689
Additions (see Notes 21 and 22)	241,327,802	85,500,489	326,828,291
Accretion (see Note 26)	18,045,843	–	18,045,843
Payments	(326,221,568)	(51,337,984)	(377,559,552)
At December 31, 2017	**₱247,121,492**	**₱139,901,779**	**₱387,023,271**
At December 31, 2017:			
Current	**₱146,800,001**	**₱126,061,597**	**₱272,861,598**
Noncurrent	**100,321,491**	**13,840,182**	**114,161,673**
	₱247,121,492	**₱139,901,779**	**₱387,023,271**
At December 31, 2016:			
Current	₱228,915,410	₱91,899,092	₱320,814,502
Noncurrent	85,054,005	13,840,182	98,894,187
	₱313,969,415	₱105,739,274	₱419,708,689

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

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

16. Related Party Disclosures

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

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

Related Party	Relationship		Management Fees (see Note 22)	Operator's Fee (see Note 21)	Outside Services (see Note 21)	Repairs and Maintenance (see Note 21)	Communication, Light and Water (see Notes 21 and 22)	Advertising and Marketing Expenses (see Note 22)	Representation and Travel Expenses (see Note 22)	Income from Advertising (see Note 20)	Income from Utility Facilities (see Note 20)
MPTC	Intermediate Parent Company	**2017**	**₱60,702,628**	**₱–**	**₱–**	**₱–**	**₱–**	**₱182,868,860**	**₱–**	**₱–**	**₱–**
		2016	60,702,628	–	–	–	–	42,966,485	–	–	–
		2015	60,702,628	–	–	–	–	–	–	–	–
MPTNC	Parent Company	**2017**	**11,936,599**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
		2016	11,936,599	–	–	–	–	–	–	–	–
		2015	11,936,599	–	–	–	–	–	–	–	–
TMC	Subsidiary of MPTNC	**2017**	**–**	**1,528,987,544**	**2,518,278**	**62,350,900**	**227,878**	**–**	**–**	**–**	**–**
		2016	–	2,001,498,970	–	6,234,952	–	–	–	–	–
		2015	–	1,741,674,430	–	5,524,377	–	–	–	–	–
Easytrip Services Corp. (ESC)	Subsidiary of MPTC	**2017**	**–**	**–**	**68,821,203**	**–**	**–**	**632,556**	**–**	**100,000**	**–**
		2016	–	–	67,861,426	–	–	–	–	920,000	–
		2015	–	–	61,167,420	–	–	–	–	60,000	–
Smart Communications Inc. (Smart)	Associate of FPC	**2017**	**–**	**–**	**–**	**–**	**1,808,087**	**138,142**	**–**	**18,422,000**	**373,855**
		2016	–	–	–	–	–	–	–	43,480,000	357,756
		2015	–	–	–	–	–	–	–	72,850,000	342,350
PLDT, Inc. (PLDT)	Associate of FPC	**2017**	**–**	**–**	**–**	**516,418**	**3,283,959**	**–**	**14,650**	**730,000**	**2,164,959**
		2016	–	–	–	–	–	–	–	1,009,000	6,628,069
		2015	–	–	–	–	–	–	–	–	2,423,099
Digitel Mobile Philippines, Inc. (Digitel)	Associate of FPC	**2017**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
		2016	–	–	–	–	–	–	–	–	–
		2015	–	–	–	–	–	–	–	7,579,000	–
Manila Electric Company (Meralco)	Associate of MPIC	**2017**	**–**	**–**	**–**	**–**	**6,167,930**	**9,701**	**–**	**–**	**360,000**
		2016	–	–	–	–	5,975,142	–	–	–	–
		2015	–	–	–	–	–	–	–	–	–
Maynilad	Subsidiary of MPIC	**2017**	**–**	**–**	**–**	**–**	**95,022**	**–**	**–**	**–**	**–**
		2016	–	–	–	–	–	–	–	–	–
		2015	–	–	–	–	–	–	–	–	–
Total		**2017**	**₱72,639,227**	**₱1,528,987,544**	**₱71,339,481**	**₱62,867,318**	**₱11,582,876**	**₱183,649,259**	**₱14,650**	**₱19,252,000**	**₱2,898,814**
		2016	72,639,227	2,001,498,970	67,861,426	6,234,952	5,975,142	42,966,485	–	45,409,000	6,985,825
		2015	72,639,227	1,741,674,430	61,167,420	5,524,377	–	–	–	80,489,000	2,765,449

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

Related Party	Relationship		Advances to Contractors and Consultants (see Note 13)	Trade Receivables[(2)] (see Note 7)	Due from Related Parties[(1)] (see Note 7)	Accounts Payable and Other Current Liabilities[(2)] (see Note 14)	Terms	Conditions
MPTC	Intermediate Parent Company	**2017**	**₱–**	**₱–**	**₱410,469**	**₱101,258,268**	(1) On demand; noninterest-bearing	Unsecured; no impairment
		2016	–	–	188,934	64,272,100	(2) 30-45 days; noninterest-bearing	
MPTNC	Parent Company	**2017**	–	–	–	**2,806,084**	(1) On demand; noninterest-bearing	Unsecured; no impairment
		2016	–	–	1,496	161,459	(2) 30-45 days; noninterest-bearing	
MPCALA Holdings, Inc. (MHI)	Subsidiary of MPTNC	**2017**	–	–	**1,945,658**	–	On demand; noninterest-bearing	Unsecured; no impairment
		2016	–	–	1,437,464	–		
TMC	Subsidiary of MPTNC	**2017**	**58,000**	**1,040,290**	**501,126**	**406,369,493**	(1) On demand; noninterest-bearing	Unsecured; no impairment
		2016	58,000	43,010	481,152	343,641,076	(2) 30-45 days; noninterest-bearing	
Cavitex Infrastructure Corp. (CIC)	Subsidiary of MPTC	**2017**	–	–	**1,288,843**	–	On demand; noninterest-bearing	Unsecured; no impairment
		2016	–	–	1,604,368	69,300		
ESC	Subsidiary of MPTC	**2017**	–	**332,502,752**	**99,000**	**7,975,955**	(1) On demand; noninterest-bearing	Unsecured; no impairment
		2016	–	246,967,216	99,000	89,360,507	(2) 7 days; noninterest-bearing	
Indra Philippines, Inc. (Indra)	Associate of MPIC	**2017**	**6,273,074**	–	–	**28,715,707**	Within one year; noninterest-bearing	Unsecured, no impairment
		2016	493,728	–	–	19,776,883		
Smart	Associate of FPC	**2017**	–	**36,379,572**	–	**244,951**	30-45 days; noninterest-bearing	Unsecured; no impairment
		2016	–	44,949,254	–	129,035		
PLDT	Associate of FPC	**2017**	–	**778,450**	–	**289,860**	30-45 days; noninterest-bearing	Unsecured; no impairment
		2016	–	7,057,761	–	–		
Digitel	Associate of FPC	**2017**	–	**5,107,200**	–	**1,400**	30-45 days; noninterest-bearing	Unsecured; no impairment
		2016	–	5,107,200	–	2,781		
Meralco	Associate of MPIC	**2017**	**15,405,542**	–	–	–	Within one year; noninterest-bearing	Unsecured, no impairment
		2016	6,727,892	–	–	–		
Maynilad	Subsidiary of MPIC	**2017**	–	**50,000**	–	–	Within one year; noninterest-bearing	Unsecured, no impairment
		2016	–	–	–	–		
Metro Pacific Tollways Management Services, Inc.	Subsidiary of MPTC	**2017**	–	–	**1,455,819**	–	On demand; noninterest-bearing	Unsecured; no impairment
		2016	–	–	–	–		
Cebu Cordova Link Expressways Corporation	Subsidiary of MPTC	**2017**	–	–	**10,194**	–	On demand; noninterest-bearing	Unsecured; no impairment
		2016	–	–	–	–		
MPIC	Parent Company of MPTC	**2017**	–	–	**271,472**	–	On demand; noninterest-bearing	Unsecured; no impairment
		2016	–	–	–	–		
Total		**2017**	**₱21,736,616**	**₱375,858,264**	**₱5,982,581**	**₱547,661,718**		
		2016	7,279,620	304,124,441	3,812,414	517,413,141		

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

Transactions with Parent Companies of NLEX Corp.

MPTC

- MPTC performs managerial and financial advisory services for NLEX Corp. in 2017, 2016, and 2015. On January 1, 2014, NLEX Corp. and MPTC renewed their Management Services Agreement where NLEX Corp. shall pay MPTC a fixed monthly fee of ₱3.7 million (exclusive of VAT) for the services rendered by MPTC. The agreement is effective January 1, 2014, and shall remain in effect for twelve (12) months. In 2017, 2016 and 2015, MPTC bills NLEX Corp. a fixed monthly fee of ₱5.1 million (exclusive of VAT) for the managerial and financial advisory services it performs to NLEX Corp.

- In 2017 and 2016, MPTC billed NLEX Corp. for its share in the compensation, bonuses and other benefits of the NLEX Road Warriors Philippine Basketball Association team.

MPTNC

- In 2017, 2016, and 2015, MPTNC billed NLEX Corp. for various expenses paid in behalf of NLEX Corp. as well as the latter's share in common expenses.

Transactions with Other Related Parties

TMC

NLEX

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

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

- On December 10, 2012, pursuant to the O&M and the TRB's approval to open and operate the Balagtas Interchange as an integral part of Phase I of the MNEP, NLEX Corp. and TMC agreed that the scope of the O&M shall correspondingly cover the Balagtas Interchange from June 25, 2012 until December 31, 2037. Consequently, NLEX Corp. agreed to pay TMC an annual base fee for the operations and maintenance of the Balagtas Interchange in the amount of ₱15.6 million effective in 2012. On July 6, 2015, NLEX Corp. and TMC agreed to reduce the base fee for Balagtas Interchange from ₱15.6 million to ₱13.7 million to take into account the reduction in operational and maintenance costs of the Sta. Rita Interchange. The Balagtas Interchange is a 1.5-km stretch connecting Plaridel to NLEX.

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

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

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

- On March 15, 2015, NLEX Corp. engaged TMC to operate and maintain Segment 9, portion of Phase II of MNEP, for a proposed annual fee of ₱31.6 million (inclusive of VAT) until December 31, 2037. On May 13, 2016, pursuant to the O&M and TRB's letter dated March 18, 2015, giving NLEX Corp. the authority to operate and maintain Segment 9, NLEX Corp. gave a notice to TMC that the scope of O&M shall correspondingly cover Segment 9, from March 19, 2015 until December 31, 2037. Consequently, NLEX Corp. agreed to pay TMC an annual base fee of ₱31.6 million (inclusive of VAT). NLEX Corp. and TMC further agreed that the Segment 9 base fee may be escalated after the lapse of one (1) year from March 19, 2015.

- On February 24, 2017, pursuant to the O&M, NLEX Corp. and TMC agreed to the new base fee amounting to ₱1,136.8 million (exclusive of VAT) for NLEX, Segment 7, Dau Interchange, Segment 8.1, Balagtas Interchange, Bocaue Interchange Northbound Exit and Segment 9 effective on February 9, 2017.

- On February 6, 2018, in view of the forthcoming merger between NLEX Corp. and TMC, and pursuant to the O&M, NLEX Corp. and TMC agreed to further reduce the base fee to ₱823.1 million (exclusive of VAT) for NLEX, Segment 7, Dau Interchange, Segment 8.1, Balagtas Interchange, Bocaue Interchange Northbound Exit, Segment 9 and SCTEX, effective January 10, 2018.

<u>SCTEX</u>

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

ESC

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

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

Indra

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

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

- On August 7, 2015, NLEX Corp. issued a letter of acceptance to EPPI and Indra Consortium relating to the revised proposal dated August 3, 2015 for the design, supply, installation, testing and commissioning of the FOE for the NLEX-SCTEX integration project. The revised contract price amounted to €10.2 million (₱507.2 million). The project was completed on March 15, 2016.

PLDT, Smart and Digitel

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

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

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

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

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

- In 2017, 2016 and 2015, NLEX Corp. entered into advertising arrangements with Smart and Digitel (a subsidiary of PLDT) related to various advertising mediums, which include rental, material production, installation and maintenance at several locations along NLEX. In 2015, the advertising arrangement with Digitel has ended.

Meralco

- The Company was billed by Meralco for its electric consumption in its head office; in Segment 9, portion of Phase II of MNEP, and for its drainage system in Balintawak and Valenzuela.

- As at December 31, 2017, NLEX Corp. has advances to Meralco for its new electric line applications for Segment 9, portion of Phase II of MNEP, and Balintawak and Valenzuela drainage system. These advances are either refundable or consumable upon activation of the electric lines in Segment 9 and Balintawak and Valenzuela drainage system.

Maynilad

- The Company was billed by Maynilad for its water consumption in its head office.

Other Transactions

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

	2017	2016	2015
Short-term employee benefits	**₱91,399,101**	₱96,657,884	₱90,576,679
LTIP expense (see Note 23)	**64,000,000**	58,964,008	48,735,905
Retirement expense (see Note 23)	**11,502,652**	9,059,351	10,924,834
ESOP expense (see Notes 23 and 24)	**–**	1,244,843	1,244,843
	₱166,901,753	₱165,926,086	₱151,482,261

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

- The Company paid directors fees amounting to ₱0.8 million, ₱0.7 million and ₱0.5 million in 2017, 2016 and 2015, respectively, recorded under "General and administrative expenses" account in the consolidated statements of income (see Note 22).

- Advances to officers and employees has an outstanding balance of ₱10.6 million and ₱15.3 million as at December 31, 2017 and 2016, respectively (see Note 7).

- The Company has existing investment in corporate notes of Meralco and PLDT totaling ₱402.8 million and ₱404.3 million as at December 31, 2017 and 2016, respectively (see Note 12).

17. Long-term Debt

This account consists of:

	2017	2016
Peso-denominated Notes, Loans and Bonds:		
Series A Notes	**₱4,897,616,998**	₱4,949,719,307
Term Loan Facilities	**8,650,000,000**	7,000,000,000
Fixed-rate Bonds	**7,000,000,000**	7,000,000,000
	20,547,616,998	18,949,719,307
Less unamortized debt issue costs	**107,020,853**	127,056,818
	20,440,596,145	18,822,662,489
Less current portion of long-term debt - net of unamortized debt issue costs of ₱13,408,160 in 2017 and ₱23,364,569 in 2016	**4,304,208,838**	278,737,740
	₱16,136,387,307	₱18,543,924,749

The unamortized debt issue costs incurred in connection with the availment of long-term debt amounting to ₱107.0 million and ₱127.1 million as at December 31, 2017 and 2016, respectively, were deducted against the long-term debt. The movements in debt issue costs are as follows:

	2017	2016
Balance at beginning of year	**₱127,056,818**	₱147,239,671
Amortization during the year* (see Notes 8 and 26)	**(34,247,435)**	(32,071,661)
Debt issue costs incurred during the year	**14,211,470**	11,888,808
Balance at end of year	**₱107,020,853**	₱127,056,818

* *Includes amortization of debt issue costs capitalized to service concession assets amounting to ₱12,808,080 and ₱12,158,913 in 2017 and 2016, respectively.*

Series A Notes

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

Term Loan Facilities

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

On November 20, 2015, NLEX Corp. issued a notice of prepayment effective on December 15, 2015 for the loans availed from Insular and Philam, amounting to ₱500.0 million each. The prepayment penalty amounting to ₱30.0 million was recognized as part of "Interest expense and other finance costs" (see Note 26).

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

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

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

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

Philippine National Bank (PNB). On December 4, 2015, NLEX Corp. entered into a new ten-year term loan facility agreement with PNB for a facility amount of ₱5.0 billion to finance capital expenditures such as the NLEX Lane Widening Project, NLEX-SCTEX Integration Project and the upgrade of the SCTEX. On December 10, 2015, NLEX Corp. made its initial drawdown amounting to ₱3.0 billion. Debt issue costs incurred on the initial drawdown amounted to ₱15.0 million.

On October 24, 2017, NLEX Corp. made its second and final drawdown amounting to ₱2.0 billion. The Company paid ₱4.2 million in commitment fees for not being able to draw in accordance with the drawdown schedule. Total debt issue costs incurred on the second drawdown, including the commitment fees, amounted to ₱14.2 million.

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

Unionbank of the Philippines (Unionbank). On January 29, 2016, NLEX Corp. entered into a new ten-year term loan facility agreement with Unionbank for a facility amount of ₱5.0 billion to finance capital expenditures which include Segment 10 and its exit ramps and the NLEX-SLEX Connector Road. On February 3 and December 29, 2016, NLEX Corp. made its initial and second drawdown amounting to ₱1.0 billion each. The undrawn amount will be available for drawing in one (1) or more availments on any banking day within one (1) year from July 24, 2015 with an extension period up to July 24, 2017, or such longer period as the parties may agree upon in writing. Total debt issue costs incurred on the initial and second drawdown amounted to ₱11.0 million.

On July 24, 2017, the Company opted not to extend the availability period of the undrawn amount of the term loan facility. On August 9, 2017, Unionbank, billed NLEX Corp. for the commitment fee of ₱12.1 million equivalent to 0.25% per annum of the undrawn amount, computed from January 29, 2016 up to July 24, 2017. This commitment fee was recognized as part of "Interest expense and other finance costs" (see Note 26).

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

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

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

Compliance with Loan Covenants
As at December 31, 2017 and 2016, NLEX Corp. is in compliance with the required financial ratios and other loan covenants (see Note 29). NLEX Corp.'s long-term debt are unsecured as at December 31, 2017 and 2016.

18. Service Concession Fees Payable

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

	Amount
At January 1, 2016	₱–
Additions	2,318,800,856
Accretion (see Note 8)	17,115,373
At January 1, 2017	2,335,916,229
Accretion (see Note 8)	185,512,898
At December 31, 2017	₱2,521,429,127

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

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

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

19. Equity

Capital Stock
Details of common shares of the Parent Company as at December 31, 2017 and 2016 follow:

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

Retained Earnings
Accumulated equity in net earnings of the subsidiary
A portion of the consolidated retained earnings corresponding to the net earnings of the subsidiary amounting to ₱5.1 million and ₱0.7 million as at December 31, 2017 and 2016, respectively, is not available for dividend declaration by the Parent Company. The accumulated equity in net earnings becomes available for dividends by the Parent Company until declared by the subsidiary.

Cash dividends

The Parent Company's BOD declared the following cash dividends in 2017, 2016 and 2015:

Declaration Date	Record Date	Payment Date	Cash Dividend per Share	Total
July 20, 2017	**August 3, 2017**	**September 2, 2017**	**₱99.09**	**₱1,760,000,000**
December 18, 2017	**January 2, 2018**	**January 24, 2018**	**103.60**	**1,840,000,000**
July 8, 2016	July 19, 2016	August 18, 2016	70.38	1,250,000,000
December 15, 2016	December 25, 2016	December 28, 2016	76.01	1,350,000,000
July 23, 2015	July 13, 2015	August 12, 2015	56.31	1,000,000,000
December 17, 2015	December 28, 2015	January 27, 2016	80.10	1,422,576,000

Unpaid dividends of ₱1,840.0 million and ₱1,422.6 million as at December 31, 2017 and 2015 were subsequently paid in January 2018 and 2016, respectively.

Other Comprehensive Loss Reserve

	AFS Financial Assets	Income Tax Related to AFS Financial Assets	Re-measurement of Defined Benefit Plan	Income Tax Related to Defined Benefit Plan	Total
Balance at January 1, 2017	**(₱39,194,024)**	**₱1,464,533**	**₱1,167,297**	**(₱350,189)**	**(₱36,912,383)**
Recycling to profit or loss* (see Note 12)	**(418,469)**	**(1,507,674)**	**–**	**–**	**(1,926,143)**
Remeasurement gain (see Note 23)	**–**	**–**	**2,574,682**	**(772,405)**	**1,802,277**
Balance at December 31, 2017	**(₱39,612,493)**	**(₱43,141)**	**₱3,741,979**	**(₱1,122,594)**	**(₱37,036,249)**
Balance at January 1, 2016	(₱37,532,107)	₱2,657,153	₱11,864,970	(₱3,559,491)	(₱26,569,475)
Recycling to profit or loss* (see Note 12)	(1,661,917)	(1,192,620)	–	–	(2,854,537)
Remeasurement loss (see Note 23)	–	–	(10,697,673)	3,209,302	(7,488,371)
Balance at December 31, 2016	(₱39,194,024)	₱1,464,533	₱1,167,297	(₱350,189)	(₱36,912,383)

* *Net of changes in fair value during the year.*

	Cash Flow Hedge	Income Tax Related to Cash Flow Hedge	AFS Financial Assets	Income Tax Related to AFS Financial Assets	Re-measurement of Defined Benefit Plan	Income Tax Related to Defined Benefit Plan	Total
Balance at January 1, 2015	(₱3,775,752)	₱1,132,726	₱41,296,009	(₱2,826,741)	₱5,172,871	(₱1,551,862)	₱39,447,251
Net movement in cash flow hedge (see Note 30)	3,775,752	(1,132,726)	–	–	–	–	2,643,026
Recycling to profit or loss* (see Note 12)	–	–	(78,828,116)	5,483,894	–	–	(73,344,222)
Remeasurement gain (see Note 23)	–	–	–	–	6,692,099	(2,007,629)	4,684,470
Balance at December 31, 2015	₱–	₱–	(₱37,532,107)	₱2,657,153	₱11,864,970	(₱3,559,491)	(₱26,569,475)

* *Net of changes in fair value during the year.*

20. **Non-toll Revenues**

Details of non-toll revenues follow:

	2017	2016	2015
Income from advertising (see Note 16)	**₱98,277,947**	₱106,466,110	₱112,313,888
Income from TSF	**41,650,548**	36,414,084	32,661,844
Income from utility facilities (see Note 16)	**3,127,412**	7,836,678	5,088,001
Rental income (see Note 10)	**4,307,205**	4,307,205	–
Service revenue	**27,015,077**	2,410,563	–
	₱174,378,189	₱157,434,640	₱150,063,733

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

21. **Cost of Services**

This account consists of:

	2017	2016	2015
Operator's fee (see Note 16)	**₱1,528,987,544**	₱2,001,498,970	₱1,741,674,430
Concession fees (see Note 2)	**931,554,970**	791,493,044	132,146,972
Amortization of service concession assets (see Note 8)	**762,794,599**	615,120,463	575,097,888
PNCC fee (see Note 28)	**571,525,093**	527,740,201	482,149,955
Provision for heavy maintenance (see Note 15)	**215,471,251**	113,971,317	150,819,004
Repairs and maintenance (see Note 16)	**209,594,390**	77,200,629	108,201,070
Outside services (see Note 16)	**81,266,336**	72,496,308	64,279,224
Insurance	**76,414,846**	78,074,708	52,976,575
Salaries and employee benefits (see Note 23)	**46,550,029**	51,244,292	53,303,999
Toll collection and medical services	**27,056,449**	25,484,409	17,636,666
Depreciation of property and equipment (see Note 9)	**17,517,022**	4,977,014	8,956,180
Others (see Note 16)	**85,627,689**	33,587,100	33,383,888
	₱4,554,360,218	₱4,392,884,455	₱3,420,625,851

22. General and Administrative Expenses

This account consists of:

	2017	2016	2015
Advertising and marketing expenses (see Note 16)	**₱225,106,556**	₱135,303,974	₱220,221,143
Salaries and employee benefits (see Notes 15, 16, 23 and 24)	**224,262,714**	190,906,315	184,339,652
Professional fees	**81,289,362**	93,149,171	38,683,191
Taxes and licenses	**74,298,362**	62,504,339	57,258,388
Management fees (see Note 16)	**72,639,227**	72,639,227	72,639,227
Depreciation of property and equipment (see Note 9)	**34,425,546**	25,001,484	29,069,236
Representation and travel (see Note 16)	**34,106,956**	31,245,455	27,495,494
Provisions (see Note 15)	**31,274,789**	29,537,324	5,101,457
Outside services	**13,452,613**	21,802,034	23,201,107
Amortization of other intangible assets (see Note 11)	**11,861,791**	5,924,711	10,954,056
Repairs and maintenance	**7,762,093**	13,649,163	6,837,414
Communication, light and water (see Note 16)	**7,316,492**	10,428,199	10,251,450
Training and development costs	**5,978,446**	5,042,927	5,416,536
Office supplies	**5,002,650**	4,301,753	2,365,137
Rentals	**2,161,328**	1,612,882	1,168,873
Provision for doubtful accounts (see Note 7)	**1,500,575**	10,776,531	4,278,862
Directors' fees (see Note 16)	**830,000**	695,000	530,000
Miscellaneous	**12,183,452**	11,648,913	9,151,143
	₱845,452,952	₱726,169,402	₱708,962,366

23. Personnel Cost and Employee Benefits

This account consists of:

	2017	2016	2015
Salaries expense	**₱176,563,038**	₱165,166,190	₱169,520,573
LTIP	**64,000,000**	58,964,008	48,735,905
Retirement expense	**13,547,673**	10,772,390	13,256,495
ESOP expense (see Note 24)	–	1,244,843	1,244,843
Other employee benefits	**16,702,032**	6,003,176	4,885,835
	₱270,812,743	₱242,150,607	₱237,643,651
Cost of services (see Note 21)	**₱46,550,029**	₱51,244,292	₱53,303,999
General and administrative expenses (see Note 22)	**224,262,714**	190,906,315	184,339,652
	₱270,812,743	₱242,150,607	₱237,643,651

LTIP
On April 27, 2012, MPTC's BOD approved the implementation of 2012 to 2014 LTIP of MPTC and its subsidiaries (MPTC Group) which will be effective on January 1, 2012. In 2015, pending approval from MPTC's BOD, MPTC's management implemented the 2015-2017 LTIP of MPTC Group effective January 1, 2015. Subsequently on April 21, 2016, MPTC's BOD and its Compensation and Remuneration Committee approved the implementation of MPTC Group LTIP effective January 1, 2015.

MPTC's LTIP is a cash plan that is intended to provide meaningful and contingent financial incentive compensation for eligible executives and officers of the MPTC Group, who are consistent performers and contributors to the achievement of the long-term financial targets, strategic plans and objective, as well as the functional strategy and goals of the MPTC Group. Likewise, the MPTC Group LTIP is intended to attract and retain talented employees to ensure the sustained growth and success of the MPTC Group. The payment under the LTIP was intended to be made at the end of the performance cycle (without interim payments) and contingent on the achievement of the MPTC Group's cumulative consolidated core income target for the relevant performance cycle.

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

The total cost of the LTIP recognized by the Company in 2017, 2016 and 2015 included in "Salaries and employee benefits" account under "General and administrative expenses" in the consolidated statements of income amounted to ₱64.0 million, ₱59.0 million and ₱48.7 million, respectively. Total long-term incentive plan payable amounted to ₱193.4 million and ₱129.4 million as at December 31, 2017 and 2016, respectively. The outstanding long-term incentive plan payable as at December 31, 2017 will be settled in the next twelve months.

Retirement Costs
NLEX Corp. has a funded noncontributory defined benefit retirement plan covering all of its regular and full time employees. The plan provides for a lump sum benefit payment upon retirement. Contributions and costs are determined in accordance with the actuarial study made for the plan which is normally obtained every two years. The most recent actuarial valuation of plan assets and the present value of the defined benefit obligation was carried out as at December 31, 2017 by a certified actuary.

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

Under the existing regulatory framework, RA No. 7641 requires a provision for retirement pay to qualified private sector employees in the absence of any retirement plan in the entity, provided however that the employee's retirement benefits under any collective bargaining and other agreements shall not be less than those provided under the law. The law does not require minimum funding of the plan.

Changes in pension asset in 2017 are as follows:

	Present Value of Defined Benefit Obligation	**Fair Value of Plan Assets**	**Pension Asset**
At January 1, 2017	**(₱135,712,706)**	**₱136,617,386**	**₱904,680**
Net benefit income (cost) in statement of consolidated statement of income:			
Current service cost	**(13,591,640)**	**–**	**(13,591,640)**
Net interest	**(6,595,638)**	**6,639,605**	**43,967**
	(20,187,278)	**6,639,605**	**(13,547,673)**
Benefits paid	**834,285**	**(834,285)**	**–**
Remeasurement gain (loss) in other comprehensive income (see Note 19):			
Return on plan assets (excluding amount included in net interest)	**–**	**(3,611,099)**	**(3,611,099)**
Actuarial changes arising from changes in financial assumptions	**6,669,056**	**–**	**6,669,056**
Actuarial changes due to experience adjustment	**(483,275)**	**–**	**(483,275)**
	6,185,781	**(3,611,099)**	**2,574,682**
Contributions	**–**	**15,639,001**	**15,639,001**
At December 31, 2017	**(₱148,879,918)**	**₱154,450,608**	**₱5,570,690**

Changes in pension asset in 2016 are as follows:

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

Changes in pension asset in 2015 are as follows:

	Present value of Defined Benefit Obligation	Fair Value of Plan Assets	Pension Asset
At January 1, 2015	(₱126,819,299)	₱129,393,284	₱2,573,985
Net benefit income (cost) in consolidated statement of income:			
Current service cost	(13,361,771)	–	(13,361,771)
Net interest	(5,186,909)	5,292,185	105,276
	(18,548,680)	5,292,185	(13,256,495)
Benefits paid	26,416,340	(26,416,340)	–
Remeasurement gain (loss) in other comprehensive income (see Note 19):			
Return on plan assets (excluding amount included in net interest)	–	(1,320,394)	(1,320,394)
Actuarial changes arising from changes in financial assumptions	4,496,060	–	4,496,060
Actuarial changes arising from changes in demographic assumptions	(525,026)	–	(525,026)
Actuarial changes due to experience adjustment	4,041,459	–	4,041,459
	8,012,493	(1,320,394)	6,692,099
Contributions	–	16,046,175	16,046,175
At December 31, 2015	(₱110,939,146)	₱122,994,910	₱12,055,764

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

The actual return on plan assets amounted to ₱3.0 million, ₱3.4 million and ₱4.0 million in 2017, 2016 and 2015, respectively.

NLEX Corp. expects to contribute ₱17.9 million in 2018.

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

	2017		2016		2015	
	Amount	**Percentage**	Amount	Percentage	Amount	Percentage
Investments in:						
Government securities	**₱105,770,543**	**68.48%**	₱72,305,424	52.93%	₱76,878,679	62.51%
Debt securities	**28,200,145**	**18.26%**	34,170,670	25.01%	39,818,321	32.37%
UITFs	**17,440,754**	**11.29%**	3,811,041	2.79%	–	–
Equity securities	**1,648,000**	**1.07%**	1,625,600	1.19%	–	–
Cash and cash equivalents	**483**	–	21,900,203	16.03%	2,544,126	2.07%
Loans/notes receivable	–	–	–	–	2,600,000	2.11%
Receivables and others	**1,390,683**	**0.90%**	2,804,448	2.05%	1,153,784	0.94%
	₱154,450,608	**100.00%**	₱136,617,386	100.00%	₱122,994,910	100.00%

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

The plan assets consist of the following:

- Investments in government securities consist primarily of fixed-rate treasury notes and retail treasury bonds that bear interest ranging from 2.13% to 7.88% per annum and have maturities from 2018 to 2031.
- Investments in debt instruments consist of quoted, unsecured, long-term corporate bonds and subordinated notes, which bear interest ranging from 4.63% to 6.27% per annum and have maturities from 2019 to 2024.
- Investment in equity securities consist of non-voting perpetual preferred shares Series A of GTCHI amounting to ₱1.6 million as at December 31, 2017. Gain on change in the fair value of the equity securities amounted to ₱48,000 in 2017.
- As at December 31, 2017 and 2016, cash and cash equivalents include regular savings and time deposits, which bear interest of ranging 1.25% to 3.47% per annum.
- As at December 31, 2015, loans and notes receivables consist of unsecured subordinated note of an unaffiliated company amounting to ₱2.6 million, which bears interest of 6.73% per annum.
- Other financial assets held by the plan are primarily accrued interest income from cash and cash equivalents, investments in UITFs, and investments in debt securities.

The principal assumptions used to determine accrued retirement costs as at December 31, 2017, 2016 and 2015 are as follows:

	2017	2016	2015
Discount rate	**5.67%**	4.86%	4.59%
Salary increase rate	**7.00%**	7.00%	7.00%

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as at December 31, 2017 and 2016, assuming if all other assumptions were held constant:

			Amount
Discount rate			
2017	**(Actual + 1.00%)**	**6.67%**	**(₱141,838,834)**
	(Actual - 1.00%)	**4.67%**	**157,285,034**
2016	(Actual + 1.00%)	5.86%	126,890,914
	(Actual - 1.00%)	3.86%	(146,178,372)
Salary increase rate			
2017	**(Actual + 1.00%)**	**8.00%**	**₱156,651,368**
	(Actual - 1.00%)	**6.00%**	**(142,168,335)**
2016	(Actual + 1.00%)	8.00%	145,344,195
	(Actual - 1.00%)	6.00%	(127,335,282)

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

The average duration of the defined benefit obligation as at December 31, 2017 and 2016 is 14 years and 15 years, respectively.

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

	2017	2016
Less than 1 year	**₱58,997,935**	₱37,985,441
More than 1 year to 5 years	**28,206,997**	38,188,286
More than 5 years to 10 years	**86,822,503**	94,485,721
More than 10 years to 15 years	**128,014,395**	79,026,306
More than 15 years to 20 years	**72,982,410**	110,873,443
More than 20 years	**256,496,989**	290,308,553

24. **Share-based Payment Plan**

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

As amended, the overall limit on the number of shares which may be issued upon exercise of all options to be granted and yet to be exercised under the Plan must not exceed 5% of the shares in issue from time to time.

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

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

A summary of the Company's stock option activity received from MPIC and related information for the years ended December 31, 2017, 2016 and 2015 follows:

	2013 Grant	
	Number of Shares	**Exercise Price**
Outstanding at December 31, 2017, 2016 and 2015	4,000,000	₱4.60
Exercisable at:		
December 31, 2017	**4,000,000**	**₱4.60**
December 31, 2016	4,000,000	4.60

The weighted average remaining contractual life for the 2013 share options outstanding as at December 31, 2017 and 2016 is 0.8 year and 1.8 years, respectively.

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

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

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

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

ESOP expense, recognized by the Company in "Salaries and employee benefits" account under "General and administrative expenses" in the consolidated statements of income amounted to nil in 2017 and ₱1.2 million in 2016 and 2015, respectively (see Notes 22 and 23).

Carrying value of the ESOP, recognized under "Other reserve" in the consolidated statement of changes in equity, amounted to ₱13.0 million, ₱13.0 million and ₱11.8 million as at December 31, 2017, 2016 and 2015, respectively.

25. Interest Income

Sources of interest income follow:

	2017	2016	2015
Cash and cash equivalents (see Note 6)	**₱8,974,924**	₱20,600,148	₱19,108,129
AFS financial assets	**42,293,468**	40,128,011	53,776,152
Others	**75,764**	1,361,545	12,708
	₱51,344,156	₱62,089,704	₱72,896,989

26. Interest Expense and Other Finance Costs

Sources of interest expense and other finance costs follow:

	2017	2016	2015
Interest expense on:			
Loans (see Notes 17 and 30)	**₱470,433,620**	₱405,396,398	₱546,748,317
Provision for heavy maintenance (see Note 15)	**16,112,360**	13,355,182	11,939,460
Deferred lease income	**7,588**	7,148	–
Finance costs:			
Amortization of debt issue costs (see Note 17)	**21,439,355**	19,912,748	28,791,928
Commitment fee (see Note 17)	**12,141,577**	–	–
Lenders' fees	**2,979,762**	3,726,452	3,998,564
Bank charges	**257,463**	514,689	816,880
Loan prepayment fees (see Note 17)	–	–	30,000,000
	₱523,371,725	₱442,912,617	₱622,295,149

27. Income Taxes

The provision for (benefit from) income tax for the years ended December 31, 2017, 2016 and 2015 are as follows:

	2017	2016	2015
Current:			
Regular corporate income tax	**₱1,284,804,724**	₱1,140,798,359	₱949,581,001
Final tax on interest income from banks	**10,101,463**	12,008,044	14,145,924
	1,294,906,187	1,152,806,403	963,726,925
Deferred	**17,206,867**	(33,191,446)	(18,587,795)
	₱1,312,113,054	₱1,119,614,957	₱945,139,130

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

	2017	2016
Deferred tax assets:		
Service concession fees payable	**₱756,428,738**	₱700,774,869
Provision for heavy maintenance	**67,751,608**	85,657,300
LTIP payable	**58,032,694**	38,832,694
Accrued expenses and provisions	**16,733,310**	28,642,907
Unamortized past service cost	**5,915,176**	7,036,469
Allowance for doubtful accounts	**7,931,749**	7,481,577
Deferred lease income	**39,084**	42,341

(Forward)

	2017	2016
Fair value changes on AFS financial assets (see Note 12)	**₱–**	₱1,464,533
Unearned rental income	–	639,667
	912,832,359	870,572,357
Deferred tax liabilities:		
Present value of concession fees capitalized as service concession assets	**(756,428,738)**	(700,774,869)
Difference in amortization of service concession assets	**(641,896,621)**	(636,952,861)
Unamortized realized foreign exchange losses capitalized	**(17,811,727)**	(18,702,313)
Pension asset	**(1,671,207)**	(271,404)
Accrued rental income	**(649,237)**	–
Fair value changes on AFS financial assets (see Note 12)	**(43,141)**	–
Present value of rental deposits	**(41,177)**	(36,904)
Unrealized foreign exchange gain	**(17,100)**	(73,649)
	(1,418,558,948)	(1,356,812,000)
Deferred tax liabilities - net	**(₱505,726,589)**	(₱486,239,643)

Reflected in the consolidated balance sheet as follows:

	2017	2016
Deferred tax assets - net	**₱–**	₱645,104
Deferred tax liabilities - net	**(505,726,589)**	(486,884,747)
	(₱505,726,589)	(₱486,239,643)

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

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

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

	2017	2016	2015
Income before income tax	**₱5,956,353,268**	₱5,206,692,229	₱3,938,269,273
Income tax computed at statutory tax rate of 30%	**1,786,905,980**	1,562,007,669	1,181,480,782
Add (deduct) the tax effects of:			
Effect of optional standard deduction	**(475,867,879)**	(443,264,106)	(228,320,466)
Interest income already subjected to final tax	**(15,380,518)**	(18,218,447)	(21,865,284)

(Forward)

	2017	2016	2015
Nondeductible expenses and others	**₱6,354,008**	₱7,081,797	(₱301,826)
Final tax on interest income	**10,101,463**	12,008,044	14,145,924
Provision for income tax	**₱1,312,113,054**	₱1,119,614,957	₱945,139,130

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

The Company opted to avail of the OSD for the taxable years 2017, 2016 and 2015.

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

	2017	2016	2015
Balance at beginning of year	**₱486,239,643**	₱521,447,771	₱542,379,105
Provision for (benefit from) income tax during the year recognized in the consolidated statements of income	**17,206,867**	(33,191,446)	(18,587,795)
Income tax effect during the year recognized in the consolidated statements of comprehensive income (see Note 19)	**2,280,079**	(2,016,682)	(2,343,539)
Balance at end of year	**₱505,726,589**	₱486,239,643	₱521,447,771

28. **Significant Contracts and Commitments**

PNCC Fee

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

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

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

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

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

The Company recorded PNCC fee amounting to ₱571.5 million, ₱527.7 million and ₱482.1 million in 2017, 2016 and 2015, respectively (see Note 21).

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

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

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

On January 12, 2017, pursuant to the escrow agreement, NLEX Corp. exercised its option to reduce the escrow account balance to the new minimum balance of ₱669.0 million. The balance was further reduced to ₱321.0 million on May 12, 2017. The new minimum balance is the amount equal to the forecast of LCAL's maximum committed costs over any given seven (7) weeks from the relevant calculation date until the forecast completion date plus a reasonable contingency allowance as agreed upon by both parties.

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

As at December 31, 2017, the balance of the escrow account is presented as "Restricted Cash" under "Other current assets" (see Note 13).

NLEX Widening Project

On February 22, 2016, NLEX Corp. signed a construction contract with First Balfour, Inc. and Haidee Construction and Development Corporation / 4B Construction Corporation for the NLEX lane widening covering the construction of an additional lane on each direction in Segment 2, portion of Phase 1 of MNEP (from Sta. Rita to San Fernando), and the expansion of the carriageway in Segment 3, portion of Phase 1 of MNEP (from Dau to Sta. Ines) from one by two to two by two lanes. It also covers the lane configuration of Candaba Viaduct from 2 to 3 lanes. The total project cost including civil works, independent design checking services, detailed engineering design and financing cost amounted to ₱2.4 billion for both Segment 2 and Segment 3. On December 2, 2016, the Segment 3 of the NLEX widening project has started commercial operations. Segment 2 of the NLEX widening project was completed and opened for public use in May 2017.

Unapplied advances payment to First Balfour, Inc. amounted to ₱21.7 million and ₱195.5 million as at December 31, 2017 and 2016, respectively.

NLEX-SCTEX Integration Agreement
On February 5, 2015, NLEX Corp. and BCDA executed the Integration Agreement relating to the TCS integration of the NLEX-SCTEX that will involve the adoption of an advanced common transit ticket system which will make operations more efficient and enhance motorists' convenience. The total project cost including civil works, FOE design supply and installation, and independent design checker and certification engineer amounted to ₱786.1 million and completed in March 2016 (see Note 8).

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

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

Unearned rental income related to the advance rent amounted to nil and ₱2.1 million as at December 31, 2017 and 2016, respectively (see Note 14).

As at December 31, 2017 and 2016, the minimum lease receivables are as follows:

	2017	2016
Within one year	**₱3,375,000**	₱3,214,286
After one year but not more than five years	**19,581,456**	18,649,005
After five years	**30,763,846**	35,071,297
	₱53,720,302	₱56,934,588

NLEX Drive and Dine Project
In 2017, NVC entered into a contract agreement with R.D. Policarpio & Co., Inc. for the design and construction of the NLEX Drive and Dine Project (see Note 10).

On October 6, 2017, an advance payment was made by NVC to the contractor amounting to ₱29.9 million (inclusive of VAT). The NLEX Drive and Dine Project is estimated to commence operations on the third quarter of 2018.

29. Financial Risk Management Objectives and Policies

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

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

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is not significantly exposed to interest rate risk since the Company's interest-bearing financial instruments, particularly its long-term debt, bears fixed interest rates as at December 31, 2017 and 2016. In accordance with its interest rate management policy, the Company converted its outstanding loans into fixed-rate debt, effectively locking in the interest rate on its loan obligations and reducing exposure to interest rate fluctuations.

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

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

		December 31, 2017				
	Interest Rate	**Within the Year ('000)**	**2–3 Years ('000)**	**4–5 Years ('000)**	**More than 5 Years ('000)**	**Total ('000)**
Cash and cash equivalents[a]	0.10%–4.50%	**₱2,656,157**	**₱–**	**₱–**	**₱–**	**₱2,656,157**
AFS financial assets	2.13%–6.00%	**50,000**	**431,230**	**250,000**	**565,100**	**1,296,330**
Restricted cash[b]	1.00%	**321,000**	–	–	–	**321,000**
		₱3,027,157	**₱431,230**	**₱250,000**	**₱565,100**	**₱4,273,487**
Fixed-rate loans:						
Series A-7	7.27%	**₱3,957,617**	**₱–**	**₱–**	**₱–**	**₱3,957,617**
Series A-10	7.70%	**10,000**	**20,000**	**910,000**	–	**940,000**
Term-loan facility	5.00%–5.80%	**350,000**	**700,000**	**700,000**	**6,900,000**	**8,650,000**
Fixed-rate bonds	5.07%–5.50%	–	–	**4,400,000**	**2,600,000**	**7,000,000**
		₱4,317,617	**₱720,000**	**₱6,010,000**	**₱9,500,000**	**₱20,547,617**

[a] *Excluding cash on hand*
[b] *Included under "Other current assets" account in the consolidated balance sheets*

		December 31, 2016				
	Interest Rate	Within the Year ('000)	2–3 Years ('000)	4–5 Years ('000)	More than 5 Years ('000)	Total ('000)
Cash and cash equivalents[a]	0.10%–4.00%	₱331,603	₱–	₱–	₱–	₱331,603
AFS financial assets	1.63%–6.00%	–	311,230	520,000	565,100	1,396,330
Restricted cash[b]	1.00%	–	889,000	–	–	889,000
		₱331,603	₱1,200,230	₱520,000	₱565,100	₱2,616,933
Fixed-rate loans:						
Series A-7	7.27%	₱42,102	₱3,957,617	₱–	₱–	₱3,999,719
Series A-10	7.70%	10,000	20,000	920,000	–	950,000
Term-loan facility	5.00%–5.80%	250,000	500,000	500,000	5,750,000	7,000,000
Fixed-rate bonds	5.07%–5.50%	–	–	4,400,000	2,600,000	7,000,000
		₱302,102	₱4,477,617	₱5,820,000	₱8,350,000	₱18,949,719

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

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

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

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

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

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

The Company's credit risk is concentrated on AFS financial assets (including UITFs) covering at least 59% and 49% of the Company's financial assets, except cash and cash equivalents, as at December 31, 2017 and 2016, respectively. The table below shows the maximum exposure to credit risk for the Company's financial assets, without taking account of any collateral, credit enhancements and other credit risk mitigation techniques.

	December 31, 2017	December 31, 2016
Cash and cash equivalents[(a)]	**₱2,656,156,532**	₱331,602,950
UITFs	**217,749,970**	82,407,389
Receivables[(b)]	**704,398,236**	577,859,970
AFS financial assets	**1,254,406,932**	1,353,667,695
Refundable deposits[(c)]	**3,694,561**	3,694,561
Restricted cash[(d)]	**321,000,000**	889,000,000
Total credit risk exposure	**₱5,157,406,231**	₱3,238,232,565

[(a)] *Excluding cash on hand.*
[(b)] *Excluding advances to officers and employees.*
[(c)] *Included in "Other noncurrent assets" account in the consolidated balance sheets.*
[(d)] *Included in "Other current assets" and "Other non-current assets" account in the consolidated balance sheets in 2017 and 2016, respectively.*

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

As at December 31, 2017 and 2016, the aging analysis of past due but not impaired trade receivables follows. All other financial assets of the Company are neither past due nor impaired as at December 31, 2017 and 2016.

	Neither Past	Past Due but not Impaired						
Year	Due nor Impaired	<31 Days	31–60 Days	61–90 Days	91–180 Days	Over 180 Days	Total	Total
2017	**₱327,497,430**	**₱45,299,302**	**₱9,262,264**	**₱11,771,623**	**₱35,963,493**	**₱42,749,048**	**₱145,045,730**	**₱472,543,160**
2016	261,417,478	11,135,229	41,126,262	10,338,069	8,075,166	28,644,523	99,319,249	360,736,727

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

	December 31, 2017			
	Neither Past Due nor Impaired - High-grade	**Past Due but not Impaired**	**Impaired**	**Total**
Cash and cash equivalents[a]	**₱2,656,156,532**	**₱–**	**₱–**	**₱2,656,156,532**
UITFs	**217,749,970**	**–**	**–**	**217,749,970**
Receivables:				
Trade receivables	**327,497,430**	**145,045,730**	**3,204,597**	**475,747,757**
Advances to DPWH	**179,535,742**	**–**	**–**	**179,535,742**
Interest receivables	**20,003,187**	**–**	**–**	**20,003,187**
Due from related parties	**5,982,581**	**–**	**–**	**5,982,581**
Other receivables	**28,506,946**	**–**	**23,234,568**	**51,741,514**
AFS financial assets	**1,254,406,932**	**–**	**–**	**1,254,406,932**
Refundable deposits[b]	**3,694,561**	**–**	**–**	**3,694,561**
Restricted cash[c]	**321,000,000**	**–**	**–**	**321,000,000**
	₱5,014,533,881	**₱145,045,730**	**₱26,439,165**	**₱5,186,018,776**

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

	December 31, 2016			
	Neither Past Due nor Impaired - High-grade	Past Due but not Impaired	Impaired	Total
Cash and cash equivalents[a]	₱331,602,950	₱–	₱–	₱331,602,950
UITFs	82,407,389	–	–	82,407,389
Receivables:				
Trade receivables	261,417,478	99,319,249	3,053,951	363,790,678
Advances to DPWH	180,361,049	–	–	180,361,049
Interest receivables	14,307,194	–	–	14,307,194
Due from related parties	3,812,414	–	–	3,812,414
Other receivables	18,642,586	–	21,884,639	40,527,225
AFS financial assets	1,353,667,695	–	–	1,353,667,695
Refundable deposits[b]	3,694,561	–	–	3,694,561
Restricted cash[b]	889,000,000	–	–	889,000,000
	₱3,138,913,316	₱99,319,249	₱24,938,590	₱3,263,171,155

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

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

Foreign Currency Risk
Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. As at December 31, 2017 and 2016, the Company is not significantly exposed to foreign currency risk. The minimal exposure to foreign currency risk relates to the Company's foreign currency denominated cash and cash equivalents and accounts payables as at December 31, 2017 and 2016.

Liquidity Risk
Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. The Company is not exposed to significant liquidity risk because of the nature of its operations which provides daily inflows of cash from toll collections. The Company is able to build up sufficient cash from operating revenues prior to the maturity of its payment obligations. The Company arranged additional short-term lines to boost its ability to meet short-term liquidity needs. The Company has short-term credit lines amounting to ₱14,872.0 million and ₱12,750.0 million as at December 31, 2017 and 2016, respectively, and cash and cash equivalents amounting to ₱2,715.2 million and ₱390.0 million as at December 31, 2017 and 2016, respectively, that are allocated to meet the Company's short-term liquidity needs.

The tables below summarize the maturity profile of the Company's financial assets and financial liabilities as at December 31, 2017 and 2016 based on undiscounted payments:

	December 31, 2017				
	Within the Year	**2–3 Years**	**4–5 Years**	**More than 5 Years**	**Total**
Financial Assets					
Cash and cash equivalents	**₱2,715,210,842**	**₱–**	**₱–**	**₱–**	**₱2,715,210,842**
UITFs	**217,749,970**	**–**	**–**	**–**	**217,749,970**
Receivables [(a)]	**710,380,817**	**–**	**–**	**–**	**710,380,817**
AFS financial assets [(b)]	**100,355,867**	**527,394,473**	**273,388,981**	**597,648,190**	**1,498,787,511**
Refundable deposits	**–**	**–**	**–**	**3,694,561**	**3,694,561**
Restricted cash	**321,000,000**	**–**	**–**	**–**	**321,000,000**
	₱4,064,697,496	**₱527,394,473**	**₱273,388,981**	**₱601,342,751**	**₱5,466,823,701**
Financial Liabilities					
Accounts payable and other current liabilities [(c)]	**₱3,020,478,031**	**₱–**	**₱–**	**₱–**	**₱3,020,478,031**
Dividends payable	**1,840,000,000**	**–**	**–**	**–**	**1,840,000,000**
Long-term debt [(d)]	**5,077,667,726**	**2,483,606,168**	**7,180,023,115**	**10,990,588,136**	**25,731,885,145**
Service concession fees payable	**–**	**–**	**486,309,163**	**8,024,101,186**	**8,510,410,349**
Rental deposits	**–**	**–**	**–**	**267,857**	**267,857**
	₱9,938,145,757	**₱2,483,606,168**	**₱7,666,332,278**	**₱19,014,957,179**	**₱39,103,041,382**

[(a)] *Excluding advances to officers and employees.*
[(b)] *Including interest to be received.*
[(c)] *Excluding statutory liabilities, unearned toll revenues and unearned rental income.*
[(d)] *Including interest to be paid.*

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

[(a)] *Excluding advances to officers and employees.*
[(b)] *Including interest to be received.*
[(c)] *Excluding statutory liabilities, unearned toll revenues and unearned rental income.*
[(d)] *Including interest to be paid.*

Capital Management

The primary objective of the Company's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximize shareholder value while complying with the financial covenants required by the lenders. These loan covenants were overhauled in April 2011 and were amended in 2015. Under the loan agreements, NLEX Corp. is required a Maintenance Debt Service Coverage Ratio (DSCR) of not less than 1.15 times and maintain a Debt to Equity Ratio not exceeding 3.0 times until the loan maturity. For the Fixed Rate Bonds, the Company is required to maintain a Debt to Equity Ratio of not exceeding 3.0 times for the first three years after the date of the loan agreement and not exceeding 2.5 times after such period. The loan agreement provides that NLEX Corp. may incur new loans or declare dividends as long as the Pro-forma DSCR for the relevant year is not less than 1.3 times.

The Company's long-term debt to equity ratio stood at 1.92 times and 1.96 times for 2017 and 2016, respectively, indicating that the Company has the capacity to incur additional long-term debt to build up its capital.

	2017	2016
Long-term debt	**₱20,440,596,145**	₱18,822,662,489
Total equity	**10,655,734,083**	9,611,617,735
Total capital	**₱31,096,330,228**	₱28,434,280,224
Debt to equity ratio	**1.92 times**	1.96 times

The Company continuously evaluates whether its capital structure can support its business strategy. No changes were made in the objectives, policies or processes for managing capital during the years ended December 31, 2017 and 2016.

30. **Financial Assets and Financial Liabilities**

Fair Values

A comparison of carrying and fair values of all of the Company's financial instruments, other than those with carrying amounts that are reasonable approximate of fair values, by category as at December 31, 2017 and 2016 follows:

	2017		2016	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Financial Assets				
AFS financial assets:				
UITFs	**₱217,749,970**	**₱217,749,970**	₱82,407,389	₱82,407,389
Investment in treasury bonds and notes	**701,530,432**	**701,530,432**	802,356,695	802,356,695
Investment in corporate bonds	**453,879,000**	**453,879,000**	453,095,000	453,095,000
Investment in LTNCD	**98,997,500**	**98,997,500**	98,216,000	98,216,000
	₱1,472,156,902	**₱1,472,156,902**	₱1,436,075,084	₱1,436,075,084
Financial Liabilities				
Other financial liabilities:				
Long-term debt	**₱20,440,596,145**	**₱20,246,309,035**	₱18,822,662,489	₱19,049,957,430
Service concession fees payable	**2,521,429,127**	**2,448,647,138**	2,335,916,229	2,450,579,759
Rental deposits	**124,033**	**120,076**	123,013	117,192
	₱22,962,149,305	**₱22,695,076,249**	₱21,158,701,731	₱21,500,654,381

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

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

AFS Financial Assets

The fair value of investment in treasury bonds and notes, corporate bonds and LTNCD is based on the quoted market price of the financial instruments as at December 31, 2017 and 2016. The fair value of the UITF is based on the estimated fair market value of the assets of the fund based on prices supplied by independent sources as at December 31, 2017 and 2016.

Long-term Debt

For fixed peso-denominated notes and loans, except the fixed-rate bonds where the fair value is based on its quoted market price as at December 31, 2017 and 2016, estimated fair value is based on the discounted value of future cash flows using the prevailing peso interest rates. In 2017 and 2016, the prevailing peso interest rates ranged from 3.6% to 7.2% and 3.0% to 6.4%, respectively.

Service Concession Fee Payable

The estimated fair value of the service concession fees payable is based on the discounted value of future cash flows using the prevailing peso interest rates. In 2017 and 2016, the prevailing peso interest rates ranged from 4.5% to 7.2% and 4.0% to 6.9%, respectively.

Rental Deposits

The estimated fair value of the rental deposits is based on the discounted value of future cash flow using the prevailing peso interest rates. In 2017 and 2016, the prevailing peso interest is 6.7% and 6.4%, respectively.

Fair Value Hierarchy

As at December 31, 2017 and 2016, the Company held the following financial instruments measured at fair value:

	2017	**Level 1**	**Level 2**	**Level 3**
Assets measured at fair value				
AFS financial assets:				
UITFs	**₱217,749,970**	**₱–**	**₱217,749,970**	**₱–**
Investment in treasury bonds and notes	**701,530,432**	**169,432,400**	**532,098,032**	**–**
Investment in corporate bonds	**453,879,000**	**453,879,000**	**–**	**–**
Investment in LTNCD	**98,997,500**	**98,997,500**	**–**	**–**
	₱1,472,156,902	**₱722,308,900**	**₱749,848,002**	**₱–**
Liabilities for which fair values are disclosed				
Other financial liabilities:				
Long-term debt	**₱20,246,309,035**	**₱7,008,657,340**	**₱13,237,651,695**	**₱–**
Service concession fees payable	**2,448,647,138**	**–**	**–**	**2,448,647,138**
Rental deposits	**120,076**	**–**	**–**	**120,076**
	₱22,695,075,702	**₱7,008,657,340**	**₱13,237,651,695**	**₱2,448,767,214**

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

During 2016, portions of the investment in treasury bonds and notes amounting to ₱524.0 million were transferred from Level 1 to Level 2.

Derivative Instruments

PNB Term Loan

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

The swap was designated as cash flow hedge at trade date. As at June 30, 2011, the effectiveness ratio was only 58.05% and the hedging relationship failed to meet the 80% to 125% hedge effectiveness criterion of PAS 39. As a result, the hedge was de-designated by the Company. The ₱39.0 million (gross of ₱10.7 million tax) deferred in equity representing the negative fair value change of the swap up to March 31, 2011 (the last testing date when the hedge was still effective) is being amortized over the term of the hedged loan and recognized under "Interest expense and other finance costs" account. As at December 31, 2017 and 2016, the unamortized amount deferred in equity amounted to nil (after amortization of ₱3.8 million in 2015).

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

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

Hedge Effectiveness of Cash Flow Hedges. The movement of the Company's cumulative translation adjustments on cash flow hedges under "Other comprehensive income (loss) reserve" account for the year ended December 31, 2015 follows (see Note 19):

	2015
Balance at beginning of year	(₱3,775,752)
Transferred to consolidated statement of income:	
Interest expense*	3,775,752
Balance at end of year	–
Tax effects of items taken directly to equity	–
	₱–

* *Included in "Interest expense on loans" under "Interest expense and other finance costs" account (see Note 26).*

31. **Reclassification**

Certain accounts in the 2016 and 2015 consolidated financial statements and supporting note disclosures have been reclassified to conform to the presentation used in the consolidated balance sheets as at December 31, 2017. This reclassification did not affect the total assets, total liabilities and total equity in the consolidated balance sheets as at December 31, 2016 and 2015 and the total comprehensive income in the consolidated statements of comprehensive income for the years ended December 31, 2016 and 2015.

The following are the effects of the reclassification in the 2016 consolidated balance sheet:

Account	As Previously Reported	Reclassification	As Reclassified
Other current assets	₱969,432,484	(₱268,706,650)	₱700,725,834
Advances to contractors and other non-current assets	940,551,082	268,706,650	1,209,257,732

Advances to contractors and consultants amounting to ₱268.7 million presented under "Other current assets" in the 2016 consolidated financial statements and supporting notes disclosures have been reclassified to "Advances to contractors and other noncurrent assets".

The following are the effects of the reclassification in the 2016 and 2015 consolidated statements of comprehensive income:

	Account	As Previously Reported	Reclassification	As Reclassified
2016	Professional fees	₱105,085,770	(₱11,936,599)	₱93,149,171
	Management fees	60,702,628	11,936,599	72,639,227
2015	Professional fees	50,619,790	(11,936,599)	38,683,191
	Management fees	60,702,628	11,936,599	72,639,227

Management fees due to MPTNC amounting to ₱11.9 million presented under "Professional fees" in the 2016 consolidated financial statements and supporting notes disclosures have been reclassified to "Management fees" (see Note 22).

32. Contingencies and Others

a. VAT

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

- The BIR issued a Formal Letter of Demand on March 16, 2009 requesting NLEX Corp. to pay deficiency VAT plus penalties amounting to ₱1,010.5 million for taxable year 2006.

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

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

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

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

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

b. RPT

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

In September 2013, NLEX Corp. received notices of realty tax delinquencies for the years 2006 to 2012 and 2013 issued by the Provincial Treasurer of Bulacan stating that if NLEX Corp. fails to pay or remit the alleged delinquent taxes, the remedies provided for under the law for the collection of delinquent taxes shall be applied to enforce collection. In September 27, 2013, the Bureau of Local Government Finance of the Department of Finance (DOF-BLGF) wrote a letter to the Province of Bulacan advising it to hold in abeyance any further course of action pertaining to the alleged real property tax delinquency. In October 2013, the Provincial Treasurer of Bulacan has respected the directive from the DOF-BLGF to hold the enforcement of any collection remedies in abeyance. In January 2017, the Provincial Treasurer of Bulacan issued a notice of realty tax delinquencies for the years 2006 to 2017 stating that it could apply the remedies provided under the law for the collection of delinquent taxes.

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

c. Toll Rate Adjustments

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

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

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

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

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

In August 2015, NLEX Corp. wrote the ROP, acting by and through the TRB, a Final Demand for Compensation based on overdue 2013 and 2015 Toll Rate Adjustments (Final Demand). In the letter, NLEX Corp. stated that the ROP's/TRB's inexcusable refusal to act on the 2012 Petition and 2014 Petition is in total disregard and a culpable violation of applicable laws and contractual provisions on the matter, to the great prejudice of NLEX Corp., which has continuously relied in good faith on such contractual provisions as well as on the timely and proper performance of the ROP's/TRB's legal and contractual duties.

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

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

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

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

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

On 11 December 2017, NLEX Corp. submitted its Updated Statement of Claim.

On December 27, 2017, Respondent ROP/TRB filed its request for bifurcation, which was accordingly granted, i.e., the proceedings were divided into two parts: first, the issue on whether or not the tribunal has jurisdiction over NLEX Corp.'s claim, and second, the main merits of the claim as set forth in the Updated Statement of Claim.

The ROP/TRB has submitted its Jurisdictional Objections, to which NLEX Corp. responded with its Opposition. The tribunal has set the early part of February 2018 for resolution of the Respondent ROP's/TRB's Jurisdictional Objections.

As of December 31, 2017 and 2016, total amount of compensation for TRB's inaction on lawful toll rate adjustments which were due since January 1, 2013 for NLEX, is approximately at ₱5.7 billion and ₱4.3 billion (VAT-exclusive), respectively.

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

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

NLEX Corp. filed its comment praying that the Petition be denied. The BCDA, through the Office of the Government Corporate Counsel, and the Executive Secretary, through the OSG, also filed their respective Comment praying that the Petition be denied due course and dismissed for lack of merit. The case is pending as at February 14, 2018.

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

33. Supplemental Cash Flow Information

Changes in liabilities arising from financing activities

			Non-cash changes			
	January 1, 2017	Cash flows	Amortization of DIC	Interest accretion	Other	December 31, 2017
Current portion of long-term debt (see Note 17)	₱278,737,740	(₱402,102,309)	₱23,740,348	₱–	₱4,404,208,838	₱4,304,208,838
Long-term debt-net of current portion (see Note 17)	18,543,924,749	1,985,788,530*	10,507,087	–	(4,404,208,838)	16,136,387,307
Interest payable	24,517,438	(482,015,091)	–	–	485,812,422	28,314,769
Dividends payable (see Note 19)	–	(1,760,000,000)	–	–	3,600,000,000	1,840,000,000
Service concession fees payable (see Note 18)	2,335,916,229	–	–	185,512,898	–	2,521,429,127
Total liabilities from financing activities	₱21,183,096,156	(₱658,328,870)	₱34,247,435	₱185,512,898	₱4,085,812,422	₱24,830,340,041

**Proceeds from loans of ₱2,000.0 million net of debt issue costs of ₱14.2 million*

The 'Other' column includes the effect of reclassification of noncurrent portion of interest-bearing loans and borrowings, the accrual of cash dividends that were not yet paid at year-end, and the interest expense on interest-bearing loans and borrowings.

Non-cash investing activities

The following table shows the Company's significant non-cash investing activities and corresponding transaction amounts for the years ended December 31, 2017 and 2016:

	2017	2016
Additions to service concession asset and service concession fees payable pertaining to present value of concession fees recognized on effective date of the concession agreement (see Notes 8 and 18)	**₱–**	₱2,318,800,856
Additions to service concession asset and service concession fees payable pertaining to accretion of service concession fees payable (see Notes 8 and 18)	**185,512,898**	17,115,373
Additions to service concession asset pertaining to the transfer from deferred project cost (see Note 8)	–	132,205,353

34. Events after the Reporting Period

On February 14, 2018, the Company's Board of the Directors approved the shelf registration, public offer and issuance of fixed rate Philippine Peso-denominated bonds (the "Bonds") with an aggregate principal amount of up to ₱25.0 billion. The Bonds may be issued in one or more tranches within the shelf period, under such terms and conditions as may be determined by Company.

As at February 14, 2018, the Company is still in the process of finalizing the details of the issuance and shelf registration of the bonds.

35. Standards Issued but Not Yet Effective

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

Effective beginning on or after January 1, 2018

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

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

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

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

- 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.

  Classification and measurement
  Debt securities currently held as AFS under PAS 39 are expected to be classified as at fair value through other comprehensive income (FVOCI) as these are held both to collect contractual cash flows and to sell. Receivables are held to collect contractual cash flows and thus qualify for amortized cost measurement. However, the Company is still finalizing its assessment on whether the contractual cash flows of these debt financial assets are solely payments of principal and interest (SPPI) to be able to conclude that these instruments are eligible for amortized cost or FVOCI measurement. The investments in UITF are going to be reclassified from available-for-sale to financial assets at fair value though profit or loss. They do not meet the criteria to be classified as at amortized cost in accordance with PFRS 9 since their cash flows do not represent solely payments of principal and interest.

  Impairment
  The Company is currently assessing the impact of PFRS 9 on impairment.

  Hedge accounting
  The Company has no existing hedge relationships as at December 31, 2017.

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

  The amendments address concerns arising from implementing PFRS 9, the new financial instruments standard before implementing the new insurance contracts standard. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying PFRS 9 and an overlay approach. The temporary exemption is first applied for reporting periods beginning on or after January 1, 2018. An entity may elect the overlay approach when it first applies PFRS 9 and apply that approach retrospectively to financial assets designated on transition to PFRS 9. The entity restates comparative information reflecting the overlay approach if, and only if, the entity restates comparative information when applying PFRS 9.

  The amendments are not applicable to the Company since the Company has no activities that are predominantly connected with insurance or issue insurance contracts.

- 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.

  Since the Company derives substantially all of its revenue from toll collections from the users of the NLEX and SCTEX, the Company believes that there is no material impact on the consolidated financial statements upon adoption of the standard.

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

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

  The amendments should be applied retrospectively, with earlier application permitted.

  The amendments are not applicable to the Company since the Company has no investments in associates or joint ventures.

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

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

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

  The interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. Entities may apply the amendments on a fully retrospective basis. Alternatively, an entity may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognized on or after the beginning of the reporting period in which the entity first applies the interpretation or the beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

Since the Company's current practice is in line with the clarifications issued, the Company does not expect any effect on its consolidated financial statements upon adoption of this interpretation.

Effective beginning on or after January 1, 2019

- Amendments to PFRS 9, *Prepayment Features with Negative Compensation*

  The amendments to PFRS 9 allow debt instruments with negative compensation prepayment features to be measured at amortized cost or fair value through other comprehensive income. An entity shall apply these amendments for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted.

- PFRS 16, *Leases*

  PFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under PAS 17, *Leases*. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

  Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

  Lessor accounting under PFRS 16 is substantially unchanged from today's accounting under PAS 17. Lessors will continue to classify all leases using the same classification principle as in PAS 17 and distinguish between two types of leases: operating and finance leases.

  PFRS 16 also requires lessees and lessors to make more extensive disclosures than under PAS 17.

  Early application is permitted, but not before an entity applies PFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

  The Company is currently assessing the impact of adopting PFRS 16.

- Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*

  The amendments to PAS 28 clarify that entities should account for long-term interests in an associate or joint venture to which the equity method is not applied using PFRS 9. An entity shall apply these amendments for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted.

- Philippine Interpretation IFRIC 23, *Uncertainty over Income Tax Treatments*

  The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12 and does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

  The interpretation specifically addresses the following:
  - Whether an entity considers uncertain tax treatments separately
  - The assumptions an entity makes about the examination of tax treatments by taxation authorities
  - How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
  - How an entity considers changes in facts and circumstances

  An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed.

  The Company is currently assessing the impact of adopting this interpretation.

Deferred effectivity

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

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

  On January 13, 2016, the Financial Reporting Standards Council deferred the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board (IASB) completes its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.