Cavitex Infrastructure Corp.

Financial Statements
December 31, 2017 and 2016

and

Independent Auditor's Report

A member firm of Ernst & Young Global Limited

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Building a better working world

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

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

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

INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors
Cavitex Infrastructure Corp.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Cavitex Infrastructure Corp. (the Company), which comprise the statements of financial position as at December 31, 2017 and 2016, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

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

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

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in Note 30 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of Cavitex Infrastructure Corp. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

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. 08-001998-108-2018,
February 14, 2018, valid until February 13, 2021
PTR No. 6621229, January 9, 2018, Makati City

February 14, 2018

CAVITEX INFRASTRUCTURE CORP.
STATEMENTS OF FINANCIAL POSITION

	December 31	
	2017	2016
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 5 and 27)	**₱29,921,080**	₱187,430,931
Restricted cash (Notes 5, 16 and 27)	**334,691,521**	412,912,763
Receivables (Notes 6, 24 and 27)	**85,457,109**	286,702,897
Available-for-sale financial assets (Notes 7, 27 and 28)	**526,849,424**	363,590,796
Prepaid expenses and other current assets (Note 8)	**41,622,005**	15,607,513
Total Current Assets	**1,018,541,139**	1,266,244,900
Noncurrent Assets		
Service concession asset (Note 9)	**7,336,761,650**	7,407,323,614
Investment in preferred shares (Notes 10, 16 and 27)	–	2,745,000,000
Property and equipment (Note 11)	**101,198,125**	78,945,664
Advances to contractors (Note 12)	**275,236,253**	64,487,310
Other noncurrent assets (Notes 14 and 27)	**169,818,958**	165,613,610
Total Noncurrent Assets	**7,883,014,986**	10,461,370,198
	₱8,901,556,125	₱11,727,615,098
LIABILITIES AND EQUITY		
Current Liabilities		
Accrued expenses and other current liabilities (Notes 15, 24 and 27)	**502,934,765**	₱390,270,011
Current portion of:		
Long-term debt (Notes 16, 27 and 28)	**274,906,784**	122,943,859
Obligation to a special purpose entity (Notes 13, 27 and 28)	**–**	1,288,615,761
Provisions (Notes 17 and 27)	**164,537,407**	58,935,535
Retention sum and contractors payable (Notes 12 and 27)	**96,184,527**	96,017,027
Income tax payable	**33,953,743**	27,476,330
Long-term incentive plan (Note 17)	**12,300,000**	–
Total Current Liabilities	**1,084,817,226**	1,984,258,523
Noncurrent Liabilities		
Long-term debt - net of current portion (Notes 16, 27 and 28)	**5,089,325,049**	5,364,231,834
Deposit for future stock subscription (Note 24)	**200,000,000**	–
Provisions (Notes 17 and 27)	**155,482,235**	119,491,971
Deferred tax liabilities - net (Note 25)	**140,904,407**	143,528,789
Obligation to a special purpose entity - net of current portion (Notes 13, 27 and 28)	–	1,992,146,707
Accrued retirement costs (Note 22)	–	3,160,542
Other noncurrent liabilities (Note 18)	**256,700,000**	263,618,325
Total Noncurrent Liabilities	**5,842,411,691**	7,886,178,168
Total Liabilities	**6,927,228,917**	9,870,436,691
Equity		
Capital stock (Note 19)	**1,228,375,000**	1,228,375,000
Additional paid-in capital	**391,500,000**	391,500,000
Retained earnings	**352,950,896**	235,496,464
Other comprehensive income reserve - net (Note 19)	**1,501,312**	1,806,943
Total Equity	**1,974,327,208**	1,857,178,407
	₱8,901,556,125	₱11,727,615,098

See accompanying Notes to Financial Statements.

CAVITEX INFRASTRUCTURE CORP.
STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2017	2016
TOLL REVENUES (Notes 13 and 26)	**₱1,520,921,587**	₱1,363,582,946
COST OF SERVICES (Notes 20 and 24)	**(496,130,940)**	(385,252,305)
GROSS PROFIT	**1,024,790,647**	978,330,641
CONSTRUCTION REVENUE (Note 9)	**88,027,845**	32,860,171
CONSTRUCTION COSTS (Note 9)	**(88,027,845)**	(32,860,171)
GENERAL AND ADMINISTRATIVE EXPENSES (Notes 21 and 24)	**(414,440,383)**	(167,571,789)
INTEREST EXPENSE (Note 16)	**(401,472,525)**	(409,343,114)
INTEREST INCOME (Notes 5, 6 and 14)	**9,893,402**	17,220,419
DIVIDEND INCOME (Note 10)	**83,434,194**	262,860,727
FOREIGN EXCHANGE GAIN (LOSS) – net	**1,190,835**	(29,480,771)
OTHER CHARGES (Note 13)	**(152,753,815)**	(357,293,816)
OTHER INCOME (Note 23)	**26,274,829**	24,686,948
INCOME BEFORE INCOME TAX	**176,917,184**	319,409,245
PROVISION FOR INCOME TAX (Note 25)	**(59,462,752)**	(110,678,606)
NET INCOME	**117,454,432**	208,730,639
OTHER COMPREHENSIVE INCOME (LOSS)		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Unrealized gain on available-for-sale financial asset (Notes 7 and 19)	**6,528,149**	1,886,104
Realized gain transferred to profit or loss (Notes 7 and 19)	**(6,269,521)**	–
Income tax effect (Notes 7 and 19)	**(643,420)**	–
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:		
Remeasurement gains (losses) on retirement plan - net (Notes 19 and 22)	**79,161**	(333,421)
	(305,631)	1,552,683
TOTAL COMPREHENSIVE INCOME	**₱117,148,801**	₱210,283,322

See accompanying Notes to Financial Statements.

CAVITEX INFRASTRUCTURE CORP.

STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	Capital Stock (Note 19)	**Additional Paid-in Capital**	**Retained Earnings**	**Other Comprehensive Income Reserve - net** (Note 19)	**Total Equity**
As at January 1, 2017	**₱1,228,375,000**	**₱391,500,000**	**₱235,496,464**	**₱1,806,943**	**₱1,857,178,407**
Net income	**–**	**–**	**117,454,432**	**–**	**117,454,432**
Other comprehensive loss – net	**–**	**–**	**–**	**(305,631)**	**(305,631)**
Total comprehensive loss for the year	**–**	**–**	**117,454,432**	**(305,631)**	**117,148,801**
As at December 31, 2017	**₱1,228,375,000**	**₱391,500,000**	**₱352,950,896**	**₱1,501,312**	**₱1,974,327,208**
As at January 1, 2016	₱1,228,375,000	₱391,500,000	₱26,765,825	₱254,260	₱1,646,895,085
Net loss	–	–	208,730,639	–	208,730,639
Other comprehensive income – net	–	–	–	1,552,683	1,552,683
Total comprehensive income for the year	–	–	208,730,639	1,552,683	210,283,322
As at December 31, 2016	₱1,228,375,000	₱391,500,000	₱235,496,464	₱1,806,943	₱1,857,178,407

See accompanying Notes to Financial Statements.

CAVITEX INFRASTRUCTURE CORP.
STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱176,917,184**	₱319,409,245
Adjustments for:		
Interest expense (Note 16)	**401,472,525**	409,343,114
Depreciation and amortization (Notes 9, 11, 14, 20 and 21)	**184,565,661**	153,777,615
Other charges (Note 13)	**152,753,815**	357,293,816
Dividend income (Note 10)	**(83,434,194)**	(262,860,727)
Interest income (Notes 5, 6 and 14)	**(9,893,402)**	(17,220,419)
Gain on sale of AFS financial assets (Notes 7 and 19)	**(6,269,521)**	–
Provision for doubtful accounts (Note 14)	**2,284,226**	–
Retirement expense (Note 22)	**495,831**	1,142,073
Unrealized foreign exchange loss – net	**–**	28,622,162
Operating income before changes in working capital	**818,892,125**	989,506,879
Decrease (increase) in:		
Restricted cash	**78,221,242**	(22,319,754)
Receivables	**192,522,583**	65,606,759
Prepaid expenses and other current assets	**(19,331,199)**	4,003,912
Increase (decrease) in:		
Accrued expenses and other current liabilities	**112,169,135**	14,143,061
Provisions	**146,973,811**	4,669,613
Retention sum and contractors payable	**167,500**	(3,360,218)
Net cash generated from operations	**1,329,615,197**	1,052,250,252
Interest and other charges paid	**(503,466,965)**	(733,033,771)
Interest received	**7,354,277**	17,220,419
Income taxes paid	**(49,696,340)**	(39,051,599)
Net cash flows from operating activities	**783,806,169**	297,385,301
CASH FLOWS FROM INVESTING ACTIVITIES		
Dividends received	**89,618,274**	262,860,727
Decrease (increase) in other noncurrent assets (Note 29)	**(223,493,217)**	2,569,794
Additions to:		
Property and equipment (Note 11)	**(45,192,701)**	(47,938,312)
Service concession asset (Notes 9 and 29)	**(88,027,845)**	(27,120,152)
Computer software (Note 14)	**(4,976,682)**	(1,013,382)
Investment in AFS (Note 7)	**(1,247,500,000)**	(361,704,692)
Proceeds from:		
Redemption of investment in preferred shares (Note 10)	**2,745,000,000**	1,143,750,000
Disposal of available for sale investment (Note 7)	**1,090,769,521**	–
Net cash flows from investing activities	**2,316,197,350**	971,403,983

(Forward)

	Years Ended December 31	
	2017	2016
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from:		
Deposit for future stock subscription (Note 24)	**₱200,000,000**	₱–
Availment of short-term debt (Note 29)	**600,000,000**	–
Payments of:		
Obligation to a special purpose entity (Notes 13 and 29)	**(3,305,013,370)**	(1,240,513,192)
Long-term debt (Notes 16 and 29)	**(152,500,000)**	(152,500,000)
Short-term debt (Note 29)	**(600,000,000)**	–
Increase in other noncurrent liabilities (Notes 18 and 29)	–	6,918,325
Net cash flows used in financing activities	**(3,257,513,370)**	(1,386,094,867)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(157,509,851)**	(117,305,583)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**187,430,931**	304,736,514
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 5)	**₱29,921,080**	₱187,430,931

See accompanying Notes to Financial Statements.

CAVITEX INFRASTRUCTURE CORP.
NOTES TO FINANCIAL STATEMENTS

1. General Information

Corporate Information
Cavitex Infrastructure Corp. (the Company) was incorporated on October 9, 1995 primarily to undertake the design, construction and financing of the Manila-Cavite Toll Expressway Project (MCTEP or the Project) in accordance with the terms of the concession granted by the Republic of the Philippines (the Grantor) and to receive all revenues arising from the operation thereof. The Company was originally organized to represent United Engineers (Malaysia) Berhad (UEM) and Majlis Amanah Rakyat (MARA), which entered into a Joint Venture Agreement (JVA) with the Philippine Reclamation Authority (PRA, formerly Public Estates Authority or PEA). On December 15, 1999, Cavitex Holdings, Inc. (CHI) and its major stockholder acquired full ownership of the Company from UEM and assumed the advances made by UEM to the Company.

As further discussed in Note 26, CHI, Metro Pacific Tollways Corporation (MPTC) and the Company executed a Management Letter-Agreement (MLA) on December 27, 2012 for the management of the Company by MPTC starting on January 2, 2013. By virtue of this MLA, MPTC acquired control over the Company and therefore MPTC became its parent company effective January 2, 2013.

MPTC, a Philippine corporation, is 99.9% owned by Metro Pacific Investments Corporation (MPIC). MPIC is a publicly listed Philippine corporation and is 41.9% owned by Metro Pacific Holdings, Inc. (MPHI) as at December 31, 2017. As sole holder of the voting Class A Preferred Shares, MPHI's combined voting interest as a result of all of its shareholdings is estimated at 55.0% as at December 31, 2017. 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 Company's registered address and principal place of business is at the PEA Tollway Compound, Aguinaldo Blvd. Coastal Road, Brgy. San Dionisio, Parañaque City.

Approval and Authorization for Issuance of Financial Statements
The financial statements of the Company as at and for the years ended December 31, 2017 and 2016 were authorized for issuance by the Company's Board of Directors (BOD) on February 14, 2018.

2. Basis of Preparation and Statement of Compliance

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

Statement of Compliance
The Company's financial statements have been prepared in compliance with PFRS.

3. **Summary of Significant Accounting Policies**

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended PFRSs, Philippine Accounting Standards (PAS) and Philippine Interpretations from International Financial Reporting Interpretations Committee (IFRIC) which were adopted by the Company during the year. The standards that have been adopted did not have any significant impact on 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). The amendments clarify that the disclosure requirements in PFRS 12, other than those relating to summarized financial information, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale.

  Adoption of these amendments did not have any impact on the Company's financial statements.

- Amendments to PAS 12, *Income Taxes*, *Recognition of Deferred Tax Assets for Unrealized Losses*. The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions upon the reversal of the deductible temporary difference related to unrealized losses. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

  The Company applied the amendments retrospectively. However, their application has no effect on the Company's financial position and performance.

- 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 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 29 to the 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.

New Accounting Standards, Interpretations and Amendments to Existing Standards Effective Subsequent to December 31, 2017

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 will have a significant impact on its 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 amendments are not applicable to the Company since the Company has no activities that are predominantly connected with share-based payment.

- 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 contracts.

- PFRS 15, *Revenue from Contracts with Customers* 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 PFRS. 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 MCTEP, the Company believes that there is no material impact on the financial statements upon adoption of the standard.

- PFRS 9, *Financial Instruments* 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. 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 PAS 28, *Measuring an Associate or Joint Venture at Fair Value* (Part of *Annual Improvements to PFRSs* 2014 - 2016 Cycle)

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

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

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

  The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions

for the use of a property does not provide evidence of a change in use. The amendments should be applied prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. Retrospective application is only permitted if this is possible without the use of hindsight.

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

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

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

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

Effective beginning on or after January 1, 2019

- PFRS 16, *Leases* 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.

  The amendments are not applicable to the Company since the Company has no long-term interests in associates and joint ventures.

- 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*

Current versus Noncurrent Classification
The Company presents assets and liabilities in the statement of financial position based on current or noncurrent classification.

An asset is classified as current when it is:

- expected to be realized or intended to be sold or consumed in the normal operating cycle;
- held primarily for the purpose of trading;
- expected to be realized within twelve months after the reporting period; or
- cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after reporting period.

All other assets are classified as noncurrent.

A liability is classified as current when it is:

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

All other liabilities are classified 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 investments with original maturities of three months or less from date of acquisition and are subject to an insignificant risk of changes in value.

Restricted Cash
Restricted cash pertains to cash in banks restricted for the settlement of the Company's currently maturing long-term debt.

Sinking Fund
Sinking Fund (included as part of "Other noncurrent assets" account in the statement of financial position) pertains to cash in bank, administered by PEA Tollways Corporation (PEATC), set aside to fund major road repairs and re-pavement and for extraordinary costs and expenses needed for the toll operation.

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

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

Financial Instruments

Initial Recognition and Measurement

The Company recognizes a financial instrument when it becomes a party to the contractual provisions of the instrument. All financial instruments are initially recognized at fair value, which is the fair value of the considerations given (in case of an asset) or received (in case of a liability). Except for financial assets and financial liabilities measured at fair value through profit or loss (FVPL), the initial measurement of financial instruments includes transaction costs. The Company classifies its financial assets in the following categories: financial assets at FVPL, loans and receivables, AFS financial assets and held-to-maturity (HTM) investments. Financial liabilities are classified as financial liabilities at FVPL and other financial liabilities. The classification depends on the purpose for which the instruments were acquired and whether they are quoted in an active market. Management determines the classification of its financial instruments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

Purchases or sales of financial assets that require delivery of assets within the 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.

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

Subsequent Measurement

- Loans and Receivables

  Loans and receivables include non-derivative financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into

with the intention of immediate or short-term resale and are not designated as financial asset at FVPL or AFS financial assets.

After initial measurement, loans and receivables are subsequently measured at amortized cost using the effective interest rate (EIR) method, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are integral part of the EIR. The EIR amortization is included in the "Interest income" account in the statement of comprehensive income. The losses arising from impairment of such receivables are recognized under general and administrative expenses in the statement of comprehensive income. Loans and receivables are classified as current assets when the Company expects to realize the asset within 12 months after the reporting date. Otherwise, these are classified as noncurrent assets.

The Company's cash and cash equivalents, restricted cash, receivables and sinking fund (included as part of "Other noncurrent assets" account in the statements of financial position) are classified under this category.

- AFS Financial Assets

AFS financial assets are non-derivative financial assets that are designated as AFS or are not classified as loans and receivables, financial assets at FVPL or HTM investments. Equity investments classified as AFS are those which are intended to be held for an indefinite period of time and are neither classified as held for trading nor designated as at FVPL. Debt securities 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 subsequently measured at fair value with unrealized gains or losses being recognized under other comprehensive income (OCI), 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 OCI is reclassified to profit or loss. AFS financial assets that are not quoted in an active market and whose fair value cannot be measured reliably are measured at cost, being the fair value of the consideration paid for the acquisition of the investment. Transaction costs directly attributable to the acquisition are also included in the cost of investments. Interest earned on the investments is reported as interest income using the EIR method. These financial assets are classified as noncurrent assets unless the intention is to dispose such assets within 12 months from the reporting date.

The Company's investment in preferred shares of Cavitex Finance Corporation (CFC) and unit investment trust funds (UITF) are classified as AFS financial assets.

- Other Financial Liabilities

Issued financial instruments or their components, which are not designated at FVPL, are classified as other financial liabilities, where the substance of the contractual arrangement results in the Company having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

After initial measurement, financial liabilities not qualified as and not designated as FVPL, are subsequently measured at amortized cost using the EIR method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the EIR. Gains and losses are recognized in the statement of comprehensive income when the liabilities are derecognized, as well as through the amortization process.

Transaction costs are amortized over the life of the debt instrument using the EIR method. Transaction costs are netted against the related financial liabilities allocated correspondingly between the current and noncurrent portion.

Other financial liabilities are included in current liabilities if maturity is within 12 months from the reporting date. Otherwise, these are classified as noncurrent liabilities.

This category includes accrued expenses and other current liabilities (excluding statutory payables and unearned toll revenues), retention sum and contractors payable, long-term debt and obligation to a special purpose entity (SPE).

Day 1' Difference
When the transaction price in a non-active market is different than the fair value from other observable current market transactions of the same instrument or based on a valuation technique whose variables include only data from observable market, the Company recognizes the difference between the transaction price and fair value (a 'Day 1' difference) in the statement of comprehensive income. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Company determines the appropriate method of recognizing the 'Day 1' difference amount.

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

Classification of Financial Instruments between Liability and Equity
A financial instrument is classified as liability if it provides for a contractual obligation to:

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

If the Company does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

Impairment of Financial Assets
An assessment is made at each reporting date as to whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is to be impaired if, and only if, there is objective evidence of impairment as a result of one or more event that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) 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 borrower or a group of borrower is experiencing significant 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 measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

- Assets Carried at Amortized Cost

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

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

  The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognized in the statement of comprehensive income. Interest income (recorded as finance income in the statement of comprehensive income) continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Company.

  If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognized in profit or loss, to the extent that the carrying value of the asset does not exceed what its amortized cost would have been had the impairment not been recognized at the date the impairment was reversed. If a write off is later recovered, the recovery is recognized in the statement of comprehensive income.

- AFS Financial Assets

  For AFS financial assets, the Company assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

  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. "Significant" is to be evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. When 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 profit or loss) is removed from other comprehensive income and recognized in the profit or loss. Impairment losses on equity investments are not reversed through the profit or loss. Increases in their fair value after impairment are recognized directly in other comprehensive income.

The determination of what is significant or prolonged requires judgment. In making this judgment, 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, the 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 profit or loss.

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

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

Derecognition of Financial Instruments

Financial Asset

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

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

Financial Liability

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or has expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

Service Concession Arrangement
The Company accounts for its concession arrangement under the intangible asset model as it receives the right (license) to charge users of public service.

In addition, the Company recognizes and measures 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.

The Company also recognizes its contractual obligations to restore the toll roads to a specified level of serviceability 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 Asset
The service concession asset is recognized initially at the fair value of the construction services. The fair value of the construction services provided is calculated as the estimated total construction cost with no profit margin recognized. Following initial recognition, the service concession asset is carried at cost, which includes capitalized borrowing costs less accumulated amortization and any impairment losses.

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

The service concession asset is amortized using the unit-of-production method. The annual amortization of the service concession asset 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 prepared by independent traffic consultants.

The amortization expense is recognized as "Amortization of service concession asset" under the "Cost of services" account in the statement of comprehensive income.

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

Property and Equipment
Property and equipment are carried at cost less accumulated depreciation and amortization and any impairment in value.

The initial cost of property and equipment consists of its purchase price, including import duties, non-refundable purchase taxes and any directly attributable cost to bring the property and equipment to its working condition and location for its intended use. Expenditures incurred after the property and equipment have been put into operation, such as repairs and maintenance are normally charged against operations in the year the 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 costs of property and equipment.

Depreciation and amortization is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

Transportation equipment	3–5 years
Office equipment	3–5 years
Traffic management equipment	5 years
Leasehold improvements	3–5 years or the term of the lease, whichever is shorter
Furniture and fixtures	3–5 years
Other equipment	3–5 years

The useful lives and the depreciation method are reviewed periodically to ensure that the period and the method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property and equipment and are adjusted prospectively, if appropriate.

Construction-in-progress (CIP) represents property and equipment under construction and is stated at cost. This includes cost of construction and other direct costs. CIP is transferred to the related property and equipment when the construction or installation and related activities necessary to prepare the property and equipment for their intended use have been completed and the property and equipment are ready for service. CIP is not depreciated until such time that assets are completed and available for use.

When assets are retired or otherwise disposed of, the cost and the related accumulated depreciation and amortization and any impairment losses are removed from the accounts and any resulting gain or loss (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is credited to or charged against current operations.

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 statement of comprehensive income.

Other Intangible Assets (Software Costs)
The Company's other intangible assets pertain to various computer software used in administration and operations. Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangible assets, excluding capitalized

development costs, are not capitalized and expenditure is reflected in profit 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 reporting 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 statement of comprehensive income as 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 statement of comprehensive income when the asset is derecognized.

Software costs is amortized over the estimated useful life of five years.

Impairment of Non-financial Assets
The Company assesses at each reporting 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) 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 or CGU 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, quoted share prices for publicly traded companies or other available fair value indicators. Impairment losses are recognized in profit or loss in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses no longer exist or 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. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss. After such 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 an obligation (legal or constructive) is incurred as a result of a past event and where 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 profit or loss, 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 during the period.

Capital Stock and Additional Paid-in Capital
Capital stock is measured at par value and is classified as equity for all shares issued.

When the shares are sold at premium, the difference between the proceeds and the par value shall be credited to an additional paid-in capital account. Direct costs incurred related to the issuance of new capital stock are shown in equity as deduction, net of tax.

Deposit for Future Stock Subscription
Deposit for future stock subscription represents amount received from an investor which will be applied against future subscription on the Company's shares of stock.

Retained Earnings
Retained earnings represents accumulated earnings, net of dividends declared.

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

Revenue Recognition
Revenue is recognized to the extent that it is probable that economic benefits associated with the transaction will flow to the Company and the income can be measured reliably, regardless of when the payment is made. Revenue is measured at the fair value of the consideration received or receivable, excluding discounts and other sales taxes or duties and value-added tax (VAT). The Company assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Company has concluded that it is acting as principal in all arrangements. The following specific recognition criteria must also be met before income is recognized:

Toll Revenues
Revenue is recognized when earned which is based on the Company's proportionate share in the total toll collections, gross of operations and maintenance costs in accordance with the JVA covering the construction and operation of the MCTEP.

Construction Revenue and Costs
Construction revenue and costs are recognized when the Company provides construction or upgrade services in accordance with PAS 11 by reference to the stage of completion of the construction. When it is probable that the total contract costs will exceed total contract revenue, the expected loss is recognized as expense immediately.

Dividend Income
Income is recognized when the Company's right to receive the payment is established.

Interest Income
Interests on cash in banks and short-term investments are recognized as it accrues using the EIR method.

Other Income
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.

Costs and Expenses
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 decreases in equity, other than those relating to distributions to equity participants, and are recognized when these are incurred.

Foreign Currency Transactions
The Company determines its own functional currency and items included in the financial statements 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 using the closing exchange rate at reporting date. All differences are taken to the statement of comprehensive 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 roads and tollways during the construction period. Nonmonetary items that are measured in terms of historical cost in a foreign currency are translated using the closing exchange rate as at the date of initial transaction.

Borrowing Costs
Borrowing costs are capitalized if they are directly attributable to the acquisition of the property and equipment or construction of the service concession asset. Capitalization of borrowing costs commences when the activities to prepare the assets are in progress and expenditures and borrowing costs are incurred. Borrowing costs are capitalized until the assets are substantially ready for their intended use. Other borrowing costs are expensed as incurred.

Borrowing costs include interest charges, amortization of debt issue costs, exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs and other costs incurred in connection with the borrowing of funds, less any interest income earned on the temporary investment of these borrowings.

Retirement Cost
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 the future contribution plan.

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

Retirement cost comprises the following:

- Service cost
- Net interest cost on 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 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 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 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.

Actuarial valuations are made with sufficient regularity that the amounts recognized in the financial statements do not differ materially from the amounts that would be determined at reporting date.

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

Long-Term Benefits
The Long-term Incentive Plan (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.

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

Operating Leases
The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and 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 that 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) above, and at the date of renewal or extension period for scenario (b).

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

Income Taxes

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

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

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

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

- in respect of taxable temporary differences associated with investments in subsidiaries and associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and by the parent, venture or investor, respectively, it is probable that the temporary differences will not reverse in the foreseeable future.

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

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

- in respect of deductible temporary differences associated with investments in subsidiaries and associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

Deferred tax assets and liabilities are measured at the tax rates applicable to the period 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 reporting date.

Deferred tax relating to items recognized directly in equity is recognized in equity and not in the profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in OCI or directly in equity.

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

Value-added Tax (VAT). Revenues, expenses, and assets are recognized net of the amount of VAT, if applicable.

When VAT from sales of goods and/or services (output VAT) exceeds VAT passed on from purchases of goods or services (input VAT), the excess is recognized as payable in the statement of financial position. When VAT passed on from purchases of goods or services (input VAT) exceeds VAT from sales of goods and/or services (output VAT), the excess is recognized as an asset in the statement of financial position to the extent of the recoverable amount.

The net amount of VAT payable to the taxation authority is included as part of "Accrued expenses and other current liabilities" account in the statement of financial position.

Contingencies

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

Events after the Reporting Date

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

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4. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the financial statements in accordance with PFRS requires the Company to make judgments and estimates that affect the reported amounts of assets, liabilities, income and expenses and disclosures of contingent assets and contingent liabilities. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effects of any change in estimates will be reflected in the financial statements as they become reasonably determinable.

Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances as at the date of the financial statements. While the Company believes that the assumptions are reasonable and appropriate, actual results could differ from such estimates.

Judgments

a. Service concession arrangement

   In applying Philippine Interpretation IFRIC 12, *Service Concession Arrangements*, the Company determined that the service concession agreements (discussed in Note 26) qualify under the intangible asset model.

   The amortization of service concession asset 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 service concession agreements. Adjustments may need to be made to the carrying amounts of service concession asset should there be a material difference between the total expected traffic volume and the actual results.

   Amortization of service concession asset amounted to ₱158.6 million and ₱137.3 million in 2017 and 2016, respectively. The carrying value of service concession asset amounted to ₱7,336.8 million and ₱7,407.3 million as at December 31, 2017 and 2016, respectively (see Note 9).

b. Contingencies

   The Company has possible claims from or obligation to other parties from past events and whose existence may only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within its control. Management, in consultation with its legal counsel, has determined that the present obligations with respect to contingent liabilities and claims with respect to contingent assets do not meet the recognition criteria, and therefore has not recorded any such amounts.

Estimates

a. Impairment of receivables

   The Company reviews its receivables to assess impairment at least on an annual basis. In determining whether credit loss should be recorded in the statement of comprehensive income, the Company makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from the receivables.

   There was no provision for impairment loss recognized in 2017 and 2016. The carrying values of receivable amounted to ₱62.2 million and ₱286.7 million as at December 31, 2017 and 2016, respectively (see Note 6).

b. Impairment of AFS investments

   The Company treats AFS unquoted equity investments as impaired when there is evidence of deterioration in the financial health of the investee, industry and sector performance, legal and regulatory framework and other factors that affect the recoverability of the Company's investment. The Company evaluates other factors, including the future cash flows and the discount factors for unquoted equities. In addition, the Company treats investments in UITF as impaired when there has been a significant or prolonged decline in the fair value below its

carrying cost or where there is objective evidence that impairment exists. The determination of what is "significant" or "prolonged" requires judgment. The Company treats "significant" generally as 20% or more of the original cost of investment, and "prolonged" as greater than twelve months.

There was no impairment loss recognized in 2017 and 2016. The aggregate carrying values of the Company's AFS financial assets and investment in preferred shares amounted to ₱526.8 million and ₱2,745 million as at December 31, 2017 and 2016, respectively (see Notes 7 and 10).

c. Impairment of non-financial assets excluding service concession asset not yet available for use

The Company assesses impairment on non-financial assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount of an asset is the greater of its fair value less cost to sell and value in use. The fair value is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable willing parties while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit to which the asset belongs.

There was no impairment recognized in 2017 and 2016. Allowance for impairment of advances to contractors as at December 31, 2017 and 2016 amounted to ₱55.3 million (see Note 12).

The carrying values of the Company's non-financial assets as at December 31, 2017 and 2016 are as follows:

	2017	2016
Service concession asset* (see Note 9)	**₱7,245,608,819**	₱7,374,463,444
Property and equipment (see Note 11)	**101,198,125**	78,945,664
Advances to contractors (see Note 12)	**275,236,253**	64,487,310
Computer software** (see Note 14)	**4,803,540**	2,862,470
Others** (see Note 14)	**2,365,527**	4,649,752

**Excluding service concession asset not yet available for use.*
***Included as part of "Other noncurrent assets" account in the statements of financial position.*

d. Impairment of service concession asset not yet available for use

For purposes of impairment testing related to service concession asset not yet available for use, the Company determines whether the service concession asset is impaired at least annually. This requires the estimation of the value in use of the cash-generating units to which the service concession asset is allocated. Estimating value in use requires management to make an estimate of the expected future cash flows from the cash-generating units and to choose a suitable discount rate to calculate the present value of those cash flows.

There was no impairment recognized in 2017 and 2016. The carrying value of service concession asset not yet available for use amounted to ₱91.2 million and ₱32.9 million as at December 31, 2017 and 2016, respectively (see Note 9).

e. Recognition of deferred tax assets

The carrying amounts of deferred tax assets at each reporting date are reviewed and are reduced to the extent that there is no longer sufficient future taxable income available to allow all or part of the deferred tax assets to be utilized.

Deferred tax assets amounted to ₱110.6 million and ₱98.5 million as at December 31, 2017 and 2016, respectively (see Note 25).

f. Provisions

The Company recognizes provisions based on estimates on 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 which such determination is made.

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

Provisions (current and noncurrent) amounted to ₱320.0 million and ₱178.4 million as at December 31, 2017 and 2016, respectively (see Note 17).

5. Cash and Cash Equivalents and Restricted Cash

Cash and Cash Equivalents

This account consists of:

	2017	2016
Cash on hand	**₱10,356,160**	₱3,041,076
Cash in banks	**19,564,920**	18,879,855
Short-term investments	–	165,510,000
	₱29,921,080	₱187,430,931

Cash in banks earn annual interest at the prevailing bank deposit rates. Short-term investments 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 investment rates.

Restricted Cash

Revenue and debt service reserve accounts amounted to ₱334.7 million and ₱412.9 million as at December 31, 2017 and 2016, respectively, are established and maintained solely for debt servicing of the Company's currently maturing long-term debt. The revenue and debt service reserve accounts also form part of the securities for the Company's long-term debt (see Note 16).

Interest earned from cash and cash equivalents and restricted cash amounted to ₱6.3 million and ₱8.1 million in 2017 and 2016, respectively.

6. Receivables

This account consists of:

	2017	2016
Receivable from an SPE (see Note 13)	**₱–**	₱262,258,156
Dividend receivable (see Note 10)	–	6,184,080
Other receivables -		
Related parties (see Note 24)	**68,820,958**	202,232
Third parties	**16,636,151**	18,058,429
	₱85,457,109	₱286,702,897

Receivable from an SPE pertains to the balances of Transaction Accounts as discussed in Note 13. Interest earned from the Transaction Accounts amounted to ₱0.1 million and ₱2.1 million in 2017 and 2016, respectively.

Dividend receivable is noninterest-bearing and is generally collectible within three months from the date of declaration.

Other receivables are noninterest-bearing and are collectible within one year.

7. Available-for-sale Financial Assets

The movements in this account follow:

	2017	2016
Balance at beginning of year	**₱363,590,796**	₱–
Additions	**1,247,500,000**	361,704,692
Disposals	**(1,090,769,521)**	–
Unrealized gain on AFS financial asset during the year (see Note 19)	**6,528,149**	1,886,104
Balance at end of year	**₱526,849,424**	₱363,590,796

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

In 2017, the Company sold AFS financial assets for a total consideration of ₱1,090.8 million. Realized gain reclassified from OCI to profit or loss amounted to ₱6.3 million (see Note 19).

8. Prepaid Expenses and Other Current Assets

This account consists of:

	2017	2016
Deposits	**₱24,780,000**	₱–
Advances to suppliers	**1,310,919**	6,298,340
Prepaid insurance	**8,237,354**	9,030,248
Security deposits	**6,516,819**	236,202
Inventories	**776,913**	42,723
	₱41,622,005	₱15,607,513

Deposits pertain to the amount paid by the Company to the Permanent Court of Arbitration on June 15, 2017 amounting to ₱24.8 million ($500,000) to assure the availability of sufficient funds for the arbitration proceedings on the Company's claim for compensation against the Republic of the Philippines on the inaction of Toll Regulatory Board (TRB) on the petition for toll rate adjustments (see Note 26).

Advances to suppliers pertain to the advance payments to be applied to future billings.

Prepaid insurance pertains to toll risk property insurance which covers all of the Company's assets including the toll road itself in order to safeguard against any unforeseen disasters/occurrences that would prove disadvantageous to the normal business operations of the Company. As required by the Company's toll operations agreement with the government, the Company is required to obtain insurance during the operation until the end of the concession period.

Security deposits pertain to bill deposits to Meralco in accordance with the Agreement for the Sale of Electric Energy (ASEE) under the General Power (GP) rate schedule. These deposits shall be refunded upon termination of the service provided all bills have been paid.

9. Service Concession Asset

The movements in this account follow:

	2017			
	R-1 Expressway	**R-1 Extension**	**C5 Link***	**Total**
Cost				
Balances at beginning of year	**₱1,096,526,099**	**₱7,554,481,863**	**₱32,860,170**	**₱8,683,868,132**
Additions	**29,735,184**	**–**	**58,292,661**	**88,027,845**
Balances at end of year	**1,126,261,283**	**7,554,481,863**	**91,152,831**	**8,771,895,977**
Accumulated Amortization				
Balances at beginning of year	**527,002,115**	**749,542,403**	**–**	**1,276,544,518**
Amortization (see Note 20)	**25,017,763**	**133,572,046**	**–**	**158,589,809**
Balances at end of year	**552,019,878**	**883,114,449**	**–**	**1,435,134,327**
Net Book Value	**₱574,241,405**	**₱6,671,367,414**	**₱91,152,831**	**₱7,336,761,650**

**Not yet available for use as at December 31, 2017.*

	2016			
	R-1 Expressway	R-1 Extension	C5 Link*	Total
Cost				
Balances at beginning of year	₱1,096,526,099	₱7,554,481,863	₱–	₱8,651,007,962
Additions	–	–	27,120,152	27,120,152
Reclassifications (see Note 29)	–	–	5,740,018	5,740,018
Balances at end of year	1,096,526,099	7,554,481,863	32,860,170	8,683,868,132
Accumulated Amortization				
Balances at beginning of year	503,519,070	635,676,626	–	1,139,195,696
Amortization (see Note 20)	23,483,045	113,865,777	–	137,348,822
Balances at end of year	527,002,115	749,542,403	–	1,276,544,518
Net Book Value	₱569,523,984	₱6,804,939,460	₱32,860,170	₱7,407,323,614

**Not yet available for use as at December 31, 2016.*

Additions in 2017 pertain to the civil works of R1 Enhancements and C5 Link Project based on the actual percentage of completion as at December 31, 2017. It also includes technical services for Detailed Engineering Design (DED) of segment 3A-1, 3A-2, R1 Widening, Marina Left turn Facility, Project Phase 2 R1 to Merville.

Additions in 2016 pertain to the Detailed Engineering Design (DED) of Segment 3A-1 and 3A-2 and the Preliminary Engineering Design (PED) of Segment 3B and segment 2 of the C5 Link Project.

As at December 31, 2017, the remaining concession terms for R-1 Expressway and R-1 Expressway Extension are 16 years and 29 years, respectively. Franchise Period for C5 Link has not yet commenced as at December 31, 2017 (see Note 26).

Intangible assets (service concession asset) not yet available for use is subject to annual impairment. The recoverable amounts of the operations of C5 Link has been determined based on a value in use calculation using cash flow projections based on the financial model approved by management.

The period over which management has projected cash flows is beyond five years based on franchise period of each segment as management can reliably estimate the cash flow for the entire duration of the franchise period.

The cash flow projection covers 36 years for Segment 3A and 37 years for Segments 2 and 3B of the C5 Link Project, which represent 35 years concession period and the construction period from valuation date to estimated operations start date in 2019 for Segment 3A and in 2020 for Segments 2 and 3B.

The key assumptions used in value in use calculations are as follows:

Discount Rate. Discount rate reflects management's estimate of the risks specific to the cash-generating unit. The pre-tax discount rate of 10.8% and 10.7% was used based on the weighted average cost of capital of comparable companies in 2017 and 2016, respectively.

Revenue Growth Rate. Revenue growth is mainly dependent on the traffic growth. Traffic growth is based on the historical traffic of the operating segments of MCTE. Annual growth rate ranging from 0.4% to 5.2% were applied in 2017 and 2016.

Based on the impairment test, management did not identify an impairment loss for this service concession asset. Management also believes that no reasonably possible change in any of the key assumptions would cause the carrying value of the service concession asset to materially exceed its recoverable amount.

10. Investment in Preferred Shares

Movements in this account follow:

	2017	2016
Balance at beginning of year	**₱2,745,000,000**	₱3,888,750,000
Redemption	**(2,745,000,000)**	(1,143,750,000)
Balance at end of year	**₱–**	₱2,745,000,000

In April 2012, the Company acquired 40,000 preferred shares of CFC amounting to ₱6,100.0 million. CFC is an unrestricted company incorporated in Cayman Islands. CFC's ordinary voting shares are held by Goldbow Investment Ltd. (Goldbow), an unrelated party based in Hong Kong.

The preferred shares are non-voting and have rights to participate on a pari passu basis with the ordinary voting shares in winding-up or repayment of capital. The preferred shares have the rights to dividends subject to CFC's BOD declaration while the ordinary voting shares have no rights to dividends. The preferred shares also have the rights to participate in the profits or assets of CFC while the ordinary voting shares will have no other right to participate in the profits or assets of CFC.

CFC has the right to repurchase at any time any preferred shares held by the Company at a repurchase price which will be determined by CFC's BOD.

In 2017, CFC fully redeemed its preferred shares at par value.

The Company earned dividend income amounting to ₱83.4 million and ₱262.9 million in 2017 and 2016, respectively. Dividend receivable from CFC amounted to nil and ₱6.2 million as at December 31, 2017 and 2016, respectively (see Note 6).

11. Property and Equipment

The composition of and movements in property and equipment follow:

	2017							
	Transportation Equipment	**Office Equipment**	**Traffic Management Equipment**	**Leasehold Improvements**	**Furniture and Fixtures**	**Other Equipment***	**Construction in Progress**	**Total**
Cost								
Balances at beginning of year	**₱27,412,546**	**₱21,530,986**	**₱20,115,172**	**₱2,774,666**	**₱5,828,214**	**₱54,157,517**	**₱23,707,814**	**₱155,526,915**
Additions	**1,709,822**	**1,820,007**	**23,207,250**	**–**	**561,813**	**15,594,213**	**2,299,596**	**45,192,701**
Reclassifications	**–**		**–**	**–**	**–**	**16,619,915**	**(16,619,915)**	**–**
Balances at end of year	**29,122,368**	**23,350,993**	**43,322,422**	**2,774,666**	**6,390,027**	**86,371,645**	**9,387,495**	**200,719,616**
Accumulated Depreciation								
Balances at beginning of year	**18,507,883**	**14,642,746**	**–**	**2,774,636**	**4,612,565**	**36,043,421**	**–**	**76,581,251**
Depreciation (see Notes 20 and 21)	**3,563,174**	**2,364,247**	**6,108,386**	**30**	**565,687**	**10,338,716**	**–**	**22,940,240**
Balances at end of year	**22,071,057**	**17,006,993**	**6,108,386**	**2,774,666**	**5,178,252**	**46,382,137**	**–**	**99,521,491**
Net Book Value	**₱7,051,311**	**₱6,344,000**	**₱37,214,036**	**₱–**	**₱1,211,775**	**₱39,989,508**	**₱9,387,495**	**₱101,198,125**

** Other equipment includes toll facilities, tools & engineering equipment, gym equipment, communication equipment, advertising equipment, other structures, other fixed assets, and low value assets.*

	2016							
	Transportation Equipment	Office Equipment	Traffic Management Equipment	Leasehold Improvements	Furniture and Fixtures	Other Equipment*	Construction in Progress	Total
Cost								
Balances at beginning of year	₱25,825,046	₱18,507,543	₱–	₱2,774,666	₱5,207,327	₱52,635,253	₱–	₱104,949,835
Additions	574,107	3,023,443	20,115,172	–	620,887	2,535,657	23,707,814	50,577,080
Reclassifications	1,013,393	–	–	–	–	(1,013,393)	–	–
Balances at end of year	27,412,546	21,530,986	20,115,172	2,774,666	5,828,214	54,157,517	23,707,814	155,526,915
Accumulated Depreciation								
Balances at beginning of year	13,652,782	12,478,461	–	2,774,636	3,969,056	29,262,995	–	62,137,930
Depreciation (see Notes 20 and 21)	3,841,708	2,164,285	–	–	643,509	7,793,819	–	14,443,321
Reclassifications	1,013,393	–	–	–	–	(1,013,393)	–	–
Balances at end of year	18,507,883	14,642,746	–	2,774,636	4,612,565	36,043,421	–	76,581,251
Net Book Value	₱8,904,663	₱6,888,240	₱20,115,172	₱30	₱1,215,649	₱18,114,096	₱23,707,814	₱78,945,664

** Other equipment includes R-1 toll facilities, tools & engineering equipment and other fixed assets.*

The cost of fully depreciated property and equipment still in use amounted to ₱55.5 million and ₱29.7 million as at December 31, 2017 and 2016, respectively.

There were no idle property and equipment as at December 31, 2017 and 2016.

The Company has no restriction on the title and no property and equipment was pledged as security for the Company's outstanding liabilities as at December 31, 2017 and 2016, respectively.

12. Advances to Contractors and Retention Sum and Contractors Payable

<u>Advances to Contractors</u>

Advances to contractors mainly pertain to mobilization fees of the project contractors to facilitate the construction works along R-1 Enhancements and C-5 Link Expressway. These advances are reclassified to service concession asset upon settlement of the progress billing depending on the percentage of completion.

	2017	2016
Advances to contractors:		
R-1 expressway	**₱180,989,887**	₱119,612,687
C-5 link expressway	**149,565,939**	194,196
	330,555,826	119,806,883
Less: allowance for impairment loss	**55,319,573**	55,319,573
	₱275,236,253	₱64,487,310

<u>Retention Sum and Contractors Payable</u>

Retention sum represents a portion of the amount of contractors payable not yet settled by the Company pending results of discussion and reconciliation with the contractors. Contractors payable pertains to unpaid progress billings from various contractors in the construction of the R-1 Expressway Extension.

	2017	2016
Retention sum	**₱59,624,848**	₱59,457,348
Contractors payable	**36,559,679**	36,559,679
	₱96,184,527	₱96,017,027

13. Receivable from an SPE and Obligation to an SPE

In 2010, the Company entered into an agreement with Manila Cavite Toll Road Finance Company (MCFC or the SPE) for the sale of its right to the future toll collections of the toll road over a certain period to the SPE. The SPE is an exempted company incorporated under the laws of the Cayman Islands, established as a single purpose entity mainly to raise money from the public which will in turn be used to acquire the Company's right to future toll collections.

The Company does not hold any ownership interest over MCFC, however, in substance the Company retains the majority of the residual or ownership risks related to the SPE or its assets in order to obtain benefits from its activities. Relative to this, transactions of the SPE was recognized in the financial statements of the Company such as but not limited to:

Receivable from an SPE
This mainly pertains to the balances of the Transaction Accounts, discussed further below, as reflected in the financial statements of the SPE. The toll collections remitted by the Company and deposited into the accounts of the SPE are recognized as "Receivable from an SPE" under "Receivables" account in the statement of financial position (see Note 6).

Obligation to an SPE
This pertains to the reciprocal account between the Company and the SPE mainly representing the proceeds received by the Company from the issuance of the US$160.0 million 12.0% Series 2010-1 Notes with principal and interest payable in a quarterly amortization until September 2022 (Series 2010-1 Notes) and ₱6,100.0 million Series 2012-1 Notes with principal and interest payable in a quarterly amortization until March 2019.

The amortized cost of the Obligation to an SPE as presented in the statement of financial position represents the following:

	2017	2016
Series 2012-1 Notes	₱–	₱2,745,000,000
Series 2010-1 Notes	–	561,329,208
	–	3,306,329,208
Less unamortized transaction costs	–	25,566,740
	–	3,280,762,468
Less current portion - net of unamortized transaction costs of nil and ₱6,958,976 in 2017 and 2016, respectively	–	1,288,615,761
	₱–	₱1,992,146,707

Issuance of Series 2010-1 Notes
On August 27, 2010, the SPE issued the Series 2010-1 Notes. The terms of the Series 2010-1 Notes are as follows:

- The principal amount is US$160.0 million with a coupon rate of 12.0%. Interest on the Series 2010-1 Notes will be payable quarterly in arrears, on the 15th day of each March, June, September and December, or if any such day is not a Business Day, on the next succeeding Business Day (each, a Payment Date), commencing December 15, 2010.

- Principal payments (Scheduled Principal Amounts) will be made quarterly in accordance with the amortization schedule for the Series 2010-1 Notes, commencing on the March 2013 Payment Date. Unless redeemed, repurchased or amortized prior thereto, the final payment on the Series 2010-1 Notes is expected to be made on the September 2022 Payment Date.

- The Series 2010-1 Notes is subject to mandatory redemption upon the occurrence of any of the repurchase events at the redemption price of the sum in US dollars of (a) the Principal Balance of such Series 2010-1 Notes, (b) all accrued and unpaid interest on such Series 2010-1 Notes (if any) on such redeemed principal amount but excluding the date set for redemption (the Redemption Date), (c) all unpaid additional amounts with respect to such Series 2010-1 Notes.

  The Notes shall also be subject to redemption if (i) the Company or CHI undergoes a change in control and (ii) such change in control results in a withdrawal or downgrade of a rating.

  The Notes can also be redeemed upon instruction by the Company to the SPE, in whole or in part, at a price equal to the Series 2010-1 Redemption Price which is equal to the sum of (a) the Principal Balance of the Notes (b) all accrued and unpaid interest (c) all unpaid Additional Amounts with respect to the Series 2010-1 Notes and (d) the Series 2010-1 Make Whole Premium determined as the amount as of determination date to be equal to the (i) the present value (compounded on a quarterly basis) to such date of the expected future principal and interest cash flows from such Notes being redeemed, discounted at a per annum rate equal to the then-current bid side yield (as most recently published in the New York edition of The Wall Street Journal on the U.S. Treasury Note having a maturity date closest to the remaining weighted average life on such Notes calculated at the time of prepayment), plus 0.75% per annum, minus (ii) the aggregate principal amount of such Notes (or portion thereof) to be redeemed on such date. Any redemption of less than the full principal balance of the Series 2010-1 Notes will be applied to each remaining Series 2010-1 Scheduled Principal Amount, on a pro-rata basis, and the Series 2010-1 Make Whole Premium will be applied after taking this into consideration.

Pursuant to the issuance of the Series 2010-1 Notes, the SPE, the Company and the Indenture Trustee appointed by the SPE entered into an Indenture Supplement Agreement wherein:

- The net proceeds from the issuance of the Series 2010-1 Notes will be used by the SPE to pay the Company as part of the purchase payment of the Transferred Assets. The Company will in turn apply such payment in the following approximate amounts:

  - to repay existing bank financings (US$55.0 million);
  - to fund the Construction Cost Account (US$46.4 million);
  - to fund the Series 2010-1 Debt Service Reserve Account (US$45.7 million);
  - to fund the Operations and Maintenance Account (US$3.4 million); and
  - to fund the Major Maintenance Reserve Account (US$1.4 million).

  "Transferred Assets" collectively refer to the Concession Collections and the Contract Rights. Concession Collections shall mean the portion of the Company's rights to receive the monetary payments under the Concession Agreements to the extent relating to R-1 Expressway and R-1 Expressway Extension. Contract Rights shall mean the rights under all contracts other than the Concession Agreements such as Performance Bonds, Insurance Policies and contracts with Sub-contractors.

- The Indenture Trustee shall establish a collections account to where the tolls purchased by the

SPE from the Company shall be deposited. The Indenture Trustee shall have the sole and exclusive dominion and control and sole and exclusive right of withdrawal over the collections account. The amounts deposited to the collections account shall be allocated according to payment priorities set forth as the Collections Account Waterfall or the Priority of Payments. The Priority of Payments includes fees and expenses of the Indenture Trustee, fees and expenses of the Servicer and deposits into the Operations and Maintenance Account and the Major Maintenance and Reserve Account. The Collections Account Waterfall involve the establishment of several sub-accounts namely the Operations and Maintenance Account, the Major Maintenance Reserve Account, the Cash Trapping Event Reserve Account, the Construction Cost Account, the Coverage Reserve Account, the Series 2010-1 Debt Service Reserve Account, collectively referred to as the Transaction Accounts.

- Upon the event of default by the SPE on the Series 2010-1 Notes, the outstanding amount of the Series 2010-1 Notes (including accrued interest) will be payable by the Company.

As discussed above, the proceeds from the issuance of the Series 2010-1 Notes were used by the SPE to finance the acquisition of the future toll collections from the Company.

On August 27, 2010, the Company entered into a Transfer Agreement with the SPE with the following terms:

- The Company agreed to sell to the SPE, without recourse, all of its right, title and interest in and to (but none of its obligations under) all of the Transferred Assets existing on August 27, 2010 or generated at any time hereafter through and including the Sale Termination Date.

  The Sale Termination is described as the date on which all amounts payable under the Transaction Documents by the Company and/or the SPE have been paid in full (whether as a result of the payment of the Repurchase Price or otherwise).

  The Transaction Documents consist of (a) the Indenture, the Series 2010-1 Indenture Supplement, the Transfer Agreement, the Servicing Agreement, the Support Agreement, the Series 2010-1 Notes, the Share Pledge Agreement, and the Series 2010-1 Hedge Agreement (collectively “the Finance Documents”) and (b) the Concession Agreements.

- The Purchase Payment shall consist of the sum of (a) the Forward Payments and (b) the Deferred Payments. The Forward Payments shall mean the net proceeds of the issuance of the Series 2010-1 Notes.

  The SPE shall also pay to the Company any Deferred Payments. Deferred Payments shall be payable in accordance with the provisions of the Indenture and the respective Indenture Supplement in immediately available funds.

  “Deferred Payments” shall also pertain to all amounts paid to the Company determined to be in excess of the amount required to be deposited in the Transaction Accounts.

- The SPE shall have no right, title, interest in, lien on, preference, privilege or priority whatsoever with respect to the assets of or revenues of the Company, any obligations of the Company arising under the Finance Documents shall constitute unsecured obligations of the Company.

- The Company’s obligations under the Concession Agreements to the TRB and the PRA shall not be changed as a result of entering into the Transfer Agreement or the Servicing Agreement.

The Company also entered into the following agreements with the SPE:

1. The Servicing Agreement which sets out that the Company will continue to service, administer and collect the toll collections on behalf of the SPE;

2. The Support Agreement which mainly provides that the Company agreed to repurchase the Transferred Assets for the Repurchase Price of the Series 2010-1 Notes upon the occurrence of any of the Repurchase Events; and

3. Share Pledge Agreement where CHI pledged the shares of the Company to the SPE.

On April 16, 2012, the SPE and the Company entered into a Transfer Agreement Confirmation where both parties confirmed that (a) the receipt by the Company of the Forward Payment on the Closing Date should be considered, including for accounting purposes, as “deposits” by the SPE and not as “payment”, and (b) the Company, since August 27, 2010, has been and will be entitled to payment arising from the sale of the Transferred Assets to the SPE, including for accounting purposes, only and as when the Concession Collections are generated and realized. The foregoing is not intended to affect the true sale of the Transferred Assets as provided by in the Transfer Agreement.

Issuance of Series 2012-1 Notes and Refinancing of Series 2010-1 Notes
In March 2012, CFC made a tender offer to purchase all of the outstanding Series 2010-1 Notes amounting to $160.0 million as at March 2012 to be paid on April 16, 2012 (the Settlement Date). Noteholders holding US$143.1 million tendered their Notes in April 2012. CFC paid $127.9 million out of the tendered notes which was based on the outstanding principal balance of the Series 2010-1 Notes after giving effect to amounts paid to Noteholders on the settlement date as result of it also being an early amortization payment date. Portion of the tendered Series 2010-1 Notes amounting to $15.2 million was paid by the Company as a result of the declaration of the early amortization event since the Company was not able to meet the required debt service coverage ratio as at March 15, 2012. The Company also paid $1.8 million to those who have not tendered the Series 2010-1 Notes. As at April 16, 2012, total principal amount paid on the Series 2010-1 Notes was $144.9 million.

In April 2012, the SPE issued the ₱6,100.0 million Series 2012-1 Notes to CFC in exchange for the portion of the Series 2010-1 Notes held by the latter. These Series 2010-1 Notes were subsequently retired by the SPE. The net proceeds from the issuance of the Series 2012-1 Notes were used by the SPE to pay the Company as part of the Purchase Payment for the Transferred Assets.

As a result of the transaction above, the Company derecognized its obligation to an SPE relating to the tendered Series 2010-1 Notes and recorded a new obligation to an SPE for the peso-denominated Series 2012-1 Notes.

The terms of Series 2012-1 Notes are as follows:

- Floating interest rate per annum equal to the higher of (i) the sum of the prevailing PDST-F bid yield for 3-month treasury securities and 3.5% or (ii) the sum of the BSP Overnight Reverse Repurchase Rate and 3.5%. Interest on the Series 2012-1 Notes will be payable quarterly in arrears commencing on the June 2012 payment date.

- Principal repayments are set quarterly starting June 2012 until March 2019.

- The net proceeds from the sale of the Series 2012-1 Notes, after deducting fees and expenses of the issuance of the Series 2012-1 Notes, will be used by the SPE to pay the Company as part of

the purchase payment for the Transferred Assets which in turn the Company will use to fund reserve accounts herein and repurchase any and all outstanding Series 2010-1 Notes.

- Upon instruction by the Company, the SPE may redeem the Series 2012-1 Notes, in whole or in part, at a price equal to the Series 2012-1 redemption price. Minimum amount of any partial redemption shall be ₱100.0 million and any excess shall be in integral multiples of ₱10.0 million. The redemption shall not be subject to any premium, unless redemption is made within April 16, 2014 to April 15, 2016, in which case a premium equal to 1% to 2% of the redeemed principal will be payable.

- Upon the Series 2012-1 Notes being declared to be immediately due and payable as a result of a repurchase event, the Company will be obligated to pay the SPE the repurchase price, the proceeds of which will be used by the SPE to redeem the Series 2012-1 Notes and all other series of notes from the Noteholders.

- The Series 2012-1 Notes shall also be subject to redemption if the Company or CHI undergoes a change in control. The Company is then required to purchase the Series 2012-1 Notes for an amount equal to the sum of (a) the Series 2012-1 Notes redemption price on the redemption date and (b) a premium of 1% of the Series 2012-1 Notes balance immediately prior to the redemption date.

Interest and other finance charges on obligation to an SPE which is recorded as part of "Other charges" account in the statement of comprehensive income amounted to ₱152.8 million and ₱357.3 million for the years ended December 31, 2017 and 2016, respectively.

Securities for the Series 2010-1 and Series 2012-1 Notes
The Series 2010-1 and Series 2012-1 Notes will be secured by the rights and interest of the SPE over the following:

a. Pledge over all Transaction Accounts

   The Transaction Accounts mainly consist of the Operations and Management Account (O&M Account), Major Maintenance Reserve Account, Cash Trapping Event Reserve Account, Construction Cost Account, Coverage Reserve Account and Series Notes Debt Service Reserve Account.

   If a balance remains in the Transaction Accounts after all the Series 2010-1 and Series 2012-1 Notes have been paid in full, then such balance will become immediately payable to the Company as Deferred Payment.

b. SPE's rights to receive the monetary payments under the Concession agreements and all other agreements to the extent relating to the R-1 portion of the toll road.

c. Pledge of the shares of the Company as owned by CHI.

Prepayment of Series 2010-1 Notes and Series 2012-1 Notes
On June 15, 2017, the Company prepaid its Series 2010-1 notes in full. Total payments made amounted to ₱720.5 million of which, ₱560.1 million pertains to the outstanding principal and accrued interest for the quarter and ₱160.4 million pertains to the prepayment penalties and legal and professional fees incurred for the pre-termination of the notes (see Note 21).

14. **Other Noncurrent Assets**

This account consists of:

	2017	2016
Sinking fund	**₱159,170,880**	₱154,520,888
Computer software	**4,803,540**	2,862,470
Security deposit	**3,479,011**	3,580,500
Reimbursement right – retirement (net of allowance for impairment amounting to ₱2.3 million and nil as at December 31, 2017 and 2016, respectively)	–	2,284,226
Other noncurrent assets	**2,365,527**	2,365,526
	₱169,818,958	₱165,613,610

The sinking fund was established to finance the future major road repairs, re-pavements and other extraordinary costs and expenses of the R-1 Expressway (see Note 26). Interest earned from sinking fund amounted to ₱3.5 million and ₱7.0 million in 2017 and 2016, respectively.

Reimbursement right - retirement pertains to the pre-termination values from a group pension plan purchased by the Company for some of its regular employees. The proceeds from the pension plan shall form part of the settlement of the Company's retirement liability. The premium contributions are payable semi-annually over 5 to 10 years at a fixed amount as determined at the time the pension plan was purchased. In 2017, the Company has provided a provision for impairment on its reimbursement right amounting to ₱2.3 million (see Note 21).

The movement of computer software follows:

	2017	2016
Cost:		
Balance at beginning of year	**₱17,724,114**	₱16,710,732
Additions	**4,976,682**	1,013,382
Balance at end of year	**22,700,796**	17,724,114
Accumulated amortization:		
Balance at beginning of year	**14,861,644**	12,876,172
Amortization (see Note 20)	**3,035,612**	1,985,472
Balance at end of year	**17,897,256**	14,861,644
Net book value	**₱4,803,540**	₱2,862,470

15. **Accrued Expenses and Other Current Liabilities**

This account consists of:

	2017	2016
Accounts payable:		
Third parties	**₱36,047,082**	₱47,644,458
Related parties (see Note 24)	**42,600,511**	10,027,939
Payable to CHI	**163,428,840**	163,428,840
Output VAT payable	**12,517,231**	11,666,997
Withholding tax payable	**2,607,328**	6,479,063
Accrued expenses:		
Related parties (see Note 24):		
Shared services cost (see Note 22)	**11,635,604**	–
Transfer of retirement	**3,543,286**	–
Outside services	**2,524,131**	5,393,456
Management fee	–	5,335,170
Reimbursable costs	–	5,288,867
Third parties:		
Interest	**79,099,747**	81,296,963
Construction costs	**55,880,403**	–
Repairs and maintenance	**31,372,814**	3,473,087
Outside services	**14,762,896**	3,905,996
Professional fees	**10,650,934**	9,107,230
Loan transaction costs	**2,824,285**	2,824,285
MCTE expenses	**1,630,600**	1,169,028
Accrued other charges	–	3,486,214
Others	**4,626,139**	2,893,415
Unearned toll revenue	**4,808,845**	8,867,675
Other payables	**22,374,089**	17,981,328
	₱502,934,765	₱390,270,011

Payable to CHI relates to noninterest-bearing advances obtained by the Company in 2012 for its debt service requirements. The amount is due and demandable.

Accounts payable, output VAT payable and withholding tax payable are noninterest-bearing and are normally settled within 30 days.

Unearned toll revenue pertains to advance collections from motorists which are earned once these are utilized by motorists.

Accrued expenses are noninterest-bearing and are generally payable within one month. Accrued interest payable and accrued other charges are generally settled within three months.

Other payables pertain to the Company's obligations to government institutions and are payable based on regulatory mandate.

16. **Loans**

Short-term Loan
On June 7, 2017, the Company entered into a loan agreement with BDO Unibank, Inc. (BDO) and Rizal Commercial Banking Corporation (RCBC) with a principal amount of ₱600,000,000 for the purpose of financing the early redemption of the outstanding Series 2010-1 Notes. On July 11, 2017, the Company fully paid the outstanding balance of the loan.

In 2017, interest on short-term loan amounted to ₱2.3 million.

Long-term Debt
This account consists of:

	2017	2016
Principal - Loan facility	**₱5,490,000,000**	₱5,642,500,000
Less unamortized debt issue costs	**125,768,167**	155,324,307
	5,364,231,833	5,487,175,693
Less current portion of long-term debt - net of unamortized costs of ₱30,079,901 in 2017 and ₱29,556,141 in 2016	**274,906,784**	122,943,859
	₱5,089,325,049	₱5,364,231,834

On April 11, 2012, the Company entered into an Omnibus Agreement with CFC, Goldbow, RCBC Capital Corporation, BDO Capital and Investments Corporation, BDO and RCBC to enter into a ₱6.1 billion loan to finance the ₱6.1 billion investment in CFC's preferred shares. CFC then used the amount to partially finance the tender and redemption of Series 2010-1 Notes as discussed in Note 13.

The loan, which is subject to quarterly principal amortizations from July 2012 to April 2019, bears annual floating interest equal to the higher of: (i) three-month PDST-F plus 3.5% spread and (ii) BSP Overnight Reverse Repurchase rate plus 3.5% spread.

Under the Omnibus Agreement, the Company shall provide collateral security, which shall consist of the mortgage on the Company's investment in 40,000 preferred shares of CFC (see Note 10), pledge of the Series 2012-1 bonds held by CFC, assignment of the revenue and debt service reserve accounts (see Note 5) and pledge of the 5,000 ordinary voting shares of CFC held and owned by Goldbow.

On December 16, 2013, the Company entered into an Amended and Restated Omnibus Agreement with CFC, Goldbow, RCBC Capital Corporation, BDO Capital and Investments Corporation, BDO and RCBC for a ₱6.1 billion loan for the main purpose of refinancing the Company's existing loan and other obligations under the existing Omnibus Agreement (as discussed above). The loan is subject to quarterly principal amortizations starting from January 13, 2014 to December 26, 2023. Interest rate (a) during the period from December 26, 2013 to
December 26, 2018 shall be 6.5% per annum, and (b) during the period from December 26, 2018 until December 26, 2023, the rate per annum shall be the higher of (i) the 5-year PDST-F on December 26, 2018 plus 3.0% margin and (ii) the minimum interest rate of 6.25%.

The collateral security and covenants for the Amended and Restated Omnibus Agreement are the same with the Omnibus Agreement.

The agreement covering the loan provides, among others, that for as long as the loans remain outstanding, the Company is subject to certain negative covenants requiring prior approval of the

creditors for specified corporate acts. In addition, except as otherwise disclosed in the Disclosure Letter, the Company is required to maintain certain financial ratios.

Further, on December 29, 2016, the Company issued a supplemental disclosures and exceptions to the amendment and restated representations and warranties, covenants and events of defaults under the Amended and Restated Omnibus Agreement dated December 16, 2013 which includes the exemption on the required financial ratios as at December 31, 2016.

On May 31, 2017, the Company issued confirmation of waiver of provisions of the amendment and restated loan agreement dated December 13, 2013 with regard to its prepayment of the 2010-1 Series Notes and 2012-1 Series Notes (see Note 13), for which the creditors waived and confirmed. The proceeds received by CFC as a result of the prepayment of 2012-1 Series Notes was used by CFC to redeem its outstanding preferred shares (see Note 10). The prepayment affected the security interest (as discussed above) with respect to the loan:

- Extinguishment of the chattel mortgage constituted over the 2012-1 Series Notes
- Diminution in value of the pledged collateral over the outstanding capital stock of CFC
- Diminution in value of the equitable mortgage constituted over the outstanding capital stock of CFC mortgaged by the Company and Goldbow; and
- Termination of the cash waterfall funding the loan following the collapse of the indenture framework.

As at December 31, 2017 and 2016, the Company is in compliance with the loan covenants.

Interest charged to operations amounted to ₱399.2 million and ₱409.3 million for the years ended December 31, 2017 and 2016, respectively, including amortization of debt issue costs of ₱29.6 million and ₱28.5 million in 2017 and 2016, respectively.

Repayment of the undiscounted long-term debt outstanding as at December 31, 2017 are scheduled as follows:

Within one year	₱305,000,000
More than one year but less than five years	5,185,000,000
Within one year	₱5,490,000,000

17. **Provisions and Long-term Incentive Plan**

Provisions
Movement in this account follows:

	Heavy Maintenance	Others	Total
At January 1, 2016	₱91,196,872	₱81,649,775	₱172,846,647
Additions (see Notes 20 and 21)	27,383,853	37,416,208	64,800,061
Reclassification	911,246	5,800,000	6,711,246
Payments	–	(65,930,448)	(65,930,448)
At December 31, 2016	119,491,971	58,935,535	178,427,506
Additions (see Notes 20 and 21)	35,990,264	123,972,335	159,962,599
Reclassification	–	1,736,926	1,736,926
Payments	–	(20,107,389)	(20,107,389)
At December 31, 2017	₱155,482,235	₱164,537,407	₱320,019,642

	Heavy Maintenance	Others	Total
At December 31, 2017:			
Current	**₱–**	**₱164,537,407**	**₱164,537,407**
Noncurrent	**155,482,235**	**–**	**155,482,235**
	₱155,482,235	**₱164,537,407**	**₱320,019,642**
At December 31, 2016:			
Current	₱–	₱58,935,535	₱58,935,535
Noncurrent	119,491,971	–	119,491,971
	₱119,491,971	₱58,935,535	₱178,427,506

Provision for heavy maintenance pertains to the present value of the estimated contractual obligations of the Company to restore the service concession asset to a specified level of serviceability during the concession term and to maintain 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 asset.

In 2017 and 2016, the Company reclassified accruals to provisions amounting to ₱1.7 million and ₱6.7 million, respectively.

Other provisions include estimated liabilities for certain reimbursements of expenses and losses being claimed against the Company. The information usually required by PAS 37 is not disclosed on the grounds that it could prejudice the Company's position.

Long-term Incentive Plan
Movement in this account follows:

At January 1, 2016	₱3,500,000
Additions (see Notes 20 and 21)	3,418,325
At December 31, 2016*	6,918,325
Additions (see Notes 20 and 21)	5,381,675
At December 31, 2017	₱12,300,000

** Presented as part of "Other noncurrent liabilities" account.*

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 and 2016 included in Provisions account under "General and administrative expenses" in the parent company statements of comprehensive income amounted to ₱5.4 million and ₱3.4 million, respectively. Total long-term incentive plan payable amounted to ₱12.3 million and ₱6.9 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.

18. Other Noncurrent Liabilities

This account consists of:

	2017	2016
Deposit for future construction	**₱256,700,000**	₱256,700,000
LTIP (see Note 17)	–	6,918,325
	₱256,700,000	₱263,618,325

Deposit for Future Construction

On October 20, 2011, the Company and CHI executed a Memorandum of Agreement (MOA), wherein, CHI shall grant the Company a right-of-way to certain segments of the property CHI plans to reclaim to allow the Company to construct four feeder roads. The four feeder roads are estimated to cost ₱520.0 million where CHI shall be liable for approximately fifty percent (50%) of construction costs. Actual contribution of CHI amounting to ₱256.7 million was received by the Company in 2012. As at February 20, 2017 the construction of the feeder roads has not yet started.

19. **Equity**

Capital Stock

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

	Number of Shares
Authorized - ₱100 par value	13,730,000
Issued and outstanding	12,283,750

Other Comprehensive Income Reserve

Movements in this account are as follows:

	Unrealized gain on AFS Financial Asset	Remeasurement of Defined Retirement Plan	Total
At January 1, 2016	₱–	₱254,260	₱254,260
Unrealized gain on available-for-sale financial asset-net (see Note 7)	1,886,104	–	1,886,104
Remeasurement loss (see Note 22)	–	(476,316)	(476,316)
Income tax effect	–	142,895	142,895
At December 31, 2016	1,886,104	(79,161)	1,806,943
Unrealized gain on available-for-sale financial asset - net (see Note 7)	6,528,149	–	6,528,149
Realized gain transferred to profit or loss (see note 7)	(6,269,521)	–	(6,269,521)
Remeasurement loss (see Note 22)	–	113,087	113,087
Income tax effect	(643,420)	(33,926)	(677,346)
At December 31, 2017	₱1,501,312	₱–	₱1,501,312

20. **Costs of Services**

This account consists of:

	2017	2016
Amortization of service concession asset (see Note 9)	**₱158,589,809**	₱137,348,822
Other general services (see Note 24)	**135,064,312**	103,158,134
Operating and maintenance expenses	**52,853,025**	50,815,188
Repairs and maintenance	**41,143,456**	12,490,379
Provision for heavy maintenance (see Note 17)	**35,990,264**	27,383,853
MCTE expenses	**22,907,302**	18,229,417
Communication, light and water	**18,050,319**	16,613,787
Depreciation and amortization (see Notes 11 and 14)	**17,852,473**	9,690,458
Provisions (Note 17)	**9,652,140**	1,159,334
Transportation and travel	**3,838,887**	3,463,593
Supplies	**188,953**	4,899,340
	₱496,130,940	₱385,252,305

MCTE expenses include various payments made to different parties for minor reworks and repairs, and site office expenses.

Other general services include costs relating to toll collection, maintenance, security, janitorial and performance services.

21. General and Administrative Expenses

This account consists of:

	2017	2016
Finance costs on prepayment of obligation (see Notes 13 and 16)	**₱160,382,206**	₱–
Provisions (see Note 17)	**119,701,870**	39,675,199
Service Fees	**23,222,982**	–
Management fee (see Note 24)	**21,776,205**	21,776,205
Salaries and employee benefits (see Note 22)	**20,186,592**	34,785,828
Professional fees	**11,110,425**	14,770,523
Taxes and licenses	**9,870,409**	7,950,740
Depreciation (see Note 11)	**8,123,379**	6,738,335
Transportation and travel	**3,898,731**	1,964,712
Entertainment, amusement and recreation	**2,590,090**	1,612,120
Provision for doubtful accounts (see Note 14)	**2,284,226**	–
Stationery and supplies	**1,753,798**	905,714
Communication, light and water	**704,449**	550,066
Insurance	**597,454**	760,562
Repairs and maintenance	**300,898**	17,563
Rent	**205,046**	340,750
Directors' fees	**40,000**	40,000
Advertising	–	4,615,753
Others	**27,691,624**	31,067,719
	₱414,440,384	₱167,571,789

Others include provisions, general maintenance and janitorial services, bank charges and other dues.

22. Retirement Costs

The Company has a funded noncontributory defined benefit retirement plan covering substantially all of its employees. The plan provides for a lump sum benefit payment upon retirement. Benefits are dependent on years of service and the respective employee's final compensation. The costs are determined in accordance with the actuarial study made for the plan.

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

On June 1, 2017, CIC executed a Reimbursement Agreement, engaging the services of MPTSMC to provide technical and management services, including advice on corporate initiatives, through the

assignment and/or secondment of appropriate personnel of MPTSMC to the Company. All employees of CIC were absorb by MPTSMC, including its tenor and retirement benefits from CIC.

In relation to the transfer of employees in 2017, the Company reclassified its accrued retirement liability to accrued expenses.

Changes in accrued retirement cost in 2017 are as follows:

	Present Value of Defined Benefit Obligation	**Fair Value of Plan Assets**	**Accrued Retirement Cost**
At January 1, 2017	**₱3,805,485**	**(₱644,943)**	**₱3,160,542**
Retirement cost charged to profit or loss (see Note 21):			
Current service cost	**495,831**	**–**	**495,831**
Remeasurement loss (gain) changed to OCI (see Note 19)	**5,764**	**(118,851)**	**(113,087)**
Reclassification (see Note 24)	**(4,307,080)**	**763,794**	**(3,543,286)**
At December 31, 2017	**₱–**	**₱–**	**₱–**

Changes in accrued retirement cost in 2016 are as follows:

	Present Value of Defined Benefit Obligation	Fair Value of Plan Assets	Accrued Retirement Cost
At January 1, 2016	₱2,193,686	(₱651,533)	₱1,542,153
Retirement cost charged to profit or loss (see Note 21):			
Current service cost	1,063,423	–	1,063,423
Interest cost (income)	111,677	(33,027)	78,650
	1,175,100	(33,027)	1,142,073
Remeasurement (gains) losses in OCI (see Note 19):			
Actuarial changes due to experience adjustment	500,435	–	500,435
Actuarial changes arising from changes in financial assumptions	(93,826)	–	(93,826)
Actuarial changes arising from changes in demographic assumptions	30,090	–	30,090
Return on plan assets	–	39,617	39,617
	436,699	39,617	476,316
At December 31, 2016	₱3,805,485	(₱644,943)	₱3,160,542

The Company's plan assets are being held by a trustee bank. The investing decisions of the plan are made by the Board of Trustees of the retirement plan.

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

Discount rate	5.33%
Salary increase rate	7.00

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

	Increase (Decrease) in Basis Points	Increase (Decrease) in Defined Benefit Obligation
Discount rate	100	(₱369,837)
	(100)	431,415
Salary increase rate	100	441,655
	(100)	(385,260)

The average duration of the defined benefit obligation as at December 31, 2016 is 17.9 years.

Shown below is the maturity analysis of the undiscounted benefit payments as at December 31, 2016:

	Amount
Less than 1 year	₱22,923
1 year to less than 5 years	2,419,129
5 years to less than 10 years	5,154,345
10 years to less than 15 years	9,007,308
15 years to less than 20 years	10,614,432
20 years and above	18,688,705

23. Other Income

Source of other income follows:

	2017	2016
Advertisement fee	**₱13,970,527**	₱15,555,246
Realized gain on sale of AFS	**6,269,521**	–
Traffic management fee	**2,506,570**	2,911,547
Others	**3,528,211**	6,220,155
	₱26,274,829	₱24,686,948

Advertising fee pertains to income of the Company on billboards installed and other advertising materials along the expressway.

Traffic management fee pertains to the amount paid by motorists, classified as Class 3 vehicles that would require traffic assistance when they pass through the expressway.

Realized gain on sale of AFS financial assets pertain to gain realized on disposal of AFS financial assets during the year.

Other sources of income include royalties, toll service facility fees and claims on damage of the Company's properties.

24. Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions or the parties are subject to common control. Related parties may be individuals or corporate entities. Affiliate refers to an entity that is neither a parent, subsidiary nor an associate, or under common control. Settlement occurs in cash.

The Company's related party transactions are as follows:

Related Party	Year	Amount of Transaction	Other Receivables (see Note 6)	Accounts Payable (see Note 15)	Accrued Expenses (see Note 15)	Deposits	Terms	Conditions
Parent Company								
MPTC								
Reimbursable costs	**2017**	**₱69,643**	**₱69,643**	**₱1,402,000**	**₱–**	**₱–**		Unsecured;
	2016	3,071,981	–	–	3,071,981	–		no impairment
Deposit for future stock subscription	**2017**	–	–	–	–	**200,000,000**	On demand,	Unsecured;
	2016	–	–	–	–	–	noninterest-bearing	no impairment
Affiliates								
Metro Pacific Tollways North Corporation (MPTNC)								
Management fees (see Notes 15 and 21)	**2017**	**21,776,205**	–	**5,280,730**	–	–	On demand,	Unsecured
	2016	21,776,205	–	–	5,335,170	–	noninterest-bearing	
Reimbursable costs	**2017**	–	–	–	–	–	On demand,	Unsecured
	2016	90,800	–	–	90,800	–	noninterest-bearing	
Metro Pacific Tollways South Management Corp. (MPTSMC)								
Service fee (see Note 22)	**2017**	**23,222,982**	**44,573,700**	**23,299,513**	**11,635,604**	–	On demand,	Unsecured;
	2016	–	–	–	–	–	noninterest-bearing	no impairment
Transfer of retirement	**2017**	**3,543,286**	–	–	**3,543,286**	–	On demand,	Unsecured
	2016	–	–	–	–	–	noninterest-bearing	
Tollways Management Corporation (TMC)								
Purchases	**2017**	–	–	–	–	–	30 days,	Unsecured
	2016	787,437	–	787,437	–	–	noninterest-bearing	
Reimbursable costs	**2017**	–	–	–	–	–	On demand,	Unsecured
	2016	176,872	–	176,872	–	–	noninterest-bearing	
MPCALA Holdings Inc.								
Reimbursable costs	**2017**	**794,124**	**794,124**	**653**	–	–	On demand,	Unsecured;
	2016	96,392	96,392	–	668,690	–	noninterest-bearing	no impairment
NLEX Corporation (formerly Manila North Tollways Corporation)	**2017**	**1,945,440**	**1,945,440**	–	–	–	On demand,	Unsecured;
Advertisement fee	2016	105,840	105,840	–	–	–	noninterest-bearing	no impairment
Reimbursable costs	**2017**	–	–	–	–	–	On demand,	Unsecured
	2016	1,577,683	–	120,287	1,457,396	–	noninterest-bearing	
Management Plus Corporation (M+ Corp.)	**2017**	**8,436,960**	–	**8,436,960**	–	–	30 days,	Unsecured
Toll collection services	2016	10,287,251	–	7,406,821	3,681,858	–	noninterest-Bearing	
Easytrip Services Corporation (ESC)								
Performance fee (see Note 20)	**2017**	**2,564,469**	**21,136,398**	**2,564,469**	**2,524,131**	–	15 days, noninterest	Unsecured
	2016	15,447,220	–	1,536,522	1,711,598	–	Bearing	no impairment
Others	**2017**	–	**301,653**	**1,616,186**	–	–	0 days, noninterest	Unsecured
	2016	–	–	–	–	–	Bearing	no impairment
	2017		**₱68,820,958**	**₱42,600,511**	**₱17,703,021**	**₱200,000,00**		
	2016		202,232	10,027,939	16,017,493	–		

Deposit for Future Stock Subscription
The deposit for future stock subscription amounting to ₱200 million pertain to cash received from MPTC for conversion to equity.

Management Fee
MPTNC performed management and financial services for the Company. The Company and MPTNC are in the process of formalizing their management agreements as at February 14, 2018.

Performance Fee
On July 15, 2014, the Company executed a Service Agreement, engaging the services of ESC, a joint venture of MPTDC, to exclusively promote and distribute radio frequency identification (RFID) sticker tags to MCTE users as well as the account management services for all ETC customers for all electronic toll collection (ETC) customers. The said agreement is for five years effective on September 1, 2014 and with five year extension. In accordance with the Service Agreement, the Company will pay ESC an annual fixed fee of ₱6.3 million, which is to be escalated every year for labor index and consumer price index (CPI). The Company shall also pay for variable fees of ₱1.0, ₱3.45 and ₱4.6 per transaction for Class 1, Class 2 and Class 3 vehicles, which are also to be escalated every year for labor index and CPI.

Service Fee
On June 1, 2017, the Company executed a Reimbursement Agreement, engaging the services of MPTSMC to provide technical and management services, including advice on corporate initiatives, through the assignment and/or secondment of appropriate personnel of MPTSMC to the Company. The said agreement shall be for a period of twelve (12) months. The Company shall pay MPTSMC an estimated monthly contract service fee equivalent to its share of the expenses incurred by MPTSMC, plus 5%, exclusive of VAT and gross of the appropriate withholding taxes.

Toll Collection Services
On October 1, 2016, the Company executed a Service Agreement, engaging the services of M+ Corp., a wholly owned subsidiary of MPTC, to provide toll collection services to MCTE operations and management of the toll plazas, collection of toll fees, handling, counting, and storage of money, declaration and transfer of funds, and other general services. The said agreement is for two years effective on October 1, 2016. The Company shall pay M+ Corp. an estimated monthly contract service fee of ₱3.8 million, inclusive of VAT and mandatory ten percent (10%) administrative fee.

Compensation of Key Management Personnel
Key members of management are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly. The remunerations of key members of management representing short-term employee benefits amounted to ₱3.4 million and ₱14.2 million in 2017 and 2016, respectively.

Utilities
The Company was billed by Meralco, PLDT, Smart and Maynilad for its electricity, telephone, internet and water consumptions.

25. Income and Other Taxes

The provision for current income tax in 2017 and 2016 represents regular corporate income tax and MCIT, respectively. Provision for income tax consists of the following:

	2017	2016
Current	**₱60,225,355**	₱82,210,533
Deferred	**(3,301,728)**	25,024,176
Final	**2,539,125**	3,443,897
	₱59,462,752	₱110,678,606

Final taxes include taxes on interest income from cash, cash equivalents and sinking fund.

The components of net deferred tax assets (liabilities) follow:

	2017	2016
Deferred tax assets:		
Provision for heavy maintenance	**₱46,644,671**	₱35,847,591
Other provisions	**44,158,074**	15,244,048
Allowance for impairment loss	**17,281,140**	16,595,872
Unearned toll revenue	**1,442,654**	2,660,303
Accrued retirement costs	**1,062,986**	948,163
Unrealized forex loss	–	27,168,315
	110,589,525	98,464,292
Deferred tax liabilities:		
Difference in amortization method of concession asset	**213,120,062**	187,040,499
Capitalized bond transaction costs	**37,730,450**	54,267,314
Reimbursement rights	**643,420**	685,268
	251,493,932	241,993,081
Deferred tax liabilities – net	**(₱140,904,407)**	(₱143,528,789)

The movements in MCIT are as follows:

	2017	2016
Balance at beginning of year	**₱–**	₱27,086,755
Application	–	(27,086,755)
Balance at end of year	**₱–**	₱–

A reconciliation of the statutory income tax to the provision for income tax follows:

	2017	2016
Statutory income tax	**₱53,075,155**	₱95,822,773
Tax effects of:		
Nondeductible expense	**7,276,239**	8,231,145
Interest income subjected to final tax	**(2,968,020)**	(5,166,126)
Final tax on interest income	**2,539,125**	3,443,897
Reversal of accrual	**225,520**	365,357
Deferred tax adjustments	**(685,267)**	7,981,560
	₱59,462,752	₱110,678,606

Republic Act No.10963 or the Tax Reform for Acceleration and Inclusion Act (TRAIN) was signed into law on December 19, 2017 and took effect January 1, 2018, making the new tax law enacted as of the reporting date. Although the TRAIN changes existing tax law and includes several provisions that will generally affect businesses on a prospective basis, the management assessed that the same will not have any significant impact on the financial statement balances as of the reporting date.

26. **Significant Agreements**

Management Letter-Agreement
In relation to the Convertible Note Agreement executed by and between MPTC and CHI, MPTC, CHI and the Company executed an MLA on December 27, 2012 for the management of the Company by MPTC. The management of the Company by MPTC will commence on January 2, 2013 and while MPTC holds the CHI Preferred Shares, or until MPTC becomes the 100% direct or indirect shareholder of the Company, whichever comes later ("Management Period").

The Company shall pay all the direct expenses incurred by MPTC and its representatives in the performance of management functions and activities at the Company. In addition, MPTC shall receive all the financial benefits from the Company's operations. However, all losses incurred by the Company shall also be borne by MPTC.

By virtue of the MLA, MPTC acquired control over the Company effective January 2, 2013.

Manila-Cavite Toll Expressway Project
On February 3, 1994, the Philippine and Malaysian governments entered into a Memorandum of Understanding for a joint and cooperative implementation of infrastructure projects in the Philippines through the PRA, MARA and Renong Berhad (Renong). On December 27, 1994, PRA entered into a JVA with the two Malaysian entities, namely, MARA and Renong (the JV partners), for the development of the R-1 Expressway, C-5 Link Expressway and R-1 Expressway Extension, collectively referred to as the MCTEP or the Project.

Under the JVA, each of the following expressways shall be constructed in segments. Each segment shall allow partial operation to be carried out as follows:

Phase I	Design and improvement of the R-1 Expressway and the design and construction of the C-5 Link Expressway which connects the R-1 Expressway to the South Luzon Expressway
Phase II	Design and construction of the extension of the R-1 Expressway which connects the existing R-1 Expressway at Zapote to Noveleta

By virtue of the JVA, PRA and MARA agreed that Renong may assign its rights and transfer its liabilities and obligations under the JVA to UEM. This was confirmed through a Novation Agreement on August 17, 1995. MARA and UEM then incorporated the Company in October 1995 to represent MARA and UEM.

On July 26, 1996, PRA (Grantee) and the Company then entered into a Toll Operation Agreement (TOA) with the Grantor, through the TRB, to expand the scope and toll collection period of the Toll Operation Certificate of PRA and amplify the terms and conditions which are necessary to ensure the financial viability of the Project. Under the TOA, MARA and UEM shall continue to be liable jointly and severally. Pursuant to the TOA, PRA will be responsible for the operation and maintenance of

the expressway while the Company will be responsible for the design and construction of the expressway including its financing.

The following are the salient terms of the TOA:

a. The expressways shall be constructed in accordance with the following provisional construction schedule:

Upgrading of R-1 Expressway	1996-1997
C-5 Link Expressway	1996-1998
R-1 Expressway Extension	1997-1998

b. The franchise period for all the expressways shall be thirty-five (35) consecutive years calculated from the last final operation date, which is the date on which all segments of each expressway shall have commenced operation, or from October 1, 1998, whichever is earlier. In the event the franchise period is extended in accordance with the provisions of this agreement, such extension shall be correspondingly included for the purposes of determining the extended franchise period. Notwithstanding the provisions of this section, the Grantee shall be entitled to operate and maintain any completed segment of any expressway before the last final operation date in accordance with the provisions of this agreement.

c. The right granted to the Company to perform the construction of the expressways shall be for a term of four (4) consecutive years counted from the effectiveness of the Notice to Proceed. The Notice to Proceed is issued by the Grantor upon fulfillment of all the conditions precedent as set out in the TOA.

d. Construction shall be carried out at the expense of the Company, provided that the Grantor shall fulfill all its obligations to the Company. In the event that the total construction costs estimated by the independent consultant are lower by 5.0% or more than the Company's cost estimate, the Grantor and PRA agree that the agreed toll rates shall be adjusted accordingly.

e. The Grantor undertakes that there shall exist throughout the term of the construction, Land in Vacant Possession for the construction of any segment of an expressway to which the Notice to Proceed is issued so that construction can be carried out continuously without any interruption for at least 6 months.

f. Any delay in the construction caused by (i) any delay in handing over the Land in Vacant Possession, (ii) any delay caused by significant changes made to the basic design, or (iii) any other cause not due to the willful act, fault or negligence of PRA and/or the Company, shall correspondingly extend the period of construction, provided however, that such extension of the period of construction shall not adversely affect the feasibility of the Project. If such extension affects the feasibility of the Project, the termination provisions shall apply.

g. The expressways shall be owned by the Grantor without prejudice to the rights and entitlement of the Grantee and/or the Company.

h. If the TOA is terminated by PRA and/or the Company by reason of the Grantor's default, the Grantor shall within six months from the date of notice of termination by the PRA and/or the Company: (i) be obliged to take over the Project, and shall forthwith assume all attendant rights and liabilities thereof including without limitation the obligations under the loan and (ii) pay just compensation to PRA and/or the Company.

Pursuant to the TOA, PRA established PEA Tollways Corporation (PEATC), its wholly owned subsidiary, to undertake the operations and maintenance obligations of PRA under the TOA. PEATC would collect the toll fees from the toll paying traffic and deposits such collections to the O&M Account of the joint venture maintained with a local bank.

The Company commenced the rehabilitation of the R-1 Expressway in November 1996 and completed the works in May 1998. The TRB issued a notice authorizing the start of toll collection for R-1 Expressway on May 24, 1998.

On June 28, 2010, the TRB has issued a clarification of the Franchise Period of R-1 Expressway Extension. According to the TRB, each segment of the expressways have their specific commencement of its Operation Date, that is, the date to start toll collection for that segment, which is granted after such segment is substantially completed and can be operated as a toll road. Since the R-1 Expressway Extension has yet to be substantially completed as at that date, the TRB clarified that the Franchise Period has not yet commenced for that segment.

On April 29, 2011, the TRB has issued a Notice to Start Collection for R-1 Expressway Extension effective May 1, 2011.

The TRB has issued conditional Notice to Proceed (NTP) for Segment 3A-1 and Segment 3A-2 of the C-5 South Link Expressway Project on August 17, 2015 and February 22, 2016, respectively. The effectivity of the NTP shall be subject to the fulfillment of the conditions precedent as stated in the TOA. The design for Phase 1 of the C-5 South Link Expressway Project (Merville to C5 crossing SLEX/Skyway) including the cost estimate has been completed and certified by the independent consultant (IC). On May 16, 2017, the Company entered into a contract with FF Cruz for the construction of Phase 1 (Segment 3-A). Construction officially commenced on June 2, 2017. The project is expected to be completed by second quarter of 2019. The construction of Phase 2 (R-1 to Merville) is expected to commence on the first quarter of 2018. The C-5 South Link is expected to be fully operational by the first quarter of 2020.

As provided in the JVA, the joint venture partners shall receive a monthly share equivalent to the excess in cash balance, net of operations and maintenance (O&M) expenses (equivalent to six months O&M for the initial monthly sharing and reduced to one month O&M after such initial sharing) to be distributed as follows: (a) 10.0% for PRA and 90.0% for the Company for the period starting from the Project completion until the full payment of loans and interest, cost advances, capital investments and return on equity of the parties and (b) 60.0% for PRA and 40.0% for the Company for the remainder of the 35-year toll concession period.

At the end of the toll collection period, the finished segments of the MCTEP will be transferred to the Grantor.

On November 14, 2006, the Company, PRA and TRB entered into an Operations and Maintenance Agreement (O&M Agreement), as approved by the Office of the President of the Republic of the Philippines, to clarify and amend certain rights and obligations under the JVA and TOA and to comply with the terms and conditions of the Company's Lenders and its Equity Contractor.

Below are the salient provisions of the O&M Agreement:

1. Redefinition of Phase I and II of the Project

   Phase I of the Project will now relate to the design and improvement of the R-1 Expressway and the design and construction of the R-1 Expressway Extension which consist of Segment 1 (from

Seaside Drive to Zapote), Segment 4 (from Zapote to Kawit) and Segment 5 (from Kawit to Noveleta), provided that, subject to the approval of the TRB, Segment 5 will be excluded from Phase I in the event that its construction does not begin within two years from the completion of the design and construction works for Segment 4 that is estimated to be in December 2008. In case of exclusion from Phase I, Segment 5 shall now form part of the Phase II, subject to the approval of the TRB.

Phase II of the Project will now relate to the design and construction of the C-5 Link Expressway, which consists of Segments 2 and 3 from R-1 Interchange to Sucat Interchange to South Luzon Expressway Interchange, respectively.

2. Change of the Participation of PRA and the Company in the O&M Agreement of Phase I of the Project

   PRA agrees to execute and deliver a voting trust agreement which shall be coupled with an interest covering two-thirds of the outstanding capital stock of PEATC in order to transfer the voting rights over such PEATC shares in favor of the Company. Such voting rights of the Company over the shares shall be during the period of the loan from syndicated lenders covered by the Omnibus Loan Agreement (OLA) (an OLA was signed by the Company and various lenders in 2006) and the repayment of the Equity Contractor and shall be irrevocable during the aforementioned period.

3. Appointment of Directors and Officers

   As a consequence of the Company's participation in the O&M Agreement set out in the previous paragraphs, the Company shall nominate 5 members of the BOD of PEATC while PRA shall nominate 2 members. PRA shall nominate the Chairman of the BOD and one (1) member as its second nominee as well as the Controller of PEATC, while the Company is entitled to nominate the Chief Executive Officer, Chief Operating Officer, Treasurer and the Corporate Secretary of PEATC. The Company shall further have the right to nominate other members of the Board and other officers to the key position of PEATC as may be necessary to effectively implement the participation.

4. Amendment of the Revenue Sharing Provisions as Previously Provided under the TOA

   Effective on the first day of the Company's participation in the O&M, there will be a new and improved distribution of the share in the toll fees of PRA and the Company. PRA shall receive 8.5% of gross toll revenue while the Company shall receive 91.5% of the gross toll revenue and will absorb all O&M costs and expenses. PRA shall no longer share from any of the O&M costs and expenses. The share of PRA shall be increased by 0.5% every periodic toll rate adjustment under the TOA but not to exceed 10.0% of gross toll revenue at any one time during the repayment period of the loan.

   The new PRA share of 8.5% of the gross toll revenue shall be subject to increase as mentioned in the previous paragraph which shall be implemented during the period of:

   a) existence of the loan which is payable for a period of 8 years; and
   b) repayment of the Equity Contractor which shall be converted into subordinated debt pari passu with the lenders for a period which shall not exceed an additional 3 years after the period of 8 years.

Upon repayment in full of the loans and interest costs, advances, capital investment and the return of equity, the Company and PRA shall share at the ratio of 40.0% and 60.0%, respectively, as originally agreed upon under the JVA.

The current share of PRA based on gross revenue is 9.0% while the Company is 91.0% which took effect on the last toll rate adjustment on January 1, 2009.

5. Amendment of the Conduct of the O&M of the Tollway

   All gross toll revenue collections shall be directly deposited on a daily basis to the respective bank accounts of PRA and the Company:

   a) The 91.0% share of the Company shall absorb all O&M costs and expenses. The Company shall continue to set aside sinking fund in accordance with the TOA schedule of maintenance per segment. The sinking fund interest income shall remain intact and shall not be subject to revenue sharing of the JVA partners.

   b) The sinking fund which shall remain with PEATC and maintained adequately at all times, shall be solely used for major road repairs and re-pavement and for extraordinary costs and expenses needed by the operation but not provided in the annual budget (see Note 14). Any shortage in the sinking fund shall be the sole responsibility of the Company; and

   c) All disbursements for O&M shall be authorized solely by the Company.

6. Acknowledgement of all parties that in the event of a default under the loan, the Lenders shall be granted step-in rights in respect of the share of the Company on the revenues from the toll collections in favor of the Lenders as security for the financing provided by such Lenders.

7. Unless otherwise amended, revised or modified by the Company, PRA and TRB after obtaining the necessary regulatory approvals, the Company's participation in the O&M under this O&M Agreement shall be terminated upon repayment in full of the loans subject of the OLA dated August 25, 2006 and repayment to the Equity Contractor.

In a letter dated May 21, 2010, the PRA confirmed that the effectivity of the O&M Agreement and the voting trust agreement shall be extended for a period of 4 years or until August 25, 2021, or upon full settlement of the funding obtained by the Company for the completion of MCTEP.

The Company has a pending claim for compensation against the Republic of the Philippines, acting by and through the TRB. As at December 31, 2017, total revenue loss due to the pending toll rate adjustment amounted to ₱1,465.60 million (net of VAT), of which, CIC and PRA's share amounted to ₱1,258.73 million and ₱206.88 million, respectively.

The Company's claim is based on TRB's inaction on lawful toll rate adjustments which were due in January 1, 2012, 2014, 2015 and 2016. The Company sent a demand letter in August 2015 to TRB seeking payment of the said amount. TRB disputed the demand letter and claimed that no compensation is due to the Company as the toll rate adjustment petitions have not yet been resolved. Subsequently, the Company sent a Notice of Dispute to the TRB in September 2015 pursuant to the dispute resolution provisions of the TOA. The Company filed a Petition for Periodic Toll Rate Adjustment on September 20, 2016. TRB replied, stating that they are studying the petition based on their Rule of Procedure. On November 16, 2016, the Company filed a Motion for Provisional Approval of Toll Rates under petition filed in 2014. There has been no action on the 2014 petition on the Motion for Provisional Approval. On September 30, 2017, the Company filed another Petition for

the next cycle, covering both R-1 and R-1 expressway extension. The Petition has been published in a newspaper of general circulation and the Company is awaiting TRB's action thereon as of February 14, 2018.

On February 7, 2017, the Company received a notice from the Permanent Court of Arbitration that Chelva Retnam Rajah has been designated the appointing authority who will appoint the chairperson of the Arbitration Panel.

In December 2017, Claimants CIC and PRA submitted their updated statement of claim with the Arbitration Tribunal. On December 29, 2017, the Arbitration Tribunal issued a ruling bifurcating the proceedings, i.e., separating the issue on its jurisdiction from the merits of the main claim for arbitration. On January 12, 2018, TRB has filed with the Arbitration Tribunal its jurisdictional objections, essentially alleging arguments in support of its intention to immediately have the arbitration case dismissed for lack of jurisdiction on the part of the Tribunal. The Respondent has filed its jurisdictional objections and CIC and PRA filed their opposition to those objections on January 26, 2018. As at February 14, 2018, the Company and PRA are still awaiting the Tribunal's resolution on the jurisdictional objections.

27. Financial Risk Management Objectives and Policies

The Company's principal financial instruments comprise cash and cash equivalents, receivables, obligations to an SPE and long-term debt. Other financial assets and liabilities of the Company, comprise of restricted cash, AFS financial assets, investment in preferred shares, sinking fund, accrued expenses and other current liabilities.

The risks arising from the Company's financial instruments are credit risk, liquidity risk and market risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance.

Credit Risk

Credit risk refers to the potential loss arising from any failure by counterparties to fulfill their obligations, as and when they fall due. Exposure to credit risk is managed through a credit review where an analysis of the ability of the obligors to meet capital repayment obligations is considered.

The maximum exposure to credit risks for the financial assets of the Company approximates their carrying values as at December 31, 2017 and 2016.

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

	2017					
		Past Due but not Impaired				
	Current	**1 to 30 days**	**31 to 60 days**	**Over 61 days**	**Impaired**	**Total**
Cash and cash equivalents*	**₱19,564,920**	**₱–**	**₱–**	**₱–**	**₱–**	**₱19,564,920**
Restricted cash	**334,691,521**	–	–	–	–	**334,691,521**
Receivables	**33,217,354**	**19,310,064**	**6,316,998**	**26,612,693**	–	**85,457,109**
AFS financial assets	**526,849,424**	–	–	–	–	**526,849,424**
Refundable deposits**	**9,995,830**	–	–	–	–	**9,995,830**
Sinking fund***	**159,170,880**	–	–	–	–	**159,170,880**
	₱1,083,489,929	**₱19,310,064**	**₱6,316,998**	**₱26,612,693**	**₱–**	**₱1,135,729,684**

**Excluding cash on hand.*
*** Included as part of "Prepaid expenses and other current assets" and "Other noncurrent assets" accounts in the statement of financial position.*
*** Included as part of "Other noncurrent assets" account in the statement of financial position.*

	2016					
		Past Due but not Impaired				
	Current	1 to 30 days	31 to 60 days	Over 61 days	Impaired	Total
Cash and cash equivalents*	₱184,389,855	₱–	₱–	₱–	₱–	₱184,389,855
Restricted cash	412,912,763	–	–	–	–	412,912,763
Receivables	284,225,503	1,951,313	459,091	66,990	–	286,702,897
AFS financial assets	363,590,796	–	–	–	–	363,590,796
Refundable deposits**	3,816,702	–	–	–	–	3,816,702
Investment in preferred shares	2,745,000,000	–	–	–	–	2,745,000,000
Sinking fund***	154,520,888	–	–	–	–	154,520,888
	₱4,148,456,507	₱1,951,313	₱459,091	₱66,990	₱–	₱4,150,993,901

**Excluding cash on hand.*
*** Included as part of "Prepaid expenses and other current assets" and "Other noncurrent assets" accounts in the statement of financial position.*
*** Included as part of "Other noncurrent assets" account in the statement of financial position.*

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

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

Standard Grade. Pertains to other financial assets not belonging to high grade financial assets are included in this category.

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

	2017		
	Neither Past-due nor Impaired		
Cash and cash equivalents*	**₱19,564,920**	**₱–**	**₱19,564,920**
Restricted cash	**334,691,521**	**–**	**334,691,521**
Receivables	**33,217,354**	**–**	**33,217,354**
Refundable deposits	**9,995,830**	**–**	**9,995,830**
Investment in AFS	**526,849,424**	**–**	**526,849,424**
Sinking fund**	**159,170,880**	**–**	**159,170,880**
	₱1,083,489,929	**₱–**	**₱1,083,489,929**

**Excluding cash on hand.*
***Included as part of "Other noncurrent assets" account in the statement of financial position.*

	2016		
	Neither Past-due nor Impaired		
Cash and cash equivalents*	₱184,389,855	₱–	₱184,389,855
Restricted cash	412,912,763	–	412,912,763
Receivables	284,225,503	–	284,225,503
Refundable deposits	3,816,702	–	3,816,702
Investment in AFS	363,590,796	–	363,590,796
Investment in preferred shares	2,745,000,000	–	2,745,000,000
Sinking fund**	154,520,888	–	154,520,888
	₱4,148,456,507	₱–	₱4,148,456,507

**Excluding cash on hand.*
***Included as part of "Other noncurrent assets" account in the statement of financial position.*

Liquidity Risk
Liquidity risk arises from the possibility that the Company may encounter difficulties in raising funds to meet or settle its obligations as they become due.

A key component of liquidity management is the diversification of various funding sources that will provide continuous availability of funding requirements. The main sources of the Company's funding are receivables, advances from related parties, long-term debt and additional capital from stockholders.

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

	2017					
	On Demand	**Less than 3 months**	**3-12 months**	**1-2 years**	**Over 2 years**	**Total**
Financial Assets						
Cash and cash equivalents*	**₱19,564,920**	**₱–**	**₱–**	**₱–**	**₱–**	**₱19,564,920**
Restricted cash	**–**	**334,304,480**	**387,041**	**–**	**–**	**334,691,521**
Receivables (Other receivables)	**33,217,354**	**52,239,755**	**–**	**–**	**–**	**85,457,109**
AFS Financial assets	**526,849,424**	**–**	**–**	**–**	**–**	**526,849,424**
Refundable deposits	**–**	**45,416**	**6,235,201**	**–**	**3,715,213**	**9,995,830**
Sinking fund**	**–**	**–**	**–**	**–**	**159,170,880**	**159,170,880**
	₱579,631,698	**₱386,589,651**	**₱6,622,242**	**₱–**	**₱162,886,093**	**₱1,135,729,684**
Financial Liabilities						
Accrued expenses and other current liabilities***:						
Accounts payable	**₱78,647,593**	**₱–**	**₱–**	**₱–**	**₱–**	**₱78,647,593**
Payable to CHI	**163,428,840**	**–**	**–**	**–**	**–**	**163,428,840**
Accrued expenses		**218,550,839**	**–**	**–**	**–**	**218,550,839**
Other payables	**22,374,089**	**–**	**–**	**–**	**–**	**22,374,089**
Retention sum and contractors payable	**96,184,527**	**–**	**–**	**–**	**–**	**96,184,527**
Provisions	**–**	**–**	**98,897,030**	**130,133,514**	**25,348,721**	**254,379,265**
Long-term debt****	**–**	**168,366,162**	**564,451,108**	**885,050,803**	**5,370,693,192**	**6,988,561,265**
	₱360,635,049	**₱386,917,001**	**₱663,348,138**	**₱1,015,184,317**	**₱5,396,041,913**	**₱7,822,126,418**

**Excluding cash on hand*
***Included as part of "Other noncurrent assets" account in the statement of financial position.*
****Excluding output vat payable, withholding tax payable, unearned toll revenue and other payables.*
*****Includes principal and interest repayment.*

	2016					
	On Demand	Less than 3 months	3-12 months	1-2 years	Over 2 years	Total
Financial Assets						
Cash and cash equivalents*	₱18,879,855	₱165,510,000	₱–	₱–	₱–	₱184,389,855
Restricted cash	–	261,049,288	151,863,475	–	–	412,912,763
Receivables -						
Receivable from an SPE	–	262,258,156	–	–	–	262,258,156
Dividend receivable	–	6,184,080	–	–	–	6,184,080
Other receivables	5,511,806	12,748,855	–	–	–	18,260,661
Refundable deposits	–	–	–	–	3,816,702	3,816,702
AFS Financial assets	363,590,796	–	–	–	–	363,590,796
Investment in preferred shares	–	–	–	–	2,745,000,000	2,745,000,000
Sinking fund**	–	–	–	–	154,520,888	154,520,888
	₱387,982,457	₱707,750,379	₱151,863,475	₱–	₱2,903,337,590	₱4,150,933,901
Financial Liabilities						
Accrued expenses and other current liabilities***:						
Accounts payable	₱56,455,320	₱1,217,077	₱–	₱–	₱–	₱57,672,397
Payable to CHI	163,428,840	–	–	–	–	163,428,840
Accrued expenses	–	124,173,711	–	–	–	124,173,711
Other payables	6,408,995	11,572,333	–	–	–	17,981,328
Retention sum and contractors payable	96,017,027	–	–	–	–	96,017,027
Provisions	–	–	58,935,535	96,393,539	23,098,432	178,427,506
Long-term debt****	–	132,799,944	391,502,245	732,817,270	6,255,743,995	7,512,863,454
Obligation to an SPE****	–	391,429,384	1,032,986,842	1,454,891,419	815,801,097	3,695,108,742
	₱322,310,182	₱661,192,449	₱1,483,424,622	₱2,284,102,228	₱7,094,643,524	₱11,845,673,005

**Excluding cash on hand*
***Included as part of "Other noncurrent assets" account in the statement of financial position.*
****Excluding output vat payable, withholding tax payable, unearned toll revenue and other payables.*
*****Includes principal and interest repayment*

Market Risk
Market risk is the possibility of loss to future earnings, fair values or future cash flows that may result from changes in the price of financial instrument. The value of a financial instrument may change as a result of changes in interest rates, foreign currency exchange rates, equity prices and other market factors.

Foreign Exchange Risk
The Company's foreign currency risk results primarily from movements of the Philippine peso against the U.S. dollar. The Company is exposed to foreign currency risks particularly arising from cash and cash equivalents, receivable from an SPE and obligation to an SPE.

The following table summarizes the Company's exposure to foreign exchange risk.

	2017	2016
Cash in banks	**$9,014**	$3,834
Receivable from an SPE	–	5,526
Obligation to an SPE	–	(11,289,807)
Foreign currency exposure	**$9,014**	($11,280,447)

The closing rates used by the Company in translating foreign accounts in 2017 and 2016 are ₱49.93 and ₱49.72, respectively.

The following tables set forth, the impact of changes in exchange rates on the Company's income before tax as at December 31, 2017 and 2016:

Increase/decrease in US$ rate		Effect on income before tax	
2017	2016	**2017**	2016
+**0.4%**	+4.00%	**(₱1,901)**	(₱22,488,090)
-0.4%	-4.00%	**1,901**	22,488, 090

The Company's policy is to minimize economic and material transactional exposures arising from currency movements against the peso.

There is no other effect to equity other than the effect of a reasonably possible change in the spot rates on currencies to income before tax.

Interest Rate Risk
Interest on financial instruments classified as floating rate is repriced semi-annually on each interest payment date. Interest on financial instruments classified as fixed rate is fixed until the maturity of the instrument, except for the long-term debt which will be repriced after 5 years from December 26, 2013. The other financial instruments of the Company that are not included in the above table are noninterest-bearing and are therefore not subject to cash flow interest rate risk.

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

	Increase/Decrease in Basis Points	Effect on Income Before Income Tax
2017	**+50**	**₱21,541,628**
	-50	**(21,541,628)**
2016	+50	18,471,563
	-50	(18,471,563)

Capital Management

The Company considers its equity and deposit for future stock subscription amounting to ₱2,174.3 million and ₱1,857.2 million as at December 31, 2017 and 2016, respectively, as its capital.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions, the risk characteristics of its activities and assessments of prospective business requirements or directions. No changes were made in the objectives, policies and processes from the previous years.

Until June 2017, under the Support Agreement with the SPE and the Bank of New York, the Company shall not pay any dividends or make any other distribution in respect of its share capital so long as:

a. An Early Amortization Event, a Cash Trapping Event or Repurchase Event (or any event that would be an Early Amortization Event, a Cash Trapping Event, or Repurchase Event with the expiration of any applicable grace period, the delivery of notice or both) exists;
b. Any Transaction Account is not fully funded;
c. Construction of the R-1 portion of the MCTEP is not complete; or
d. The Principal Series 2010-1 Notes has not commenced to amortize.

The Company has not paid any dividends in 2017 and 2016. On July 15, 2017, the Company prepaid its Series 2010-1 Notes (see Note 13).

28. Fair Value Measurement

The following table sets forth the carrying values and fair values of the Company's financial instruments, other than those whose carrying amounts are reasonable approximation of fair values as at December 31, 2017 and 2016:

	2017		2016	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Financial assets –				
AFS financial assets	**₱526,849,424**	**₱526,849,424**	₱363,590,796	₱363,590,796
Financial liabilities –				
Obligation to an SPE – Series 2010-1 Notes	**–**	**–**	535,762,468	594,899,084
Long-term debt	**5,364,231,833**	**5,438,278,704**	5,487,175,693	5,604,516,766
	₱5,364,231,833	**₱5,438,278,704**	₱6,022,938,161	₱6,199,415,850

The methods and assumptions used by the Company in estimating the fair value of the financial instruments are:

Obligation to an SPE – Series 2010-1 Notes. On June 15, 2017, the Company fully paid the Obligation to an SPE – Series 2010-1 notes. In 2016, the estimated fair value of the obligation to SPE (2010-1 Notes) (at market rates) was calculated using the discounted cash flow methodology. The discount rates used in estimating the fair value of Obligation to an SPE are U.S. risk-free rates plus a margin of 8.0%. Discount rates used range from 8.9% to 10.1% as at December 31, 2016.

Long-term Debt. The estimated fair value of the long-term debt is based on the discounted value of future cash flows using prevailing peso interest rates ranging from 3.1% to 5.7% and 1.9% to 5.4% in 2017 and 2016, respectively. The fair value of obligation to SPE, series 2012-1 Notes, with variable interest rates approximates its carrying amount due to quarterly repricing of interest.

The management assessed that the carrying values of cash and cash equivalents, restricted cash, receivables, sinking fund, accrued expenses and other current liabilities, retention sum and contractors payable and current portion of provisions approximates their fair values primarily due to the relatively short-term maturities of these instruments.

The carrying values of unquoted investment in preferred shares and refundable deposits approximate their fair values due to the unavailability of information as to the repayment date that would provide a reasonable basis for the fair value measurement.

The carrying value of noncurrent portion of provisions approximate fair value as at December 31, 2017 and 2016 due to unavailability of information as to the prepayment date that would provide a reasonable basis for the fair value measurement.

Fair Value Hierarchy

The following table provides the fair value measurement hierarchy of the Company's assets and liabilities as at December 31, 2017 and 2016:

	Date of Valuation	**Quoted Prices in Active Markets (Level 1)**	**Significant Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total**
Assets measured at fair value –					
AFS financial assets	December 31,2017	**₱–**	**₱526,849,424**	**₱–**	**₱526,849,424**
Liabilities for which fair values are disclosed:					
Long-term debt	December 31, 2017	**₱–**	**₱5,438,278,704**	**₱–**	**₱5,438,278,704**

	Date of Valuation	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets measured at fair value –					
AFS financial assets	December 31, 2016	₱–	₱363,590,796	₱–	₱363,590,796
Liabilities for which fair values are disclosed:					
Obligation to an SPE – Series 2010-1 Notes	December 31, 2016	₱–	₱594,899,084	₱–	₱594,899,084
Long-term debt	December 31, 2016	–	5,604,516,766	–	5,604,516,766
		₱–	₱6,199,415,850	₱–	₱6,199,415,850

During the years ended December 31, 2017 and 2016, there were no transfers between Level 1 and Level 2 fair value measurements and no transfers into and out of Level 3 fair value measurements.

29. Supplemental Cash Flow Information

Changes in liabilities arising from financing activities

			Non-cash charges		
	January 1, 2017	Cash flows	Amortization of DIC	Foreign exchange movement	December 31, 2017
Obligation to a special purpose entity (see Note 13)	₱3,280,762,468	(₱3,305,013,370)	₱25,566,740	(₱ 1,315,838)	₱–
Long-term debt (see Note 16)	5,487,175,693	(152,500,000)	29,556,140	–	5,364,231,833
Short-term debt*	–	–	–	–	–
Advances for future stock subscription	–	200,000,000	–	–	200,000,000
Total liabilities from financing activities	₱8,767,938,161	(₱3,257,513,370)	₱55,122,880	(₱1,315,838)	₱5,564,231,833

**Shor-term debt is net of cash inflow and outflow of ₱600,000,000.*

Non-cash investing activities

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

- Reclassification of service concession asset from deferred charges pertaining to pre-construction costs incurred related to C-5 Link Project amounting to ₱5.74 million.
- Additions to construction in progress on account amounting to ₱2.64 million.

The Company has no non-cash investing activities in 2017.

30. Supplementary Tax Information Required Under Revenue Regulations 15-2010

The Company reported and/or paid the following types of taxes for the year ended December 31, 2017:

Value Added Tax (VAT)

a. Net Sales/Receipts and Output VAT declared in the Company's VAT returns for 2017

	Net Sales/Receipts	Output VAT
Vatable Sales	₱1,532,735,391	₱183,928,247

b. Input VAT

Balance at January 1	₱–
Current year's domestic purchases/payments for:	
Goods other than capital goods	3,413,747
Domestic purchase of service	51,961,592
Total	55,375,339
Input VAT applied against output VAT	55,375,339
Balance at December 31	₱–

Taxes and Licenses

Taxes and licenses under operating expenses, local and national, include real estate taxes, licenses and permit fees for 2017:

Business permit	₱6,779,986
Documentary stamp tax	3,177,832
Land transportation office registration	98,202
Licenses	25,656
Others	19,105
	₱10,100,781

Taxes and licenses amounting to ₱9.8 million is presented as "General and administrative expenses" account and the remaining ₱0.2 million is presented as part of MCTE expenses under "Cost of services" account.

Withholding Taxes

Details of withholding tax payments for the year ended December 31, 2017 are as follows:

Expanded withholding taxes	₱24,329,655
Final withholding taxes	29,949,350
Withholding taxes on compensation and benefits	2,656,222
	₱56,935,227

Tax Assessments

The Company has not received any Final Assessment Notice as at December 31, 2017. Likewise, the Company has no other pending tax case outside the administration of BIR as at December 31, 2017.