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

Consolidated Financial Statements
December 31, 2018 and 2017
and Years Ended December 31, 2018,
2017 and 2016

and

Independent Auditor's Report

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BOA/PRC Reg. No. 0001,
October 4, 2018, valid until August 24, 2021
SEC Accreditation No. 0012-FR-5 (Group A),
November 6, 2018, valid until November 5, 2021

INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors
NLEX Corporation

Opinion

We have audited the consolidated financial statements of NLEX Corporation (a subsidiary of Metro Pacific Tollways North Corporation) and its subsidiary (the Company), which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2018, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2018 in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

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

Key Audit Matters

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

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

Recoverability of provisional goodwill and service concession assets not yet available for use

The Company's provisional goodwill, mainly arising from its acquisition of Tollways Management Corporation (TMC), amounted to ₱6.2 billion. In addition, the Company has entered into several service concession agreements with the Philippine Government and/or its agencies or instrumentalities, of which ₱14.4 billion of these service concession assets are not yet available for use. Under Philippine Accounting Standard (PAS) 36, *Impairment of Assets*, the Company is required to perform annual impairment test on the amount of provisional goodwill and service concession assets not yet available for use. These annual impairment tests are significant to our audit because the balance of provisional goodwill and service concession assets are material to the consolidated financial statements. In addition, the determination of the recoverable amount of the cash-generating unit (CGU) to which the provisional goodwill belongs or as it relates to the service concession assets, involves significant assumptions about the future results of business such as revenue growth, gross margins and discount rates which are applied to the cash flow forecasts. The assumption on revenue growth mainly relates to the expected volume of traffic of the toll roads.

Refer to Note 6 to the consolidated financial statements for the details of the provisional goodwill and Notes 2 and 9 to the consolidated financial statements for the details of service concession assets.

Audit response

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

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

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

Refer to Notes 4 and 9 to the consolidated financial statements for the related discussions on service concession assets.

Audit response

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

Accounting for business combination - Merger with TMC

On November 29, 2018, the SEC approved the certificate of filing of the Articles and Plan of Merger between TMC (the absorbed corporation) and NLEX Corp. (the surviving corporation). The Merger is effective on December 14, 2018. NLEX Corp. accounted for the Merger as an acquisition of a business under Philippine Financial Reporting Standard (PFRS) 3, *Business Combinations* and recognized provisional goodwill of ₱6.2 billion based on the preliminary purchase price allocation performed. We considered the accounting for this acquisition to be a key audit matter because it required significant management judgment in assessing whether the business combination between entities under common control has substance from the perspective of the reporting entity, NLEX Corp. In addition, this involves significant management judgment and estimation in identifying the underlying acquired assets and liabilities and in determining their fair values.

Refer to Note 6 to the consolidated financial statements for the details of the business combination.

Audit response

We evaluated management's judgment on whether the transaction has substance and qualifies for the acquisition method of accounting under PFRS 3 by reference to the Plan and Articles of Merger and documents related to the acquisition. In applying the acquisition method, we reviewed the identification of the underlying assets and liabilities of TMC in accordance with the terms of the Merger and the determination of their fair values in comparison with the underlying records. We reviewed the disclosures in the notes to the consolidated financial statements.

Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2018, but does not include the consolidated financial statements and our auditor's report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2018 are expected to be made available to us after the date of this auditor's report.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

SYCIP GORRES VELAYO & CO.

Mariecris N. Barbaso
Partner
CPA Certificate No. 97101
SEC Accreditation No. 1513-AR-1 (Group A),
November 16, 2018, valid until November 15, 2021
Tax Identification No. 202-065-716
BIR Accreditation No. 08-001998-108-2018,
February 14, 2018, valid until February 13, 2021
PTR No. 7332526, January 3, 2019, Makati City

February 15, 2019

NLEX CORPORATION
(A Subsidiary of Metro Pacific Tollways North Corporation)
AND A SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31	
	2018	2017
ASSETS		
Current Assets		
Cash and cash equivalents (Note 7)	**₱2,448,986,198**	₱2,715,210,842
Investments in unit investment trust funds (Notes 13, 31 and 32)	**67,858,720**	217,749,970
Receivables (Notes 8, 18, 31 and 32)	**729,730,973**	715,039,256
Inventories - at cost	**93,480,382**	112,594,013
Investments in bonds and treasury notes (Notes 14, 31 and 32)	**61,640,451**	49,825,000
Other current assets (Note 15)	**609,290,665**	521,345,334
Total Current Assets	**4,010,987,389**	4,331,764,415
Noncurrent Assets		
Service concession assets (Note 9)	**37,083,887,776**	33,672,831,472
Property and equipment (Note 10)	**334,148,769**	180,556,890
Investment properties (Note 11)	**325,157,911**	128,980,520
Other intangible assets (Note 12)	**21,868,844**	10,314,314
Investments in bonds and treasury notes (Notes 14, 31 and 32)	**979,481,006**	1,204,581,932
Pension asset (Note 25)	**–**	5,570,690
Deferred tax assets - net (Note 29)	**275,623**	–
Goodwill (Note 6)	**6,213,799,383**	–
Advances to contractors and other noncurrent assets (Note 30)	**431,455,993**	501,280,281
Total Noncurrent Assets	**45,390,075,305**	35,704,116,099
	₱49,401,062,694	₱40,035,880,514
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and other current liabilities (Notes 16, 18 and 31)	**₱2,501,937,336**	₱3,188,720,454
Income tax payable	**358,381,181**	329,435,810
Dividends payable (Note 21)	**2,100,000,000**	1,840,000,000
Provisions (Note 17)	**386,079,568**	257,133,026
Current portion of long-term debt (Notes 19, 31 and 32)	**352,011,497**	4,304,208,838
Long-term incentive plan payable within the next twelve months (Note 25)	**–**	193,442,315
Total Current Liabilities	**5,698,409,582**	10,112,940,443
Noncurrent Liabilities		
Long-term debt - net of current portion (Notes 19, 31 and 32)	**21,725,412,966**	16,136,387,307
Service concession fees payable (Notes 20 and 32)	**2,701,448,632**	2,521,429,127
Long-term incentive plan payable (Note 25)	**86,000,000**	–
Provisions (Note 17)	**62,262,164**	103,412,942
Pension liability (Note 25)	**20,162,687**	–
Deferred tax liabilities - net (Note 29)	**535,165,307**	505,726,589
Other noncurrent liabilities (Note 30)	**10,887,425**	250,023
Total Noncurrent Liabilities	**25,141,339,181**	19,267,205,988
Total Liabilities	**30,839,748,763**	29,380,146,431

(Forward)

	December 31	
	2018	2017
Equity		
Capital stock (Note 21)	**₱1,878,600,000**	₱1,776,000,000
Additional paid-in capital (Note 21)	**9,965,880,147**	3,749,711,168
Retained earnings (Note 21)	**6,809,474,412**	5,154,024,882
Other comprehensive loss reserve (Note 21)	**(105,674,910)**	(37,036,249)
Other reserve (Note 26)	**13,034,282**	13,034,282
Total Equity	**18,561,313,931**	10,655,734,083
	₱49,401,062,694	₱40,035,880,514

See accompanying Notes to Consolidated Financial Statements.

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

CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31		
	2018	2017	2016
OPERATING REVENUES			
Toll fees (net of discounts amounting to ₱167,547,707 in 2018, ₱154,788,618 in 2017, and ₱136,344,787 in 2016)	**₱13,049,489,300**	₱11,586,054,532	₱10,538,908,306
Sales of magnetic cards	**5,402**	6,071	5,000
Toll revenues	**13,049,494,702**	11,586,060,603	10,538,913,306
Non-toll revenues (Note 22)	**208,308,727**	174,378,189	157,434,640
Total revenues	**13,257,803,429**	11,760,438,792	10,696,347,946
COST OF SERVICES (Note 23)	**(4,748,391,584)**	(4,554,360,218)	(4,392,888,455)
GROSS PROFIT	**8,509,411,845**	7,206,078,574	6,303,459,491
CONSTRUCTION REVENUE (Note 9)	**4,221,705,212**	3,763,578,479	6,170,060,989
CONSTRUCTION COSTS (Note 9)	**(4,221,705,212)**	(3,763,578,479)	(6,170,060,989)
GENERAL AND ADMINISTRATIVE EXPENSES (Note 24)	**(898,103,330)**	(845,452,952)	(726,169,402)
INTEREST EXPENSE AND OTHER FINANCE COSTS (Note 28)	**(406,592,795)**	(523,371,725)	(442,912,617)
INTEREST INCOME (Note 27)	**78,227,411**	51,344,156	62,089,704
FOREIGN EXCHANGE GAIN (LOSS) - net	**(873,681)**	1,509,499	(254,488)
OTHER INCOME - net (Notes 10, 14 and 17)	**57,716,455**	66,245,716	10,479,541
INCOME BEFORE INCOME TAX	**7,339,785,905**	5,956,353,268	5,206,692,229
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 29)			
Current	**1,535,706,116**	1,294,906,187	1,152,806,403
Deferred	**48,630,259**	17,206,867	(33,191,446)
	1,584,336,375	1,312,113,054	1,119,614,957
NET INCOME	**₱5,755,449,530**	₱4,644,240,214	₱4,087,077,272

See accompanying Notes to Consolidated Financial Statements.

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2018	2017	2016
NET INCOME	**₱5,755,449,530**	₱4,644,240,214	₱4,087,077,272
OTHER COMPREHENSIVE INCOME (LOSS)			
Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:			
Loss on financial assets at fair value through other comprehensive income (Notes 14 and 21)	**(63,960,038)**	–	–
Loss on available-for-sale financial assets - net (Notes 13, 14 and 21)	**–**	(418,469)	(1,661,917)
Income tax effect (Notes 21 and 29)	**388,883**	(1,507,674)	(1,192,620)
	(63,571,155)	(1,926,143)	(2,854,537)
Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods:			
Remeasurement gains (losses) on defined benefit retirement plan (Notes 21 and 25)	**(7,239,294)**	2,574,682	(10,697,673)
Income tax effect (Notes 21 and 29)	**2,171,788**	(772,405)	3,209,302
	(5,067,506)	1,802,277	(7,488,371)
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX	**(68,638,661)**	(123,866)	(10,342,908)
TOTAL COMPREHENSIVE INCOME	**₱5,686,810,869**	₱4,644,116,348	₱4,076,734,364

See accompanying Notes to Consolidated Financial Statements.

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016

	Capital Stock (Note 21)	Additional Paid-in Capital (Note 21)	Retained Earnings (Note 21)	Other Comprehensive Loss Reserve (Note 21)	Other Reserve (Note 26)	Total Equity
At January 1, 2018	**₱1,776,000,000**	**₱3,749,711,168**	**₱5,154,024,882**	**(₱37,036,249)**	**₱13,034,282**	**₱10,655,734,083**
Issuance during the year (Notes 6 and 21)	**102,600,000**	**6,216,168,979**	**–**	**–**	**–**	**6,318,768,979**
Cash dividends (Note 21)	**–**	**–**	**(4,100,000,000)**	**–**	**–**	**(4,100,000,000)**
Net income	**–**	**–**	**5,755,449,530**	**–**	**–**	**5,755,449,530**
Other comprehensive loss (Note 21)	**–**	**–**	**–**	**(68,638,661)**	**–**	**(68,638,661)**
Total comprehensive income for the year	**–**	**–**	**5,755,449,530**	**(68,638,661)**	**–**	**5,686,810,869**
At December 31, 2018	**₱1,878,600,000**	**₱9,965,880,147**	**₱6,809,474,412**	**(₱105,674,910)**	**₱13,034,282**	**₱18,561,313,931**
At January 1, 2017	₱1,776,000,000	₱3,749,711,168	₱4,109,784,668	(₱36,912,383)	₱13,034,282	₱9,611,617,735
Cash dividends (Note 21)	–	–	(3,600,000,000)	–	–	(3,600,000,000)
Net income	–	–	4,644,240,214	–	–	4,644,240,214
Other comprehensive loss (Note 21)	–	–	–	(123,866)	–	(123,866)
Total comprehensive income for the year	–	–	4,644,240,214	(123,866)	–	4,644,116,348
At December 31, 2017	₱1,776,000,000	₱3,749,711,168	₱5,154,024,882	(₱37,036,249)	₱13,034,282	₱10,655,734,083
At January 1, 2016	₱1,776,000,000	₱3,749,711,168	₱2,622,707,396	(₱26,569,475)	₱11,789,439	₱8,133,638,528
Cash dividends (Note 21)	–	–	(2,600,000,000)	–	–	(2,600,000,000)
Equity contribution - executive stock option plan (Note 26)	–	–	–	–	1,244,843	1,244,843
Net income	–	–	4,087,077,272	–	–	4,087,077,272
Other comprehensive loss (Note 21)	–	–	–	(10,342,908)	–	(10,342,908)
Total comprehensive income for the year	–	–	4,087,077,272	(10,342,908)	–	4,076,734,364
At December 31, 2016	₱1,776,000,000	₱3,749,711,168	₱4,109,784,668	(₱36,912,383)	₱13,034,282	₱9,611,617,735

See accompanying Notes to Consolidated Financial Statements.

NLEX CORPORATION
(A Subsidiary of Metro Pacific Tollways North Corporation)
AND A SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2018	2017	2016
OPERATING ACTIVITIES			
Income before income tax	**₱7,339,785,905**	₱5,956,353,268	₱5,206,692,229
Adjustments to reconcile income before income tax to net cash flows:			
Amortization of service concession assets (Notes 9 and 23)	**810,648,908**	762,794,599	615,120,463
Interest expense and other finance costs (Note 28)	**406,592,795**	523,371,725	442,912,617
Interest income (Note 27)	**(78,227,411)**	(51,344,156)	(62,089,704)
Depreciation of property and equipment (Notes 10, 23 and 24)	**75,486,504**	51,942,568	29,978,498
Movements in:			
Provisions	**(63,003,276)**	(67,990,132)	66,899,069
Retirement plan	**(8,848,489)**	(2,091,328)	453,411
Long-term incentive plan expense (Note 25)	**27,573,136**	64,000,000	58,964,008
Decline in value of inventories (Note 24)	**16,615,395**	–	–
Provision for unclaimable input VAT (Notes 15 and 24)	**14,271,746**	–	–
Provision for doubtful accounts (Notes 8 and 24)	**6,324,289**	1,500,575	10,776,531
Amortization of other intangible assets (Notes 12, 23 and 24)	**5,819,883**	11,861,791	5,924,711
Unrealized foreign exchange gain - net	**(804,411)**	(57,001)	(245,495)
Unrealized loss (gain) on investments in UITF (Note 13)	**(637,311)**	(620,834)	(4,699,640)
Gain on disposals of property and equipment (Note 10)	**(224,338)**	(22,664)	(861,043)
Amortization of discount on bonds	**(146,002)**	(1,500,286)	–
Loss on disposal of investments in bonds and treasury notes (Note 14)	**43,713**	42,427	–
Executive stock option plan expense (Notes 25 and 26)	**–**	–	1,244,843
Working capital changes:			
Decrease (increase) in:			
Receivables	**90,080,796**	(117,665,925)	(41,473,973)
Inventories	**2,498,236**	(21,417,652)	(19,783,221)
Other current assets	**(33,812,337)**	700,561,686	(221,944,766)
Increase (decrease) in:			
Accounts payable and other current liabilities	**(893,839,536)**	88,986,503	887,319,612
Due to related parties	**(833,430)**	833,430	–
Long-term incentive plan payable	**(157,015,451)**	–	–
Income tax paid	**(1,506,760,745)**	(1,268,926,523)	(1,108,005,705)
Net cash flows from operating activities	**6,051,588,569**	6,630,612,071	5,867,182,445

(Forward)

	Years Ended December 31		
	2018	2017	2016
INVESTING ACTIVITIES			
Cash acquired from merger (Note 6)	**₱155,809,552**	₱–	₱–
Interest received	**76,943,809**	45,648,163	63,725,811
Decrease (increase) in other noncurrent assets	**82,606,440**	95,848,408	(133,935,540)
Additions to:			
Service concession assets (Note 9)	**(4,030,125,542)**	(3,573,526,690)	(6,031,216,910)
Investments in UITF (Note 13)	**(6,410,000,000)**	(5,731,000,001)	(7,028,706,242)
Investments in bonds and treasury notes (Note 14)	**–**	(150,000,000)	(31,230,000)
Property and equipment (Note 10)	**(175,734,167)**	(98,825,702)	(45,382,933)
Investment properties (Note 11)	**(177,689,958)**	(87,536,641)	(40,341,498)
Other intangible assets (Note 12)	**(17,374,413)**	(3,917,613)	(7,501,925)
Proceeds from:			
Redemption of investments in UITF (Note 13)	**6,565,567,691**	5,604,990,023	8,195,583,689
Sale of investments in bonds and treasury notes (Note 14)	**99,956,287**	249,957,573	198,485,193
Maturity of investments in bonds (Note 14)	**50,000,000**	–	200,000,000
Sale of property and equipment (Note 10)	**660,288**	1,320,268	2,371,906
Net cash flows used in investing activities	**(3,779,380,013)**	(3,647,042,212)	(4,658,148,449)
FINANCING ACTIVITIES (Note 34)			
Proceeds from loans (Note 19)	**9,700,000,000**	2,000,000,000	2,000,000,000
Payments of:			
Dividends (Note 21)	**(3,840,000,000)**	(1,760,000,000)	(4,022,576,000)
Loans	**(8,017,616,998)**	(402,102,309)	(1,012,102,309)
Interest expense and other finance costs	**(308,145,357)**	(482,015,091)	(427,123,627)
Debt issue costs (Note 19)	**(73,475,256)**	(14,211,470)	(26,888,808)
Net cash flows used in financing activities	**(2,539,237,611)**	(658,328,870)	(3,488,690,744)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(267,029,055)**	2,325,240,989	(2,279,656,748)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**804,411**	57,001	245,495
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR (Note 7)	**2,715,210,842**	389,912,852	2,669,324,105
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 7)	**₱2,448,986,198**	₱2,715,210,842	₱389,912,852

See accompanying Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

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

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

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

Metro Pacific Tollways North Corporation (MPTNC), the parent company, is a wholly owned subsidiary of Metro Pacific Tollways Corporation (MPTC). MPTC is 99.9% owned by Metro Pacific Investments Corporation (MPIC). MPIC is a publicly listed Philippine corporation and is 41.9% owned by Metro Pacific Holdings, Inc. (MPHI) as at December 31, 2018 and 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, 2018 and 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 registered office address of the Parent Company is NLEX Compound, Balintawak, Caloocan City, Metro Manila.

The consolidated financial statements as at December 31, 2018 and 2017 and for each of the three years in the period ended December 31, 2018 were authorized for issuance by the Parent Company's BOD on February 15, 2019, as reviewed and recommended for approval by the Parent Company's Audit Committee.

Merger between NLEX Corp. and Tollways Management Corporation (TMC)
On October 19, 2016, the Parent Company's BOD approved the proposed merger between NLEX Corp. and TMC, with NLEX Corp. as the surviving corporation (the Merger). The merger was effective on December 14, 2018, which is 15 days after the receipt of the required approval of the SEC on November 29, 2018 (see Note 6).

Toll Operations

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

The MNEP consists of three phases as follows:

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

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

Segment 8.1, a portion of Phase II, which is a 2.7 km-road designed to link Mindanao Avenue to the NLEX, had officially commenced tollway operation on June 5, 2010. Segment 9, a portion of Phase II, which is a 2.4 km-road connecting NLEX to the McArthur Highway, had officially commenced tollway operation on March 19, 2015. In May 2014, Segment 10, a portion of Phase II, which is a 5.76 km four-lane, elevated expressway that will start from the terminal of Segment 9 in Valenzuela City going to Circumferential Road 3 (C-3 Road) in Caloocan City above the alignment of Philippine National Railway (PNR) tracks, had commenced construction and is expected to be completed on January 26, 2019. The estimated cost of construction of Segment 10 is ₱10.5 billion. The remaining portion of Phase II is under pre-construction works while Phase III of the MNEP has not yet been started as at February 15, 2019.

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

NLEX-South Luzon Expressway (SLEX) Connector Road Project (NLEX-SLEX Connector Road). On November 23, 2016, NLEX Corp. was awarded the concession for the design, financing, construction, operation and maintenance of the NLEX-SLEX Connector Road. The NLEX-SLEX Connector Road is an elevated four-lane toll expressway structure with a length of 8 kilometers passing through and above the right of way of the PNR starting from NLEX Segment 10 at C-3 Road Caloocan City and seamlessly connecting to SLEX through Metro Manila Skyway Stage 3 Project in Manila. As at February 15, 2019, the construction of the NLEX-SLEX Connector Road is still on its pre-construction phase.

2. Service Concession Arrangements

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

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

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

The PNCC franchise expired on May 1, 2007. Pursuant to the STOA, the TRB issued the necessary TOC for the NLEX in order to allow the continuation of the Concession. As further discussed in Note 29, NLEX Corp. pays a certain amount to PNCC.

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

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

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

From 2007 to 2010, NLEX Corp. obtained TRB's approval for certain amendments to the STOA for the MNEP which includes (a) the integration of Segment 10 into Phase II - July 2007; (b) amendment of adjustment formula for the Authorized Toll Rate (ATR) by removing the foreign exchange factor -

June 2008; (c) adoption of an integrated operations period for Phase I and Segment 8.1 and extension of the concession period until December 31, 2037 - October 2008; (d) modification of alignments of Phase II Segments 9 and 10 - February 2010; and (e) the following approvals in relation to Phase II Segments 9 and 10 project: (i) adoption of the 2008 TRB approved ATR formula ("ATRF") for five (5) years following the completion of Segment 9; (ii) continuation of the implementation of the ATRF for ten (10) years from commercial operation of Segment 10; and (iii) approval of the additional ₱6.00 (exclusive of value-added tax or VAT) adjustment to the Open System toll rate upon completion of Segment 10.

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

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

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

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

In consideration for the assignment by BCDA to NLEX Corp. of its rights to and interests in SCTEX, NLEX Corp. paid BCDA an upfront cash of ₱3.5 billion (inclusive of VAT) upon effectivity of the BA (the Upfront Payment). NLEX Corp. shall also pay BCDA monthly concession fees amounting to 50% of the Audited Gross Toll Revenues of SCTEX for the relevant month from effective date to October 30, 2043. NLEX Corp. shall gross up the concession fees by the 12% VAT. The Company recorded concession fees of ₱1,076.0 million, ₱931.6 million and ₱791.5 million 2018, 2017 and 2016, respectively, which is included under "Cost of services" account in the consolidated statements of income (see Note 23).

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

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

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

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

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

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

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

Pursuant to the Concession Agreement, NLEX Corp. shall preserve the asset so it can be handed back to DPWH in a manner that complies with the pavement performance standards specified in the concession agreement and that all the building and equipment necessary to operate the expressway remain functional and in good condition that is equivalent to prudent industry practice. NLEX Corp. must also manage the maintenance of the assets so that there is a residual asset life that complies with the residual life standards stated in the concession agreement at the end of the concession period. As at February 15, 2019, the NLEX-SLEX Connector Road is still on its pre-construction phase.

3. Summary of Significant Accounting Policies

Basis of Preparation
The consolidated financial statements have been prepared on a historical cost basis, except for investments in unit investment trust funds (UITFs) and investments in bonds and treasury notes which are measured at fair value. The consolidated financial statements are presented in Philippine peso, which is the Company's functional and presentation currency. All values are rounded to the nearest peso, except when otherwise indicated.

Statement of Compliance
The consolidated financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRSs).

Basis of Consolidation
The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiary as at December 31, 2018 and December 31, 2017 and for each of the three years in the period ended December 31, 2018.

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

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

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

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

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

Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those with those followed in the preparation of the Company's annual consolidated financial statements for the year ended December 31, 2017, except for the following adoption of new and amended PFRS effective January 1, 2018.

The Company applied the following PFRS and amendments to existing standards effective January 1, 2018. Except for additional disclosure requirements, adoption of the following standards did not have any material impact on the Company's financial position or performance:

- PFRS 15, *Revenue from Contracts with Customers*

  PFRS 15 supersedes Philippine Accounting Standard (PAS) 11 *Construction Contracts*, PAS 18 *Revenue* and related interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in scope of other standards. The new standard establishes a five-step model to account for 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 standard requires entities to provide disclosures about the significant judgments made in determining the timing of satisfaction of performance obligations. The standard also specifies that an entity should estimate the amount of variable consideration to which it will be entitled.

  The Company adopted PFRS 15 using the modified retrospective method of adoption and applies to contracts not yet completed at the date of initial application. The cumulative effect of initially applying PFRS 15 is recognized at the date of initial application as an adjustment to the retained earnings as at January 1, 2018. Therefore, the comparative information was not restated and continues to be reported under PAS 11, PAS 18 and related interpretations.

  The effect of adopting PFRS 15 is as follows:

  a. *Toll Revenue*
     Revenue from toll fees is recognized upon the sale of toll tickets and passage on the toll roads. The Company recognizes toll revenues over time since the customer simultaneously receives and consumes the benefits, provided by NLEX Corp.'s performance of its obligation to operate and maintain toll roads, during the time of passage on the toll roads which occur on the same day. Therefore, the adoption of PFRS 15 did not have an impact on the timing of revenue recognition.

  b. *Discounts*
     The Company provides discounts to jeepney drivers in the form of rebates and Passada. Rebates refer to the discount provided at month-end under promotional scheme. Passada are the discounts given to jeepneys that pass through the 14-kilometer open toll section. Any entry or exit after the consumable toll fee per day is considered as discount by the toll collection system.

The Company concludes that these discounts are not material and do not involve any complexity as the discount period ends within the same period the revenue is recognized. Therefore, the adoption of PFRS 15 did not have a material impact on the recognition of discounts.

c. *Construction Revenue*
Service concession assets with ongoing construction and upgrade services amounting to ₱4,221.7 million and ₱3,763.6 million as at December 31 and January 1, 2018, respectively, are considered as contract assets under PFRS 15.

- PFRS 9, *Financial Instruments*

PFRS 9 replaces the provisions of PAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of PFRS 9 from January 1, 2018 resulted in changes in accounting policies but did not have a material impact on the consolidated financial statements. In accordance with the transitional provisions of PFRS 9, comparative figures have not been restated, thereby resulting in the following impact:

a. Comparative information for prior periods are not restated. The classification and measurement requirements previously applied in accordance with PAS 39 and disclosures required in PFRS 7, *Financial Instruments: Disclosures* are retained for the comparative periods.

b. The accounting policies for both the current period and the comparative periods, one applying PFRS 9 and one applying PAS 39 are disclosed in the notes to the consolidated financial statements.

c. The difference between the previous carrying amount and the carrying amount at the beginning of the annual reporting period that includes the date of initial application are recognized in the opening retained earnings or other component of equity, as appropriate.

d. As comparative information is not restated, the Company is not required to provide a third statement of financial information at the beginning of the earliest comparative period in accordance with PAS 1, *Presentation of Financial Statements*.

Classification and Measurement

Financial Assets

From January 1, 2018 (date of initial application of PFRS 9), the Company classifies its financial assets in the following measurement categories: (i) those to be measured subsequently at fair value (either through other comprehensive income (OCI), or through profit or loss), and (ii) those to be measured at amortized cost. The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Company has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

The Company reclassifies debt investments when and only when its business model for managing those assets changes.

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

- *Debt Instruments.* Subsequent measurement of debt instruments depends on the Company's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the group classifies its debt instruments: (i) amortized cost; (ii) FVOCI; and (iii) FVTPL.

  The Company has debt investments at FVOCI and amortized cost. Assets that are held both for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in other gains (losses). Interest income from these financial assets is included in interest income using the effective interest rate (EIR) method.

  Assets that are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and which contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at amortized cost.

  Assets that do not meet the criteria for amortized cost or FVOCI are measured at FVTPL. A gain or loss on a debt investment that is subsequently measured at FVTPL is recognized in profit or loss in the period in which it arises.

- *Equity instruments.* The Company subsequently measures all equity investments at fair value. Where the Company's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognized in profit or loss as other income when the Company's right to receive payments is established. Changes in the fair value of financial assets at FVTPL are recognized in other gains (losses) in the profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

Financial Liabilities

Financial liabilities are classified as at FVTPL when the financial liability is either held-for-trading or it is designated at FVTPL.

Under PFRS 9, Management may designate a financial liability as at FVTPL upon initial recognition when the following criteria are met, and designation is determined on an instrument-by-instrument basis:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognizing gains or losses on them on a different basis; or
- The liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- The financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

On January 1, 2018, the Company assessed which business model applies to the financial assets held by the Company and has classified its financial assets into the appropriate categories. There was no material impact on the resulting reclassification. Presented below is the impact of the adoption of PFRS 9 as at January 1, 2018 on the Company's consolidated financial statements:

	Original Measurement Category under PAS 39	New Measurement Category under PFRS 9	Original Carrying Amount under PAS 39	New Carrying Amount under PFRS 9
Financial Assets				
Cash and cash equivalents*	Loans and receivables	Financial assets at amortized cost	₱2,656,156,532	₱2,656,156,532
Receivables (excluding advances to officers and employees)	Loans and receivables	Financial assets at amortized cost	704,398,236	704,398,236
Investments in unit investment trust fund (UITF)	AFS financial assets	Financial assets at FVTPL	217,749,970	217,749,970
Investments in bonds and treasury notes (current and noncurrent)	AFS financial assets	Financial assets at FVOCI	1,254,406,932	1,254,406,932
Restricted cash	Loans and receivables	Financial assets at amortized cost	321,000,000	321,000,000
Refundable deposits (under Noncurrent assets)	Loans and receivables	Financial assets at amortized cost	3,694,561	3,694,561
			₱5,157,406,231	₱5,157,406,231
Financial Liabilities				
Accounts payable and other current liabilities (excluding statutory liabilities, unearned income and unearned rental income)	Financial liabilities at amortized cost	Financial liabilities at amortized cost	₱3,021,311,460	₱3,021,311,460
Long-term debt (current and noncurrent)	Financial liabilities at amortized cost	Financial liabilities at amortized cost	20,440,596,145	20,440,596,145
Service concession fees payable	Financial liabilities at amortized cost	Financial liabilities at amortized cost	2,521,429,127	2,521,429,127
Dividends payable	Financial liabilitis at amortized cost	Financial liabilities at amortized cost	1,840,000,000	1,840,000,000
Rental deposits	Financial liabilities at amortized cost	Financial liabilities at amortized cost	130,601	130,601
			₱27,823,467,333	₱27,823,467,333

** Excluding cash on hand amounting to ₱59.1 million.*

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

do not meet the PFRS 9 criteria for classification at amortized cost or FVOCI, because their cash flows do not represent solely payments of principal and interest. Hence, these financial assets were reclassified from available-for-sale (AFS) financial assets under PAS 39 to financial assets at FVTPL under PFRS 9. As at January 1, 2018, the accumulated unrealized gain on AFS investments under PAS 39 is not material to the consolidated financial statements.

- *AFS Debt Investments classified as FVOCI.* Quoted debt instruments were reclassified from AFS to FVOCI, as the Company's business model is achieved both by collecting contractual cash flows and selling of these assets. The contractual cash flows of these investments are solely principal and interest.

- The accounting for the Company's financial liabilities remains largely the same as it was under PAS 39.

Impairment of Financial Assets at Amortized Cost and Financial Assets at FVOCI.

PFRS 9 requires that the Company record an allowance for expected credit losses (ECL) for all loans and other debt instruments not held at FVTPL, together with loan commitments and financial guarantee contracts. The adoption of PFRS 9 has fundamentally changed the Company's accounting for impairment loss for financial assets by replacing PAS 39's incurred loss approach with a forward looking ECL approach.

Incurred Loss versus Expected Credit Loss Methodology. The application of ECL significantly changes the Company's credit loss methodology and models. ECL represents credit losses that reflect an unbiased and probability-weighted amount which is determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information about past events, current conditions and forecasts of future economic conditions. The objective is to record lifetime losses on all financial instruments which have experienced a significant increase in credit risk (SICR) since their initial recognition. As a result, ECL allowances are measured at amounts equal to either (i) 12-month ECL or (ii) lifetime ECL for those financial instruments which have experienced a SICR since initial recognition (General Approach). The 12-month ECL is the portion of lifetime ECL that results from default events over the expected life of a financial instrument. In comparison, the previous incurred loss model recognizes lifetime credit losses only when there is objective evidence of impairment while ECL model eliminated the threshold or trigger event required under incurred loss model, and lifetime ECL are recognized earlier.

Staging Assessment

For non-credit-impaired financial instruments:

- Stage 1 is comprised of all non-impaired financial instruments which have not experienced a SICR since initial recognition. The Company recognizes a 12-month ECL for Stage 1 financial instruments.

- Stage 2 is comprised of all non-impaired financial instruments which have experienced a SICR since initial recognition. The Company recognizes a lifetime ECL for Stage 2 financial instruments.

For credit-impaired financial instruments:

Financial instruments are classified as Stage 3 when there is objective evidence of impairment as a result of one or more loss events that have occurred after initial recognition with a negative impact on the estimated future cash flows of a loan or a portfolio of loans. The ECL model requires a lifetime ECL for impaired financial instruments

From January 1, 2018, the Company assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortized cost and FVOCI. The impairment methodology applied depends on whether there has been a SICR. For cash and cash equivalents, other receivables and debt instruments measured at FVOCI, the Company applies the General Approach where the ECL is based on the 12-month ECL. The 12-month ECL is the portion of lifetime ECL that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL. For trade receivables, the Company applies the Simplified Approach permitted by PFRS, which requires expected lifetime losses to be recognized from initial recognition of the receivables. As at January 1, 2018, the Company assessed that there was no significant increase in the credit risk related to its financial assets at amortized cost and financial assets at FVOCI. Accordingly, the Company applied the 12-month ECL to all its financial assets, except for trade receivables, and assessed that there is no material impact in the consolidated financial statements.

- 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. These amendments are not relevant to the Company.

- 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 does not have activities that are predominantly connected with insurance or issue insurance contracts.

- *Amendments to PAS 28, Investments in Associates and Joint Ventures - Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice*

  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. 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. Retrospective application is required.

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

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

  The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use.

  These amendments do not have material impact on the Company's consolidated financial statements since there was no transfer into or out of investment property made as at December 31, 2018.

- Philippine Interpretation International Financial Reporting Interpretations Committee (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 the date of the transaction for each payment or receipt of advance consideration. Retrospective application of this interpretation is not required.

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

Current versus Noncurrent Classification of Assets and Liabilities

The Company presents assets and liabilities in the consolidated statement of financial position based on current or noncurrent classification.

An asset is current when it is:

- Expected to be realized or intended to be sold or consumed in the normal operating cycle;
- Held primarily for the purpose of trading;

- Expected to be realized within twelve months after the reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as noncurrent.

A liability is current when:

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

The Company classifies all other liabilities as noncurrent.

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

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

Financial Instruments

Date of Recognition. The Company recognizes a financial asset or a financial liability in the consolidated statements of financial position when it becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognized on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

Recognition, Measurement, Derecognition, and Impairment of Financial Instruments (applicable starting January 1, 2018 upon Adoption of PFRS 9)

Initial Recognition and Measurement. Financial assets are classified, at initial recognition, as financial assets measured at amortized cost, FVTPL and FVOCI. All financial assets are recognized initially at fair value plus, in the case of financial assets not recorded at FVTPL, transaction costs that are attributable to the acquisition of the financial asset.

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

Financial liabilities are classified, at initial recognition, as financial liabilities at FVTPL, loans and borrowings or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial liabilities are recognized initially at fair value and in the case of loans and borrowings, inclusive of directly attributable transaction costs (referred to herein as “debt issue costs”).

The Company has no financial liabilities at FVTPL at December 31, 2018.

Subsequent Measurement. For purposes of subsequent measurement financial assets are classified in three categories:

- Financial assets at FVTPL

  Financial assets at FVTPL comprise of quoted equity instruments which the Company has not irrevocably elected, at initial recognition or transition, to classify at FVOCI.

  The Company has no financial asset designated at FVTPL on initial recognition or transition.

  As at December 31, 2018, the Company has investments in UITF classified as financial assets at FVTPL (see Notes 13 and 32).

- Financial Assets at Amortized Cost

  This category includes financial assets: (a) which are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and (b) which contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

  As at December 31, 2018, this category includes cash and cash equivalents, receivables (excluding advances to officers and employees), restricted cash (included in "Other current assets" account in the consolidated statement of financial position) and refundable deposits (included in "Other noncurrent assets" account in the consolidated statement of financial position) (see Notes 7, 8 and 15).

- Financial Assets at FVOCI

  Financial Assets at FVOCI with recycling
  This category includes financial assets: (a) which are held within a business model in which assets are managed to achieve a particular objective by both collecting contractual cash flows and selling financial assets; and (b) which contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

  As at December 31, 2018, this category includes investments in notes of the ROP and fixed rate retail treasury bonds; long-term negotiable certificate of deposits (LTNCDs); and fixed rate corporate bonds of First Metro Investment Corporation (FMIC), Manila Electric Company (Meralco), and Philippine Long Distance Telephone Company (PLDT) (see Notes 14 and 32).

  Financial Assets at FVOCI without recycling
  Financial assets at FVOCI comprise of unquoted equity instruments which the Company has irrevocably elected, at initial recognition or transition, to classify at FVOCI.

  The Company has no financial asset designated at FVOCI on initial recognition or transition.

- Financial Liabilities

For purposes of subsequent measurement, financial liabilities are classified either as financial liabilities at FVTPL or financial liabilities at amortized cost.

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the EIR method.

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

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

This category includes accounts payable and other current liabilities, dividends payable, long-term debt and service concession fees payable (see Notes 16, 19, 20, 21, 31 and 32).

Derecognition of Financial Assets and Financial Liabilities

Financial Assets. An entity shall derecognize a financial asset when, and only when:

- The contractual rights to the cash flows from the financial asset expire; or

- The Company transfers the contractual rights to receive the cash flows of the financial asset or retains the contractual rights to receive the cash flows of the financial assets, but assumes a contractual obligation to pay the cash flows to one or more recipients in an arrangement where:

  a. The Company has no obligation to pay amounts to the eventual recipients unless it collects equivalent amounts from the original asset. Short-term advances by the entity with the right of full recovery of the amount lent plus accrued interest at market rates do not violate this condition;

  b. The Company is prohibited by the terms of the transfer contract from selling or pledging the original asset other than as security to the eventual recipients for the obligation to pay them cash flows; and

  c. The Company has an obligation to remit any cash flows it collects on behalf of the eventual recipients without material delay. In addition, the entity is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents during the short settlement period from the collection date to the date of required remittance to the eventual recipients, and interest earned on such investments is passed to the eventual recipients.

When the Company transfers a financial asset, it evaluates the extent to which it retains the risks and rewards of ownership of the financial asset. The transfer of risks and rewards is evaluated by comparing the Company's exposure, before and after the transfer, with the variability in the amounts and timing of the net cash flows of the transferred asset. The Company has retained substantially all the risks and rewards of ownership of a financial asset if its exposure to the variability in the present value of the future net cash flows from the financial asset does not change significantly as a result of the transfer. The Company has transferred substantially all the risks and rewards of ownership of a financial asset if its exposure to such variability is no longer significant in relation to the total variability in the present value of the future net cash flows associated with the financial asset.

Financial Liabilities. A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. 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 the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in profit or loss.

Impairment of Financial Assets. The Company's accounting for impairment losses for financial assets uses a forward-looking ECL approach. ECL is based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows the Company expects to receive. For cash equivalents, trade receivables, deposits and other current receivables, the Company has applied the Simplified Approach and has calculated ECL based on lifetime ECL. For financial assets at FVOCI, the Company has applied the General Approach and has calculated ECL based on the 12-month ECL or lifetime ECL if SICR is established. The Company takes in to consideration the Company's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Definition of Default and Credit-impaired Financial Assets. The Company defines a financial instrument as in default, which is fully aligned with the definition of credit-impaired, when it meets one or more of the following criteria:

- *Quantitative Criteria.* For trade receivables and all other financial assets subject to impairment, default occurs when the receivable becomes 30 days past due.

- *Qualitative Criteria.* The counterparty meets unlikeliness to pay criteria, which indicates the borrower is in significant financial difficulty. These are instances where:

  a. The counterparty is experiencing financial difficulty or is insolvent;
  b. The counterparty is in breach of financial covenant(s);
  c. An active market for that financial assets has disappeared because of financial difficulties;
  d. Concessions have been granted by the Company, for economic or contractual reasons relating to the counterparty's financial difficulty;
  e. It is becoming probable that the counterparty will enter bankruptcy or other financial reorganization; and
  f. Financial assets are purchased or originated at a deep discount that reflects the incurred credit losses.

  The criteria above have been applied to all financial instruments held by the Company and are consistent with the definition of default used for internal credit risk management purposes. The default definition has been applied consistently to the ECL models throughout the Company's expected loss calculation.

Incorporation of Forward-looking Information. The Company incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. To do this, the Company has considered a range of relevant forward-looking macro-economic assumptions for the determination of unbiased general industry adjustments and any related specific industry adjustments that support the calculation of ECLs.

Based on the Company's evaluation and assessment and after taking into consideration external actual and forecast information, the Company considers two or more economic scenarios and the relative probabilities of each outcome. External information includes economic data and forecasts published by governmental bodies, monetary authorities and selected private-sector and academic institutions.

The Company has identified and documented key drivers of credit risk and credit losses of each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. The Company considers macro-economic factors such as GDP growth rates and inflation rates of selected countries in its analysis.

Predicted relationship between the key indicators and default and loss rates on portfolios of financial assets have been developed based on analyzing historical data over the past 3 years. The methodologies and assumptions including any forecasts of future economic conditions are reviewed regularly.

The Company has not identified any uncertain event that is relevant to its assessment of the risk of default occurring on the financial instrument.

Determining the Stage for Impairment. At each reporting date, the Company assesses whether there has been a significant increase in credit risk for financial assets since initial recognition by comparing the risk of default occurring over the expected life between the reporting date and the date of initial recognition. The Company considers reasonable and supportable information that is relevant and available without undue cost or effort for this purpose. This includes quantitative and qualitative information and forward-looking analysis.

Exposures that have not deteriorated significantly since origination, or where the deterioration remains within the Company's investment grade criteria are considered to have a low credit risk. The provision for credit losses for these financial assets is based on a 12-month ECL. The low credit risk exemption has been applied on debt investments that meet the investment grade criteria of the Company from the time of origination.

An exposure will migrate through the ECL stages as asset quality deteriorates. If, in a subsequent period, asset quality improves and also reverses any previously assessed significant increase in credit risk since origination, then the loss allowance measurement reverts from lifetime ECL to 12-months ECL.

Write-off Policy. The Company's financial exposures are written off based on Management's decision of whether receivables from counterparties are still collectible or not.

Recognition, Measurement, Derecognition, and Impairment of Financial Instruments (Prior to Adoption of PFRS 9)

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

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

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

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

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

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

a. Loans and Receivables

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

As at December 31, 2017, loans and receivables include cash and cash equivalents, receivables (excluding advances to officers and employees), and restricted cash (included in "Other current assets") and refundable deposits (included in "Other noncurrent assets" account in the consolidated statement of financial position) (see Notes 7, 8 and 15).

b. AFS Financial Assets

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

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

As at December 31, 2017, the Company's AFS financial assets consist of unit investment trust funds (UITFs); investments in notes of the ROP and fixed rate retail treasury bonds; long-term negotiable certificate of deposits (LTNCDs); and fixed rate corporate bonds of First Metro Investment Corporation (FMIC), Manila Electric Company (Meralco), and Philippine Long Distance Telephone Company (PLDT) (see Notes 13 and 14).

c. Loans and Borrowings

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

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

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

As at December 31, 2017, this category includes accounts payable and other current liabilities, dividends payable, long-term debt and service concession fees payable (see Notes 16, 19, 20, 21, 31 and 32).

Derecognition of Financial Assets and Financial Liabilities

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

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

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

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

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

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

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

a. Financial Assets Carried at Amortized Cost

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

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

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

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

b. AFS Financial Assets

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

The determination of what is 'significant' or 'prolonged' requires 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 financial assets, impairment is assessed based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the consolidated statement of income.

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

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

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

Fair Value Measurement
The Company measures financial assets at FVTPL and financial assets at FVOCI as at December 31, 2018 and AFS financial assets as at December 31, 2017 at fair value.

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

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

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

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

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

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

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

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

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

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

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

▪ Disclosures for valuation methods, significant estimates and assumptions	Notes 4, 11, 13, 14 and 32
▪ Quantitative disclosures of fair value measurement hierarchy	Note 32
▪ Investment properties	Note 11
▪ Financial instruments (including those carried at amortized cost)	Notes 13, 14 and 32

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

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

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

Revenue and Cost Recognition (applicable starting January 1, 2018 upon the adoption of PFRS 15). The Company recognizes and measures construction revenue in accordance with PFRS 15 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. Since the Company subcontracts the works to outside contractors, the construction revenue is equal to the construction cost.

Revenue and Cost Recognition prior to the adoption of PFRS 15. The Company recognizes and measures construction revenue in accordance with PAS 11 and PAS 18 for the services it performs. When the Company provides construction or upgrade services, the consideration received or receivable by the Company is recognized at its fair value. The revenue and cost from these services are recognized based on the percentage of completion measured principally on the basis of estimated completion of a physical proportion of the contract works, and by reference to the actual costs incurred to date over the estimated total cost of the project.

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

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

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

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

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

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

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

Contract Assets (applicable starting January 1, 2018 upon the adoption of PFRS 15). Contract assets, classified as part of service concession assets, refer to on-going construction and upgrade services on concession arrangements under the scope of Philippine Interpretation of IFRIC 12.

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

Property and Equipment

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

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

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

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

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

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

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

Investment Properties

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

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

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

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

Other Intangible Assets (Software Cost)

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

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

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

Business Combinations and Goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Company elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Company acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of PFRS 9, is measured at fair value with the changes in fair value recognized in the statement of profit or loss in accordance with PFRS 9. Other contingent consideration that is not within the scope of PFRS 9 is measured at fair value at each reporting date with changes in fair value recognized in profit or loss.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interests and any previous interest held over the net identifiable assets acquired and liabilities assumed). If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Company re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognized at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognized in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Company's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit (CGU) and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

Common Control Business Combination
A business combination involving entities or businesses under common control is a business combination in which all of the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory.

Impairment of Nonfinancial Assets
The Company assesses at each reporting period 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 CGU's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

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

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

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

Provisions

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

Equity

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

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

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

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

Revenue from Contracts with Customers (Applicable starting January 1, 2018 upon the adoption of PFRS 15)

Revenue from contracts with customers is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. The Company assesses its revenue arrangements against specific criteria to determine if it is acting as a principal or as an agent. The Company has concluded that it is acting as principal in its revenue arrangements.

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

- Revenue from toll fees is recognized upon the sale of toll tickets and passage on the toll roads. The Company recognizes toll revenues over time since the customer simultaneously receives and consumes the benefits, provided by NLEX Corp.'s performance of its obligation to operate and maintain toll roads, during the time of passage on the toll roads which occur on the same day.

- Construction revenue and construction costs are recognized and measured in accordance with PFRS 15 for the services it performs. When the Company provides construction or updgrade 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. Since the Company subcontracted the works to outside contractors, the construction revenue is equal to the construction.

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

Revenue Recognition (Prior to adoption of PFRS 15)
Revenue is recognized at an amount that reflects the consideration to which the Company expects to be entitled in exchange for transferring goods and services to a customer. Revenue is measured at fair value of the consideration received or receivable, taking into account contractually defined terms of payment, excluding VAT, discounts and rebates. The Company assesses its revenue arrangements against specific criteria in order to determine if it is acting as a principal or agent. The Company has concluded that it is acting as principal in all of its revenue arrangements since it is the primary obligor in all the revenue arrangements, has pricing latitude and is also exposed to inventory and credit risks.

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

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

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

- Construction revenue and costs 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. Since the Company subcontracts the works to outside contractors, the construction revenue is equal to the construction cost.

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

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

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

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

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

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

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

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

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

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

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

Borrowing Costs
Borrowing costs are capitalized as part of service concession assets if they are directly attributable to the acquisition and construction of the assets. Capitalization of borrowing costs commences when the activities to prepare for the construction of the assets are in progress and expenditures and borrowing costs are being incurred, until the assets are ready for their intended use.

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

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

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

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

Defined benefit costs comprise the following:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Taxes

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Contingencies

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

Events after the Reporting Date

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

4. Significant Accounting Judgments, Estimates and Assumptions

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

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

Judgments

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

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

ownership, beneficial entitlement or otherwise. Infrastructure assets within scope are those constructed or acquired for the purpose of the service concession arrangement or existing infrastructure to which the operator is given access by the grantor for the purpose of the service concession arrangement.

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

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

The Company also recognizes construction revenues and costs in accordance with PFRS 15 in 2018 and PAS 11 in 2017 and 2016. It measures contract revenue at the fair value of the consideration received or receivable. Given that NLEX Corp. has subcontracted the construction to outside contractors, the construction revenue recognized is equal to the construction costs. Construction revenue and costs recognized in the consolidated statements of income amounted to ₱4,221.7 million, ₱3,763.6 million, and ₱6,170.1 million for the years ended December 31, 2018, 2017 and 2016 respectively (see Note 9).

The Company also recognizes its contractual obligations to restore the toll roads to a specified level of serviceability. The Company recognizes a provision following PAS 37, as the obligation arises which is a consequence of the use of the toll roads and therefore it is proportional to the number of vehicles using the toll roads and increasing in measurable annual increments. Provision for heavy maintenance amounted to ₱194.0 million and ₱220.6 million as at December 31, 2018 and 2017, respectively (see Note 17).

Accounting for Business Combination under Acquisition Method. The acquisition method requires extensive use of accounting judgments to determine whether there is substance in the transaction. The Company assessed the purpose of the transaction, whether or not the transaction is conducted at fair value, the existing activities of the entities involved in the transaction and whether or not it is bringing entities together into a "reporting entity" that didn't exist before. It also required the Company to recognize provisional goodwill. The merger between NLEX Corp. and TMC resulted in provisional goodwill amounting to ₱6,213.8 million (see Note 6).

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

Estimates and Assumptions

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

Allowance for Doubtful Accounts. Upon adoption of PFRS 9, allowance for doubtful accounts is maintained at a level considered adequate to provide for potentially uncollectible receivables. The level of allowance is based on the Company's historical credit loss experience and forward-looking factors specific to the debtors and the economic environment that may affect collectability. The Company applies the Simplified Approach for trade receivables and General Approach for other receivables, designed to identify potential charges to the allowance and is performed on a continuous basis throughout the period. Provision for doubtful accounts amounted to ₱6.3 million for the year ended December 31, 2018 (see Notes 8 and 24).

Prior to adoption of PFRS 9, allowance for doubtful accounts is maintained at a level considered adequate to provide for potentially uncollectible receivables. The level of allowance is based on past collection experience and other factors that may affect collectability. An evaluation of the receivables using specific method, designed to identify potential charges to the allowance, is performed on a continuous basis throughout the year. Provision for doubtful accounts amounted to ₱6.3 million, ₱1.5 million and ₱10.8 million for the years ended December 31, 2017 and 2016, respectively (see Notes 8 and 24).

Receivables (excluding advances to officers and employees) amounted to ₱713.8 million and ₱704.4 million as at December 31, 2018 and 2017, respectively. Allowance for doubtful accounts amounted to ₱67.7 million and ₱26.4 million as at December 31, 2018 and 2017, respectively (see Note 8).

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

For the years ended December 31, 2018, 2017, and 2016, the Company reported amortization of service concession assets amounting to ₱810.6 million, ₱762.8 million, and ₱615.1 million, respectively (see Notes 9 and 23). The carrying values of the service concession assets as at December 31, 2018, and 2017 amounted to ₱37,083.9 million and ₱33,672.8 million, respectively (see Note 9).

Determination of Fair Values of Acquire Assets and Liabilities in a Business Combination. The acquisition method requires use of accounting estimates and judgments to determine the fair values of the acquiree's identifiable assets and liabilities at acquisition date. Management assessed that the fair value of TMC's net assets acquired approximates its carrying amounts as at the Effective Merger Date.

Impairment of Provisional Goodwill and Service Concession Assets Not Yet Available for Use. Impairment exists when the carrying value of an asset or CGU exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs of disposing of the asset. The value in use calculation is based on a discounted cash flow (DCF) model. The cash flows are derived from the budget for the concession period and do not include restructuring activities that the Company is not yet committed to or significant future investments that will enhance the performance of the assets of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the DCF model as

well as the expected future cash inflows and the growth rate used for extrapolation purposes. These estimates are most relevant to service concession assets not yet available for use recognized by the Company. The key assumptions used to determine the recoverable amount are disclosed and further explained in Notes 6 and 9.

There was no impairment loss recognized in the consolidated statements of income for the years ended December 31, 2018, 2017 and 2016. The carrying amount of provisional goodwill amounted to ₱6,213.8 million as at December 31, 2018 (see Note 6). The carrying values of the Company's service concession assets not yet available for use amounted to ₱14,299.0 million and ₱10,417.2 million as at December 31, 2018 and 2017, respectively (see Note 9).

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

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

Deferred tax assets amounted to ₱954.4 million and ₱912.8 million as at December 31, 2018 and 2017, respectively (see Note 29).

Retirement Costs. The cost of defined benefit retirement plan and the present value of the defined benefit obligation are determined using actuarial valuations. The actuarial valuations involve making various assumptions about discount rates, future salary increases and mortality rates. Due to the complexity of the valuation, underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each statement of financial position date. Further details about the assumptions used are given in Note 25.

Pension asset (liability) amounted to (₱20.2 million) and ₱5.6 million as at December 31, 2018 and 2017, respectively (see Note 25).

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

LTIP payable amounted to ₱86.0 million and ₱193.4 million as at December 31, 2018 and 2017, respectively (see Note 25).

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

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

Provisions (current and noncurrent) amounted to ₱448.3 million and ₱360.5 million as at December 31, 2018 and 2017, respectively (see Note 17).

Contingencies. The Company is a party to certain lawsuits or claims arising from the ordinary course of business. However, the Company's management and legal counsel believe that the eventual liabilities under these lawsuits or claims, if any, will not have a material effect on the Company's consolidated financial statements (see Note 33).

5. Operating Segment Information

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

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

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

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

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

The revenues, net income, assets, liabilities, and other information of the Company's operations as at and for the years ended December 31, 2018, 2017 and 2016 are as follows:

	2018	2017	2016
Net toll revenues	**₱13,049,489,300**	₱11,586,054,532	₱10,538,908,306
Other income	**223,117,771**	240,672,403	163,219,541
Total revenues	**13,272,607,071**	11,826,726,935	10,702,127,847
Operating and maintenance costs	**(3,755,002,641)**	(3,534,911,746)	(3,663,871,264)
Operating expenses	**(795,649,385)**	(745,944,612)	(625,204,430)
EBITDA	**8,721,955,045**	7,545,870,577	6,413,052,153
Financing costs	**(322,468,413)**	(444,619,744)	(354,728,002)
Core income before depreciation, amortization and provisions	**8,399,486,632**	7,101,250,833	6,058,324,151
Depreciation, amortization and provisions*	**(2,642,681,376)**	(2,366,443,346)	(1,900,818,231)
Core income	**5,756,805,256**	4,734,807,487	4,157,505,920
Nonrecurring items	**(1,355,727)**	(90,567,273)	(70,428,648)
Net income	**₱5,755,449,529**	₱4,644,240,214	₱4,087,077,272

	2018	2017	2016
EBITDA margin for the year	**67%**	65%	61%
Core income margin for the year	**44%**	41%	39%
Net income margin for the year	**44%**	40%	39%
Total assets	**₱49,413,726,223**	₱40,035,880,514	₱35,288,696,883
Total liabilities	**30,852,412,292**	29,380,146,431	25,677,079,148
Total equity	**18,561,313,931**	10,655,734,083	9,611,617,735
Other disclosures:			
Capital expenditure (consists of additions to service concession assets, property and equipment, investment properties and other intangible assets)	**₱4,419,411,513**	₱3,763,806,646	₱6,124,443,266

** Includes provision for current and deferred taxes.*

The following table shows the reconciliation of EBITDA to consolidated net income for the years ended December 31, 2018, 2017 and 2016.

	2018	2017	2016
EBITDA	**₱8,721,955,045**	₱7,545,870,577	₱6,413,052,153
Amortization of service concession assets (see Note 23)	**(810,648,908)**	(762,794,599)	(615,120,463)
Interest expense and other finance costs (see Note 28)	**(413,435,262)**	(523,371,725)	(442,912,617)
Provision for heavy maintenance (see Note 23)	**(153,060,609)**	(215,471,251)	(113,971,317)
Interest income (see Note 27)	**78,227,411**	51,344,156	62,089,704
Depreciation of property and equipment (see Notes 23 and 24)	**(76,067,322)**	(37,189,855)	(25,001,484)
Amortization of other intangible assets (see Notes 23 and 24)	**(5,819,883)**	(11,861,791)	(5,924,711)
Unrealized gain (loss) on investments	**637,311**	–	–
Realized gain (loss) on investments	**(43,713)**	(42,427)	4,699,640
Nonrecurring items:			
Provisions	**(18,403,694)**	(4,185,067)	(3,737,064)
Foreign exchange gain - net	**(873,681)**	1,509,498	254,488
Other nonrecurring items	**17,319,210**	(87,454,248)	(66,227,124)
Income before income tax	**7,339,785,905**	5,956,353,268	5,206,692,229
Provision for (benefit from) income tax (see Note 29):			
Current	**1,535,706,116**	1,294,906,187	1,152,806,403
Deferred	**48,630,260**	17,206,867	(33,191,446)
	1,584,336,376	1,312,113,054	1,119,614,957
Net income	**₱5,755,449,529**	₱4,644,240,214	₱4,087,077,272

The following table shows the reconciliation of the consolidated core income to the net income for the years ended December 31, 2018, 2017 and 2016.

	2018	2017	2016
Core income for the year	**₱5,756,805,256**	₱4,734,807,487	₱4,157,505,920
Provisions	**(18,403,694)**	(4,185,067)	(3,737,064)
Foreign exchange gain (loss) - net	**(873,681)**	1,072,042	(254,488)
Other nonrecurring items	**17,921,648**	(87,454,248)	(66,437,096)
Net income	**₱5,755,449,529**	₱4,644,240,214	₱4,087,077,272

6. **Merger between NLEX Corp. and TMC**

TMC, a company registered in the Philippines, is primarily engaged in the operations and maintenance of tollways, its facilities, interchanges and related works, or otherwise engage in the operation and maintenance of roads, highways, bridges, buildings and structures of all kinds.

Under an Operation and Maintenance Agreement with NLEX Corp., TMC provides services to NLEX Corp. as the operator of Phase I of the North Luzon Expressway (NLEX) consisting of Segments 1, 2, 3 and 7, Phase II of NLEX consisting of Segments 8.1 and 9, Plaridel Bypass Interchange, Bocaue North Bound Interchange, and SCTEX for a total consideration based on a minimum fixed annual amount with a variable component.

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

In January 2017, the ROP exercised its appraisal right with respect to its shares held in TMC. ROP shall be entitled an amount equal to the fair value of its shares held in TMC payable upon approval of the Merger by the SEC.

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

On May 18, 2018, the ROP, through the Department of Finance, formally conveyed its intention to withdraw the exercise of its appraisal right, and request the respective consent of NLEX Corp. and TMC to the said withdrawal.

On June 7, 2018, the BOD approved the execution of the updated Plan of Merger reflecting: (i) the withdrawal by the ROP of the exercise of its appraisal right and (ii) the issuance of NLEX Corp.'s shares to the ROP in exchange for the ROP's shares in TMC based on the conversion ratio provided in the Plan of Merger.

On June 26, 2018, the BOD of TMC approved the withdrawal of the appraisal right and approved the signing and delivery of an updated Plan of Merger to reflect the issuance of additional NLEX Corp. shares to the ROP in exchange for the ROP's shares in the Company based on the previously approved conversion ratio as a result of the withdrawal of the ROP's exercise of its appraisal rights.

On November 29, 2018, the SEC approved the certificate of filing of the Articles and Plan of Merger between NLEX Corp. (surviving corporation) and TMC (absorbed corporation). The Merger is effective on December 14, 2018.

Based on the Articles of Merger, NLEX Corp. shall be deemed to have acquired all assets and assumed all the liabilities of TMC, and NLEX Corp's corporate existence shall continue. NLEX Corp will have the ability to direct the relevant activities of TMC, which includes the operation and maintenance of tollways and related facilities and its main source of revenue of TMC.

The Merger between NLEX Corp. and TMC was accounted for using the acquisition method since the transaction has substance from the perspective of NLEX Corp. The Merger has substance based on the following: (i) there is a business purpose, (ii) the transaction involves third parties, (iii) the transaction was conducted at fair value, and (iv) NLEX Corp. and TMC have existing activities prior to the Merger.

Under the acquisition method, the Company is required to measure the fair value of the assets acquired and liabilities assumed of TMC.

The following are the provisional fair values of the assets acquired and liabilities assumed from TMC on December 13, 2018:

Assets	
Cash and cash equivalents	₱155,809,552
Receivables	109,813,200
Other current assets	68,404,740
Property and equipment	53,780,166
Deferred tax assets	16,906,493
Deposits and other noncurrent assets	12,782,152
	417,496,303
Liabilities	
Accounts payable and other current liabilities	119,517,516
Provisions	155,312,279
Retention payable	10,354,340
Retirement liability	27,342,572
	312,526,707
Fair value of identifiable net assets acquired	₱104,969,596

The fair value and gross amount of the receivables amounted to ₱109.9 million. None of the receivables have been impaired and it is expected that the full contractual amounts can be collected.

NLEX Corp. issued 2.70 shares of stock for each stockholder of TMC, equivalent to a total of 1,026,000 common shares of stock. The total value of equity shares issued by NLEX Corp. amounted to ₱6,318.8 million, based on the independent valuation of third party financial advisor engaged by the Company.

The amount of provisional goodwill resulting from the Merger between NLEX Corp. and TMC follows:

Consideration transferred	₱6,318,768,979
Fair value of identifiable net assets acquired	104,969,596
Goodwill	₱6,213,799,383

The provisional goodwill resulting from the merger transaction represents the estimated future cash flow between NLEX Corp. and TMC for the Operation and Maintenance Agreement where both entities are bounded to comply. This represents the synergies from the combining operations of NLEX Corp. and TMC that will allow (i) the integration of the administrative facilities of the corporations to improve the economies of scale and efficiency of operations, (ii) the procurement of financing and credit facilities under more favorable terms, and (iii) the productive use of properties owned by the constituent corporations. Further, the provisional goodwill is also attributable to the value of TMC's assembled workforce who will still be involved in the continuous operations and maintenance of NLEX Corp.'s toll road operations as at the acquisition date.

From the date of business combination to December 31, 2018, TMC has no contribution to revenues and net income since it is already legally merged with NLEX Corp. (surviving corporation). If the business combination occurred at the beginning of the year, the contribution to revenues is nil, while the contribution to the net income represents the foregone mark-up imposed by TMC to the operations and maintenance services billed to NLEX Corp.

Impairment Testing of Goodwill
In assessing the impairment for goodwill, the Company compares the carrying amounts of the underlying assets against their recoverable amounts (the higher of the assets' fair value less costs of disposal and their value in use (VIU)).

The pre-tax discount rate of 14.3% applied to cash flow projections reflects the weighted average cost of capital. In the assessment of the recoverable amounts, the VIUs were calculated based on cash flow projections as per the most recent financial budgets and forecasts, which management believes are reasonable and are management's best estimates of the ranges of economic conditions that will exist over the forecast period. The average forecast period used in the computation is 19 years. The forecasted period is more than 5 years as management can reliably estimate the cash flows for their entire concession period. The cash flows during the projection periods are derived using estimated average growth rates of traffic volume. Traffic volume growth is at 2.8% average growth rate of daily vehicle traffic for NLEX open system, and 2.9% average growth rate of daily vehicle traffic for NLEX closed system.

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

7. Cash and Cash Equivalents

This account consists of:

	2018	2017
Cash on hand and in banks	**₱535,618,755**	₱181,262,438
Short-term deposits as cash equivalents	**1,913,367,443**	2,533,948,404
	₱2,448,986,198	₱2,715,210,842

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

Interest earned from cash and cash equivalents amounted to ₱39.3 million, ₱9.0 million, and ₱20.6 million for the years ended December 31, 2018, 2017, and 2016, respectively (see Note 27).

As at December 31, 2018 and December 31, 2017, the Company has no available undrawn committed term loan facilities.

8. **Receivables**

This account consists of:

	2018	2017
Trade receivables:		
Related parties (see Note 18)	**₱342,980,641**	₱375,858,264
Third parties	**103,316,067**	97,716,113
Advances to DPWH	**193,422,528**	179,535,742
Interest receivables	**21,286,789**	20,003,187
Advances to officers and employees (see Note 18)	**15,952,200**	10,641,020
Due from related parties (see Note 18)	**9,179,525**	5,982,581
Other receivables	**76,356,677**	51,741,514
	762,494,427	741,478,421
Less allowance for doubtful accounts	**32,763,454**	26,439,165
	₱729,730,973	₱715,039,256

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

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

Interest receivables are collectible within three to six months.

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

Other receivables are noninterest-bearing and are collectible within a year. As at December 31, 2018 and 2017, other receivables include those receivables from motorists who caused accidental damage to NLEX properties from day-to-day operations amounting to ₱47.9 million and ₱43.6 million, respectively.

The terms and conditions of related party receivables are discussed in Note 18.

Movement in the allowance for doubtful accounts as at December 31, 2018 and 2017 are as follows:

	2018		
	Trade Receivables	**Other Receivables**	**Total**
Balance at beginning of year	**₱3,204,597**	**₱23,234,568**	**₱26,439,165**
Provision for doubtful accounts (see Note 24)	**3,328,408**	**2,995,881**	**6,324,289**
Balance at end of year	**₱6,533,005**	**₱26,230,449**	**₱32,763,454**

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

9. Service Concession Assets

The movements in this account follow:

	MNEP	SCTEX	NLEX-SLEX Connector Road	Total
Cost:				
At January 1, 2017	₱31,736,465,603	₱3,556,060,212	₱2,507,847,423	₱37,800,373,238
Additions	2,765,345,336	783,222,842	214,910,301	3,763,478,479
At December 31, 2017	34,501,810,939	4,339,283,054	2,722,757,724	41,563,851,717
Additions	3,760,456,974	199,454,500	261,793,738	4,221,705,212
At December 31, 2018	**₱38,262,267,913**	**₱4,538,737,554**	**₱2,984,551,462**	**₱45,785,556,929**
Accumulated amortization:				
At January 1, 2017	₱7,041,964,761	₱86,260,885	₱–	₱7,128,225,646
Amortization (see Note 23)	654,699,389	108,095,210	–	762,794,599
At December 31, 2017	7,696,664,150	194,356,095	–	7,891,020,245
Amortization (see Note 23)	712,535,443	98,113,465	–	810,648,908
At December 31, 2018	**₱8,409,199,593**	**₱292,469,560**	**₱–**	**₱8,701,669,153**
Net book value:				
At December 31, 2018	**₱29,853,068,320**	**₱4,246,267,994**	**₱2,984,551,462**	**₱37,083,887,776**
At December 31, 2017	26,805,146,789	4,144,926,959	2,722,757,724	33,672,831,472

MNEP

The additions for the year ended December 31, 2018 amounting to ₱3,760.5 million pertain primarily to the on-going construction of Harbor Link Segment 10 and R-10 Exit Ramp (portion of Phase II); and construction costs of bridge retrofitting, new toll plazas and enhancement of existing ones in certain areas of Phase I amounting to ₱3,072.3 million and the borrowing costs capitalized amounted to ₱688.2 million (see Note 19).

The additions for the year ended December 31, 2017 amounting to ₱2,765.3 million pertain mainly to the lane widening project on Segments 2 and 3 (portions of Phase I); civil works construction for Segment 10 (portion of Phase II); and fixed operating equipment (FOE) design, supply and installation on Segment 10 (portion of Phase II) amounting to ₱2,111.5 million and the borrowing costs capitalized amounting to ₱653.8 million (see Note 19).

The interest rates used to determine the amount of borrowing costs eligible for capitalization ranges from 5.0% to 6.9% in 2018 and 5.0% to 5.8% in 2017.

The concession term for fully operational Phase I and Segments 8.1 and 9 of Phase II of the MNEP is until December 31, 2037. As at December 31, 2018 and 2017, the remaining concession term is 19 years and 20 years, respectively.

As at February 15, 2019, Segment 10 and R-10 Exit Ramp, portions of Phase II, with a carrying amount of ₱11,314.5 million and ₱7,694.5 million as at December 31, 2018 and 2017, respectively, has not yet started its tollway operations.

SCTEX
As discussed in Note 2, NLEX Corp. took over from BCDA the management, operation and maintenance of the SCTEX on October 27, 2015. The additions as at December 31, 2018 amounting to ₱199.5 million pertain mainly to costs of construction of the Mabiga Interchange and Sta. Ines-Magalang Exit, pavement rehabilitation and upgrading of the fixed operating equipment and other technical traffic systems in SCTEX. Of this amount, ₱1.5 million pertains to borrowing costs capitalized (see Note 19). The additions amounting to ₱783.2 million for the year ended December 31, 2017 pertain to the cost of pavement rehabilitation in certain portion of SCTEX and other costs incurred for upgrading the toll road facilities and equipment in SCTEX.

The concession term for SCTEX is until October 30, 2043. As at December 31, 2018 and 2017, the remaining concession term is 25 years and 26 years, respectively.

NLEX-SLEX Connector Road
As discussed in Note 2, NLEX Corp. and DPWH signed the Concession Agreement for the NLEX-SLEX Connector Road on November 23, 2016. The additions for the year ended December 31, 2018 and 2017 amounting to ₱261.8 million and ₱214.9 million, respectively, pertain to pre-construction costs in 2018 and 2017 amounting to ₱71.8 million and ₱29.4 million, respectively, and the borrowing costs capitalized in 2018 and 2017 amounting to ₱190.0 million and ₱185.5 million, respectively (see Notes 19 and 20).

The borrowing rates used to determine the amount of borrowing costs eligible for capitalization is 7.1% in 2018 and 2017.

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

Contract Assets
Service concession assets with ongoing construction and upgrade services amounting to ₱4,221.7 million and ₱3,763.6 million as at December 31 and January 1, 2018, respectively, are considered as contract assets under PFRS 15.

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

As at December 31, 2018 and 2017, the total carrying amount of Segment 10, R-10 Exit Ramp (portion of Phase II of MNEP) and NLEX-SLEX Connector Road which are not yet available for use amounted to ₱14,299.0 million and ₱10,417.2 million, respectively.

The recoverable amount of Segment 10 and R-10 Exit Ramp (portion of Phase II of MNEP) and NLEX-SLEX Connector Road have been determined based on a value in use computation using the cash flow projections from most recent financial budgets and forecast of NLEX Corp. For the impairment testing conducted, average traffic volume growth rates used were 1.2% to 2.3% and the pre-tax discount rates applied amounted to 14.2% and 12.2% as at December 31, 2018 and 2017,

respectively, which was based on the weighted average cost of capital with estimated premium of 4.0% over cost of equity. The average forecast period used in the computation is 19 years for Segment 10 and 38 years for NLEX-SLEX Connector Road. The forecast period is greater than 5 years as management can reliably estimate the cash flow for the entire duration of the concession period.

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

10. Property and Equipment

The movements in this account follow:

	Building, Building Improvements and Leasehold Improvements	Transportation Equipment	Office Equipment and Others	Total
Cost:				
At January 1, 2017	₱94,223,954	₱87,863,961	₱175,162,079	₱357,249,994
Additions	21,591,711	22,879,845	54,354,146	98,825,702
Disposals	–	(3,676,261)	(494,724)	(4,170,985)
At December 31, 2017	115,815,665	107,067,545	229,021,501	451,904,711
Additions	13,870,017	37,420,401	124,443,749	175,734,167
Assets acquired through merger (see Note 6)	11,021,998	25,351,185	17,406,983	53,780,166
Disposals	–	(4,229,273)	(569,492)	(4,798,765)
At December 31, 2018	**₱140,707,680**	**₱165,609,858**	**₱370,302,741**	**₱676,620,279**
Accumulated depreciation:				
At January 1, 2017	₱40,087,596	₱49,059,865	₱133,131,173	₱222,278,634
Depreciation (see Notes 23 and 24)	4,056,291	13,528,884	34,357,393	51,942,568
Disposals	–	(2,378,657)	(494,724)	(2,873,381)
At December 31, 2017	44,143,887	60,210,092	166,993,842	271,347,821
Depreciation (see Notes 23 and 24)	7,633,971	19,808,042	48,044,491	75,486,504
Disposals	–	(3,793,323)	(569,492)	(4,362,815)
At December 31, 2018	**₱51,777,858**	**₱76,224,811**	**₱261,943,841**	**₱342,471,510**
Net book value:				
At December 31, 2018	**₱88,929,822**	**₱89,385,047**	**₱155,833,900**	**₱334,148,769**
At December 31, 2017	71,671,778	46,857,453	62,027,659	180,556,890

Proceeds from the sale of property and equipment amounted to ₱0.7 million, ₱1.3 million, and ₱2.4 million for the years ended December 31, 2018, 2017, and 2016, respectively. Gain on disposal amounted to ₱0.2 million, ₱0.02 million, and ₱0.9 million for the years ended December 31, 2018, 2017, and 2016, respectively.

The gross carrying amounts of fully depreciated property and equipment that are still in use amounted to ₱286.7 million and ₱166.2 million as at December 31, 2018 and 2017, respectively.

As at December 31, 2018 and 2017, there are no items of property and equipment with liens or encumbrances or used as security of any outstanding loan.

11. **Investment Properties**

Details of this account are as follows:

	2018	2017
Land	**₱117,401,719**	₱117,401,719
Toll service facilities and improvements	**207,756,192**	11,578,801
	₱325,157,911	₱128,980,520

In 2018 and 2017, NVC purchased parcels of land located in Valenzuela City from certain land owners. Parcels of land acquired in 2018 and 2017, respectively, are being developed as a property for lease with business proponents.

As discussed in Note 30, the land acquired with a service facility was leased to various lessees. Rental income earned from this investment property amounted to ₱13.8 million for the year ended December 31, 2018 and ₱4.3 million for the years ended December 31, 2017 and 2016, respectively (see Note 22).

Fair Value of Investment Properties
As at December 31, 2018, the fair value of the land amounting to ₱122.5 million is based on valuation performed by an accredited independent appraiser. A valuation model in accordance with that recommended by the International Valuation Standards Committee has been applied.

	Valuation Technique	**Significant unobservable input**	**Range (Weighted Average)**
Land	Direct Sales Comparison Approach	Price per square meter (sqm)	₱8,000 per sqm

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

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

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

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

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

Toll Service Facilities and Improvements
As at December 31, 2018, the toll service facilities and improvements are still under construction. Management has determined that the fair value of the toll service facilities and improvements under construction approximates cost, until such time that the fair value of the toll service facilities and improvements can be reliably measured once the construction is completed.

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

12. Other Intangible Assets

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

	2018	2017
Cost:		
Balance at the beginning of the year	**₱109,997,788**	₱106,535,415
Additions	**17,374,413**	3,917,613
Disposal	**–**	(455,240)
Balance at end of the year	**127,372,201**	109,997,788
Accumulated amortization:		
Balance at beginning of year	**99,683,474**	88,276,923
Amortization (see Note 23 and 24)	**5,819,883**	11,861,791
Disposal	**–**	(455,240)
Balance at end of the year	**105,503,357**	99,683,474
Net book value	**₱21,868,844**	₱10,314,314

13. Investments in Unit Investment Trust Funds

Details of this account are shown below:

	2018	2017
Fair Value	**₱67,858,720**	₱217,749,970
Principal Amount	**67,221,409**	217,221,409

Investments in UITFs are classified as financial assets at FVTPL under PFRS 9 and AFS financial assets under PAS 39 as at December 31, 2018 and 2017, respectively.

The movements in this account follow:

	2018	2017
Balance at beginning of the year	**₱–**	₱7,358,211
Reclassification from AFS financial assets to financial assets at FVTPL	**217,749,970**	–
Additions	**6,410,000,000**	5,731,000,001
Sale of UITF	**(6,560,000,000)**	(5,596,000,000)
Changes in fair value taken to profit or loss*	**108,750**	–
Changes in fair value taken to OCI**	–	391,758
Balance at end of the year	**₱67,858,720**	₱217,749,970

* *Includes gain on sale of investments in UITFs amounting to ₱5,567,691 that was deducted from borrowing costs capitalized to service concession assets in 2018.*
** *Includes gain on sale of investments in UITFs amounting to ₱8,369,189 that was deducted from borrowing costs capitalized to service concession assets in 2017.*

The fair value is based on the quoted market price of the financial instruments as at December 31, 2018 and 2017.

The movements in the net unrealized gain on the investments in UITFs classified as AFS financial assets as at December 31, 2017 follow:

	2018	2017
Balance at beginning of the year	**₱528,561**	₱185,981
Changes in fair value during the period (see Note 21)	–	8,760,947
Recycling to profit or loss (see Note 21)	**(528,561)**	(8,369,189)
Balance at end of the year	**₱–**	₱528,561

14. Investments in Bonds and Treasury Notes

Details of this account are shown below:

	2018		2017	
Maturity Date	**Fair Value**	**Principal Amount**	Fair Value	Principal Amount
ROP Retail Treasury Bonds				
April 11, 2020	**₱–**	**₱–**	₱100,112,000	₱100,000,000
August 15, 2023	**481,516,059**	**565,100,000**	520,796,160	565,100,000
	481,516,059	**565,100,000**	620,908,160	665,100,000
Fixed Rate Treasury Notes				
May 23, 2018	–	–	49,825,000	50,000,000
July 19, 2019	**11,104,898**	**11,230,000**	11,301,872	11,230,000
August 20, 2020	**18,513,447**	**20,000,000**	19,495,400	20,000,000
	29,618,345	**31,230,000**	80,622,272	81,230,000
LTNCD				
PNB - June 12, 2020	**49,160,500**	**50,000,000**	50,498,500	50,000,000
Metrobank - November 21, 2021	**46,145,000**	**50,000,000**	48,499,000	50,000,000
	95,305,500	**100,000,000**	98,997,500	100,000,000
Corporate Bonds				
FMIC - August 10, 2019	**50,535,553**	**50,000,000**	51,079,000	50,000,000
Meralco - December 12, 2020 (see Note 18)	**192,576,000**	**200,000,000**	198,956,000	200,000,000
PLDT - February 6, 2021 (see Note 18)	**191,570,000**	**200,000,000**	203,844,000	200,000,000
	434,681,553	**450,000,000**	453,879,000	450,000,000
	₱1,041,121,457	**₱1,146,633,400**	₱1,254,406,932	₱1,296,330,000

Investments in bonds and treasury notes are classified as financial assets at FVOCI under PFRS 9 and AFS under PAS 39 as at December 31, 2018 and 2017, respectively.

The movements in this account follow:

	2018	2017
Balance at beginning of the year	**₱–**	₱1,353,667,695
Reclassification of AFS financial assets to financial assets at FVOCI	**1,254,406,932**	–
Additions	**–**	150,000,000
Sale of investments in bonds and treasury notes	**(100,000,000)**	(250,000,000)
Maturity of investments in bonds and treasury notes	**(50,000,000)**	–
Changes in fair value during the period (see Note 21)	**(63,475,190)**	(803,476)
Amortization of discount on bonds	**146,002**	1,500,286
Recycling to profit or loss (see Note 21)	**43,713**	42,427
Balance at end of the year	**₱1,041,121,457**	₱1,254,406,932
Current	**₱61,640,451**	₱49,825,000
Noncurrent	**979,481,006**	1,204,581,932
	₱1,041,121,457	₱1,254,406,932

The fair value is based on the quoted market price of the financial instruments and directly observable inputs that is significant to fair value measurement as at December 31, 2018 and 2017.

The movements in the net unrealized loss on fair value change in financial assets at FVOCI as at December 31, 2018 and AFS financial assets as at December 31, 2017 under "Other comprehensive loss reserve" account follow:

	2018	2017
Balance at beginning of the year	**₱–**	(₱39,380,005)
Reclassification due to adoption of PFRS 9	**(40,141,054)**	–
Changes in fair value during the period (see Note 21)	**(63,475,190)**	(803,476)
Recycling to profit or loss (see Note 21)	**43,713**	42,427
Balance at end of the year	**(103,572,531)**	(40,141,054)
Tax effects of items taken directly in equity (see Note 29)	**345,742**	(43,141)
	(₱103,226,789)	(₱40,184,195)

15. **Other Current Assets**

Details of other current assets follow:

	2018	2017
Restricted cash (see Note 30)	**₱321,000,000**	₱321,000,000
Deferred input VAT - current	**79,271,935**	77,480,208
Input VAT - net	**28,021,734**	6,606,422
Prepayments	**104,541,749**	52,286,554
Advances to suppliers (see Note 18)	**91,961,592**	60,582,643
Creditable withholding tax	**10,869,798**	18,769,968
Refundable deposits	**3,276,064**	–
	638,942,872	536,725,795
Less:		
Allowance for non-recoverability of creditable tax	**(15,380,461)**	(15,380,461)
Allowance for unclaimable input VAT (see Note 24)	**(14,271,746)**	–
	₱609,290,665	₱521,345,334

Prepayments include prepaid insurance covering the service concession assets of the Company. Input VAT represents VAT paid to suppliers that can be claimed as credit against the Company's future output VAT liabilities without prescription.

Refundable deposits are non-interest bearing and are expected to be refunded in the next twelve months.

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

This account consists of:

	2018	2017
Trade payables:		
Related parties (see Note 18)	**₱26,049,338**	₱152,611,466
Third parties	**355,006,220**	788,543,394
Accrued expenses:		
Related parties (see Note 18)	**140,400,482**	381,959,364
Third parties	**1,183,821,346**	1,098,528,736
Retention payable:		
Related parties (see Note 18)	**23,081,738**	13,090,888
Third parties	**439,639,327**	545,511,744
Interest payable	**98,394,217**	28,314,769
Withholding taxes payable	**114,726,787**	85,633,460
Output VAT – net	**36,048,351**	56,511,411
Deferred output VAT	**35,468,649**	23,380,839
Unearned revenue	**8,870,714**	1,883,284
Unearned rental income	**6,399,334**	–
Others	**34,030,833**	12,751,099
	₱2,501,937,336	₱3,188,720,454

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

Accrued expenses consist of:

	2018	2017
Construction costs	**₱537,878,615**	₱749,593,043
Advertising and marketing expenses (see Note 18)	**204,664,697**	36,567,994
Concession fees (see Note 2)	**116,867,363**	102,864,022
Professional fees	**91,685,401**	112,852,747
Operating and maintenance cost	**63,883,442**	58,233,647
PNCC fee	**62,423,077**	60,483,648
Outside services (see Note 18)	**55,926,127**	13,261,969
Repairs and maintenance (see Note 18)	**53,056,881**	8,073,559
Project insurance	**34,138,622**	–
Management fees (see Note 18)	**21,198,404**	313,545
Taxes and licenses	**19,372,844**	5,644,448
Salaries and employee benefits	**4,934,589**	1,237,466
Toll collection and medical services	**2,571,070**	8,268,476
Operator's fee (see Note 18)	**–**	307,065,152
Others	**55,620,696**	16,028,384
	₱1,324,221,828	₱1,480,488,100

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

Interest payable is settled within three to six months.

The terms and conditions of related party payables are discussed in Note 18.

17. Provisions

The movements in this account follow:

	Heavy Maintenance	Others	Total
At January 1, 2017	₱280,329,835	₱105,739,274	₱386,069,109
Additions (see Notes 23 and 24)	215,471,251	85,500,489	300,971,740
Accretion (see Note 28)	16,112,360	–	16,112,360
Payments	(291,269,257)	(51,337,984)	(342,607,241)
At December 31, 2017	220,644,189	139,901,779	360,545,968
Additions (see Notes 23 and 24)	153,060,609	226,285,737	379,346,346
Accretion (see Note 28)	17,486,761	–	17,486,761
Payments	(197,216,169)	(69,536,837)	(266,753,006)
Reversal	–	(42,284,337)	(42,284,337)
At December 31, 2018	**₱193,975,390**	**₱254,366,342**	**₱448,341,732**
At December 31, 2018:			
Current	**₱147,500,000**	**₱238,579,568**	**₱386,079,568**
Noncurrent	**46,475,390**	**15,786,774**	**62,262,164**
	₱193,975,390	**₱254,366,342**	**₱448,341,732**

	Heavy Maintenance	Others	Total
At December 31, 2017:			
Current	₱131,071,429	₱126,061,597	₱257,133,026
Noncurrent	89,572,760	13,840,182	103,412,942
	₱220,644,189	₱139,901,779	₱360,545,968

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

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

18. Related Party Disclosures

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

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

Related Party	Relationship		Management Fees (see Note 24)	Operator's Fee (see Note 23)	Outside Services (see Notes 23 and 24)	Repairs and Maintenance (see Notes 23 and 24)	Communication, Light and Water (see Notes 23 and 24)	Advertising and Marketing Expenses (see Notes 23 and 24)	Professional Fees (see Note 24)	Representation and Travel Expenses (see Note 24)	Fuel & Oil, Transportation (see Note 23)	Income from Advertising (see Note 22)	Income from Utility Facilities (see Note 22)
MPTC	Intermediate Parent Company	**2018**	**₱61,187,675**	**₱–**	**₱–**	**₱1,989,268**	**₱–**	**₱106,581,694**	**₱–**	**₱8,507**	**₱–**	**₱–**	**₱–**
		2017	60,702,628	–	–	–	–	182,868,860	–	–	–	–	–
		2016	60,702,628	–	–	–	–	42,966,485	–	–	–	–	–
MPTNC	Parent Company	**2018**	**35,206,694**	**–**	**–**	**–**	**–**	**3,327,346**	**–**	**–**	**–**	**–**	**–**
		2017	11,936,599	–	–	–	–	–	–	–	–	–	–
		2016	11,936,599	–	–	–	–	–	–	–	–	–	–
TMC	Subsidiary of MPTNC	**2018**	**–**	**825,787,622**	**–**	**–**	**–**	**54,500**	**–**	**–**	**42,228**	**–**	**–**
		2017	–	1,528,987,544	2,518,278	62,350,900	227,878	–	–	–	–	–	–
		2016	–	2,001,498,970	–	6,234,952	–	–	–	–	–	–	–
Easytrip Services Corp. (ESC)	Subsidiary of MPTC	**2018**	**–**	**–**	**78,727,784**	**–**	**–**	**366,150**	**–**	**–**	**–**	**686,286**	**–**
		2017	–	–	68,821,203	–	–	632,556	–	–	–	100,000	–
		2016	–	–	67,861,426	–	–	–	–	–	–	920,000	–
Smart Communications Inc. (Smart)	Associate of FPC	**2018**	**–**	**–**	**–**	**–**	**1,849,532**	**15,774**	**–**	**–**	**–**	**1,864,000**	**390,678**
		2017	–	–	–	–	1,808,087	138,142	–	–	–	18,422,000	373,855
		2016	–	–	–	–	–	–	–	–	–	43,480,000	357,756
PLDT, Inc. (PLDT)	Associate of FPC	**2018**	**–**	**–**	**–**	**–**	**3,495,933**	**1,925**	**–**	**–**	**–**	**700,000**	**2,172,056**
		2017	–	–	–	516,418	3,283,959	–	–	14,650	–	730,000	2,164,959
		2016	–	–	–	–	–	–	–	–	–	1,009,000	6,628,069
Metro Pacific Tollways Management Services, Inc. (MPTMSI)	Subsidiary of MPTC	**2018**	**53,912,048**	**–**	**–**	**–**	**–**	**1,301,560**	**–**	**–**	**–**	**–**	**–**
		2017	–	–	–	–	–	–	–	–	–	–	–
		2016	–	–	–	–	–	–	–	–	–	–	–
Cavitex Infrastructure Corp. (CIC)	Subsidiary of MPTC	**2018**	**–**	**–**	**–**	**–**	**–**	**2,387,014**	**–**	**–**	**1,569**	**–**	**–**
		2017	–	–	–	–	–	31,500	–	578	–	–	–
		2016	–	–	–	–	–	–	–	–	–	–	–
MPIC	Parent Company of MPTC	**2018**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**288,600**	**–**	**–**
		2017	–	–	–	–	–	–	–	–	–	–	–
		2016	–	–	–	–	–	–	–	–	–	–	–
Manila Electric Company (Meralco)	Associate of MPIC	**2018**	**–**	**–**	**–**	**–**	**11,794,996**	**–**	**–**	**–**	**–**	**–**	**360,000**
		2017	–	–	–	–	6,167,930	9,701	–	–	–	–	360,000
		2016	–	–	–	–	5,975,142	–	–	–	–	–	–
Maynilad	Subsidiary of MPIC	**2018**	**–**	**–**	**–**	**–**	**370,683**	**–**	**–**	**–**	**–**	**–**	**–**
		2017	–	–	–	–	95,022	–	–	–	–	–	–
		2016	–	–	–	–	–	–	–	–	–	–	–
Indra Philippines, Inc. (Indra)	Associate of MPIC	**2018**	**–**	**–**	**–**	**11,348,827**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
		2017	–	–	–	–	–	–	–	–	–	–	–
		2016	–	–	–	–	–	–	–	–	–	–	–
Egis Projects Philippines Inc. (EPPI)	Associate of FPC	**2018**	**–**	**–**	**–**	**–**	**–**	**–**	**19,642,857**	**–**	**1,794,844**	**–**	**–**
		2017	–	–	–	–	–	–	–	–	–	–	–
		2016	–	–	–	–	–	–	–	–	–	–	–
Citra Metro Manila Tollways Corp.	Associate of FPC	**2018**	**–**	**–**	**–**	**88**	**–**	**1,002**	**–**	**–**	**12,967**	**–**	**–**
		2017	–	–	–	–	–	–	–	–	–	–	–
		2016	–	–	–	–	–	–	–	–	–	–	–
Total		**2018**	**₱150,306,417**	**₱825,787,622**	**₱78,727,784**	**₱13,338,183**	**₱17,511,144**	**₱114,036,965**	**₱19,642,857**	**₱8,507**	**₱2,140,208**	**₱3,250,286**	**₱2,922,824**
		2017	72,639,227	1,528,987,544	71,339,481	62,867,318	11,582,876	183,680,759	–	15,228	–	19,252,000	2,898,814
		2016	72,639,227	2,001,498,970	67,861,426	6,234,952	5,975,142	42,966,485	–	–	–	45,409,000	6,985,825

Outstanding balances of receivables from/payables to related parties are carried in the consolidated statement of financial positions under the following accounts:

Related Party	Relationship		Advances to Suppliers (see Note 15)	Trade Receivables[2] (see Note 8)	Due from Related Parties[1] (see Note 8)	Accounts Payable and Other Current Liabilities and Dividends Payable[2] (see Note 16)	Terms	Conditions
MPTC	Intermediate Parent Company	**2018**	**₱–**	**₱–**	**₱4,230,086**	**₱60,110,442**	(1) On demand; noninterest-bearing	Unsecured; no impairment
		2017	–	–	410,469	101,258,268	(2) 30-45 days; noninterest-bearing	
MPTNC	Parent Company	**2018**	–	–	**22,645**	**1,511,026,541**	(1) On demand; noninterest-bearing	Unsecured; no impairment
		2017	–	–	–	2,806,084	(2) 30-45 days; noninterest-bearing	
Metro Pacific Tollways South Management Corp.	Subsidiary of MPTSC	**2018**	–	–	**4,057,988**	–	(1) On demand; noninterest-bearing	Unsecured; no impairment
		2017	–	–	–	–		
MPCALA Holdings, Inc. (MHI)	Subsidiary of MPTNC	**2018**	–	–	**4,533**	–	(1) On demand; noninterest-bearing	Unsecured; no impairment
		2017	–	–	1,945,658	–		
TMC	Subsidiary of MPTNC	**2018**	–	–	–	–	(1) On demand; noninterest-bearing	Unsecured; no impairment
		2017	58,000	1,040,290	501,126	406,369,493	(2) 30-45 days; noninterest-bearing	
CIC	Subsidiary of MPTC	**2018**	–	–	**225,002**	**528,064**	On demand; noninterest-bearing	Unsecured; no impairment
		2017	–	–	1,288,843	–		
ESC	Subsidiary of MPTC	**2018**	–	**339,340,923**	**99,000**	**7,969,546**	(1) On demand; noninterest-bearing	Unsecured; no impairment
		2017	–	332,502,752	99,000	7,975,955	(2) 7 days; noninterest-bearing	
Indra	Associate of MPIC	**2018**	**6,403,799**	–	–	**64,632,456**	Within one year; noninterest-bearing	Unsecured, no impairment
		2017	6,273,074	–	–	28,715,707		
Smart	Associate of FPC	**2018**	–	**2,029,211**	–	**342,007**	30-45 days; noninterest-bearing	Unsecured; no impairment
		2017	–	36,379,572	–	244,951		
PLDT	Associate of FPC	**2018**	–	**1,610,507**	–	**216,542**	30-45 days; noninterest-bearing	Unsecured; no impairment
		2017	–	778,450	–	289,860		
Digitel	Associate of FPC	**2018**	–	–	–	**1,400**	30-45 days; noninterest-bearing	Unsecured; no impairment
		2017	–	5,107,200	–	1,400		
Meralco	Associate of MPIC	**2018**	**15,391,239**	–	–	**3,800,399**	Within one year; noninterest-bearing	Unsecured, no impairment
		2017	15,405,542	–	–	–		
Maynilad	Subsidiary of MPIC	**2018**	–	–	–	–	Within one year; noninterest-bearing	Unsecured, no impairment
		2017	–	50,000	–	–		
MPTMSI	Subsidiary of MPTC	**2018**	–	–	**390,740**	**4,967,064**	On demand; noninterest-bearing	Unsecured; no impairment
		2017	–	–	1,455,819	–		
Cebu Cordova Link Expressway Corporation	Subsidiary of MPTC	**2018**	–	–	**149,531**	–	On demand; noninterest-bearing	Unsecured; no impairment
		2017	–	–	10,194	–		
EPPI	Associate of FPC	**2018**	**6,891,897**	–	–	**22,349,426**	On demand; noninterest-bearing	Unsecured; no impairment
		2017	–	–	–	–		
MPIC	Parent Company of MPTC	**2018**	–	–	–	–	On demand; noninterest-bearing	Unsecured; no impairment
		2017	–	–	271,472	–		
Total		**2018**	**₱28,686,935**	**₱342,980,641**	**₱9,179,525**	**₱1,675,943,887**		
		2017	21,736,616	375,858,264	5,982,581	547,661,718		

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

Transactions with Parent Companies of NLEX Corp.

MPTC

- MPTC performs managerial and financial advisory services for NLEX Corp. in 2018, 2017, and 2016. On January 1, 2014, NLEX Corp. and MPTC renewed their Management Services Agreement where NLEX Corp. shall pay MPTC a fixed monthly fee of ₱3.7 million (exclusive of VAT) for the services rendered by MPTC. The agreement is effective January 1, 2014, and shall remain in effect for twelve (12) months. In 2018, 2017 and 2016, MPTC bills NLEX Corp. a fixed monthly fee of ₱5.1 million (exclusive of VAT) for the managerial and financial advisory services it performs to NLEX Corp.
- In 2018, 2017 and 2016, MPTC billed NLEX Corp. for its share in the compensation, bonuses and other benefits of the NLEX Road Warriors Philippine Basketball Association team.

MPTNC

- In 2018, 2017, and 2016, MPTNC billed NLEX Corp. for various expenses paid in behalf of NLEX Corp. as well as the latter's share in common expenses.
- On January 1, 2018, NLEX Corp. entered into a management service agreement with MPTNC, whereby MPTNC provides management and other advisory services through the secondment and outsourcing of MPTNC's employees. Consequently, MPTNC shall be entitled to a monthly fixed fee in the amount of ₱2.9 million, which is inclusive of the standard administrative fee of 10% but is exclusive of VAT. The agreement shall remain in effect for a period of twelve (12) months and may be renewed or extended upon mutual agreement by NLEX Corp. and MPTNC.
- On December 18, 2018, NLEX Corp. declared dividends payable to MPTNC amounting to ₱1,486.4 million. As at December 31, 2018, the entire amount remains unpaid.

Transactions with Other Related Parties

TMC *(Prior to the Merger, effective December 14, 2018)*

NLEX

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

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

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

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

- In 2014, in view of the latest publication of the National Statistics Office (NSO) for CPI values issued in July 2011, with different commodity grouping compared with those stipulated in the O&M, NLEX Corp. and TMC agreed to amend the base fee, effective January 9, 2012 as follows:

  - ₱1,312.6 million for the existing NLEX;
  - ₱84.2 million for Segment 7;
  - ₱6.9 million for Dau Interchange; and
  - ₱32.9 million for Segment 8.1.

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

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

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

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

SCTEX

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

Other Transaction

- In 2018, TMC novated certain contracts pertaining to repairs, maintenance and outside services, with NLEX Corp. substituting TMC as party to such contracts.

MPTMSI

- On January 1, 2018, NLEX Corp. entered into a management service agreement with MPTMSI, whereby MPTMSI provides management and other advisory services through the secondment and outsourcing of MPTMSI's employees. MPTMSI bills NLEX Corp. a monthly fixed fee amounting to ₱4.5 million, exclusive of VAT, for the said services. The agreement shall remain in effect for a period of twelve (12) months and may be renewed or extended upon mutual agreement by NLEX Corp. and MPTMSI.

ESC

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

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

Indra

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

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

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

- In 2017 and 2018, Indra billed NLEX Corp. for various repairs and maintenance services rendered to ETC facilities installed along NLEX.

EPPI

- On January 9, 2018, NLEX Corp. and EPPI entered into an agreement to engagement EPPI to undertake consultancy and technical assistance services. Adhering to the agreement, an annual service fee of ₱22.0 million, inclusive of VAT, shall be paid by NLEX Corp. on a monthly basis equivalent to dividing the annual service fee into twelve (12) equal monthly payments. The contract is effective on January 1, 2018 and shall last for an undetermined period of time which shall not be less than the concession period of SCTEX.

PLDT, Smart and Digitel

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

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

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

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

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

- In 2018, 2017 and 2016, NLEX Corp. entered into advertising arrangements with Smart and Digitel (a subsidiary of PLDT) related to various advertising mediums, which include rental, material production, installation and maintenance at several locations along NLEX. In 2015, the advertising arrangement with Digitel has ended.

Meralco

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

- As at December 31, 2018, NLEX Corp. has advances to Meralco for its new electric line applications for Segment 9, portion of Phase II of MNEP, and Balintawak and Valenzuela drainage system. These advances are consumable upon activation of the electric lines in Segment 9 and Balintawak and Valenzuela drainage system.

Maynilad

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

Other Transactions

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

	2018	2017	2016
Short-term employee benefits	**₱102,170,076**	₱91,399,101	₱96,657,884
LTIP expense (see Note 25)	**27,573,136**	64,000,000	58,964,008
Retirement expense (see Note 25)	**13,926,271**	11,502,652	9,059,351
ESOP expense (see Notes 25 and 26)	**–**	–	1,244,843
	₱143,669,483	₱166,901,753	₱165,926,086

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

- The Company paid directors fees amounting to ₱0.9 million, ₱0.8 million and ₱0.7 million for the years ended December 31, 2018, 2017 and 2016, respectively, recorded under "General and administrative expenses" account in the consolidated statements of income (see Note 24).
- Advances to officers and employees has an outstanding balance of ₱16.0 million and ₱10.6 million as at December 31, 2018 and 2017, respectively (see Note 8).
- The Company has existing investment in corporate notes of Meralco and PLDT totaling ₱384.1 million and ₱402.8 million as at December 31, 2018 and 2017, respectively (see Note 14).

19. Short-term Notes Payable and Long-term Debt

Short-term Notes Payable

On April 18, 2018, NLEX Corp. availed 90-day short-term loans from BDO Unibank Inc. (BDO) and Metropolitan Bank & Trust Co. (MBTC) amounting to ₱1.4 billion each with an annual interest rate of 3.50%. The proceeds were used to finance the payment of the ₱4.0 billion Series A Notes which matured and was settled on April 19, 2018.

To partially finance the repayment of these short-term loans on July 17, 2018, the Company availed another 90-day short-term loans from BDO and MBTC amounting to ₱500.0 million each with an annual interest rate of 4.00%. Both loans were settled by the Company on October 11, 2018.

Interest expense from these short-term loans presented as part of "Interest expense and other finance costs" in the consolidated company statement of income amounted to ₱16.8 million in 2018 (see Note 28).

Long-term Debt

This account consists of:

	2018	2017
Peso-denominated Notes, Loans and Bonds:		
Series A Notes	**₱930,000,000**	₱4,897,616,998
Term Loan Facilities	**8,300,000,000**	8,650,000,000
Fixed-rate Bonds	**13,000,000,000**	7,000,000,000
	22,230,000,000	20,547,616,998
Less unamortized debt issue costs	**152,575,537**	107,020,853
	22,077,424,463	20,440,596,145
Less current portion of long-term debt - net of unamortized debt issue costs of ₱7,988,503 and ₱13,408,160 as at December 31, 2018 and 2017, respectively	**352,011,497**	4,304,208,838
	₱21,725,412,966	₱16,136,387,307

The unamortized debt issue costs incurred in connection with the availment of long-term debt amounting to ₱152.6 million and ₱107.0 million as at December 31, 2018 and December 31, 2017, respectively, were deducted against the long-term debt. The movements in debt issue costs are as follows:

	2018	2017
Balance at beginning of year	**₱107,020,853**	₱127,056,818
Amortization during the year* (see Notes 9 and 28)	**(27,920,572)**	(34,247,435)
Debt issue costs incurred during the year	**73,475,256**	14,211,470
Balance at end of year	**₱152,575,537**	₱107,020,853

* *Includes amortization of debt issue costs capitalized to service concession assets amounting to ₱17,127,856 and ₱12,808,080 on December 31, 2018 and 2017, respectively.*

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

On April 19, 2018, the Company paid ₱4.0 billion of Series A Notes with tenor of 7 years. As at February 15, 2019, the outstanding fixed-rate unsecured notes amounting to ₱930.0 million pertain to Series A Notes with tenor of 10 years.

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

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

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

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

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

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

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

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

On July 24, 2017, the Company opted not to extend the availability period of the undrawn amount of the term loan facility. On August 9, 2017, Unionbank, billed NLEX Corp. for the commitment fee of ₱12.1 million equivalents to 0.25% per annum of the undrawn amount, computed from January 29, 2016 up to July 24, 2017. This commitment fee was recognized as part of "Interest expense and other finance costs" (see Note 28).

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

Fixed-rate Bonds

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

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

On July 4, 2018, NLEX Corp. issued ₱4.0 billion fixed-rate bonds with term of seven years at 6.6407% per annum and ₱2.0 billion principal amounts of bonds with term of ten years at 6.90% per annum, for public distribution and sale in the Philippines. Interest payments are payable quarterly in arrears on July 4, October 4, January 4 and April 4, starting on October 4, 2018.

The bonds will be payable at the end of the seven-year and ten-year maturity periods on July 4, 2025 and July 4, 2028, respectively. The proceeds will be used by NLEX Corp. to partially fund the construction cost of Segment 10 – C3-R10 Ramp Project, portion of Phase II of MNEP, which will connect the C-3 Road in Caloocan City to the R-10 in the Port area, and other general corporate purposes.

The bonds issued by NLEX Corp in 2014 and 2018 contain an early redemption option where NLEX Corp. has the right, but not the obligation, to redeem in whole, and not in part, any series of the bonds before the relevant maturity dates. The early redemption option was assessed by the management as closely and clearly related to the host contract.

Compliance with Loan Covenants
As at December 31, 2018 and 2017, NLEX Corp. is compliant with the required financial ratios and other loan covenants (see Note 31). NLEX Corp.'s long-term debt is unsecured as at December 31, 2018 and 2017.

20. Service Concession Fees Payable

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

	Amount
At January 1, 2017	₱2,335,916,229
Accretion (see Note 9)	185,512,898
At January 1, 2018	2,521,429,127
Accretion (see Note 9)	180,019,505
At December 31, 2018	₱2,701,448,632

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

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

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

21. Equity

Capital Stock
Details of common shares of the Parent Company as at December 31, 2018 and 2017 follow:

Number of Shares	**2018**	2017
Authorized - ₱100 par value	**40,000,000**	40,000,000
Issued and outstanding	**18,786,000**	17,760,000

In relation to the merger with TMC, the Company issued 2.70 common shares of stocks for each stockholder of TMC, equivalent to a total of 1,026,000 common shares of stocks. The total value of the equity shares issued on the Effective Merger Date amounted to ₱6,318.8 million, resulting to an increase in additional paid-in capital as follows:

Total value of common shares issued	₱6,318,768,979
Par value of common shares issued	102,600,000
Additional paid-in capital	₱6,216,168,979

Retained Earnings

Accumulated equity in net earnings of the subsidiary

A portion of the consolidated retained earnings corresponding to the net earnings of the subsidiary amounting to ₱8.1 million and ₱5.1 million as of December 31, 2018 and 2017, respectively, is not available for dividend declaration. The accumulated equity in net earnings becomes available for dividends upon receipt of the Parent Company from the subsidiary.

Cash dividends

The following cash dividends were declared in 2018 and 2017:

Declaration Date	Record Date	Payment Date	Cash Dividend per Share	Total
December 18, 2018	**December 28, 2018**	**January 25, 2019**	**₱111.78**	**₱2,100,000,000**
July 19, 2018	**July 30, 2018**	**August 16, 2018**	**112.62**	**2,000,000,000**
December 18, 2017	January 2, 2018	January 24, 2018	103.60	1,840,000,000
July 20, 2017	August 3, 2017	September 2, 2017	99.09	1,760,000,000

Unpaid dividends of ₱2,100.0 million and ₱1.840.0 as at December 31, 2018 and 2017, respectively, were subsequently paid in January of the following year.

Other Comprehensive Loss Reserve

	Financial Assets at FVOCI	Income Tax Related to Financial Assets at FVOCI	AFS Financial Assets	Income Tax Related to AFS Financial Assets	Re-measurement of Defined Benefit Plan	Income Tax Related to Defined Benefit Plan	Total
Balance at January 1, 2018	**₱–**	**₱–**	**(₱39,612,493)**	**(₱43,141)**	**₱3,741,979**	**(₱1,122,594)**	**(₱37,036,249)**
Reclassification due to adoption of PFRS 9	**(39,083,932)**	**(43,141)**	**39,083,932**	**43,141**	**–**	**–**	**–**
Changes in fair value	**(63,475,190)**	**388,883**	**–**	**–**	**–**	**–**	**(63,086,307)**
Recycling to profit or loss (see Notes 13 and 14)	**(1,013,409)**	**–**	**528,561**	**–**	**–**	**–**	**(484,848)**
Remeasurement loss (see Note 25)	**–**	**–**	**–**	**–**	**(7,239,294)**	**2,171,788**	**(5,067,506)**
Balance at December 31, 2018	**(₱103,572,531)**	**₱345,742**	**₱–**	**₱–**	**(₱3,497,315)**	**₱1,049,194**	**(₱105,674,910)**
Balance at January 1, 2017	₱–	₱–	(₱39,194,024)	₱1,464,533	₱1,167,297	(₱350,189)	(₱36,912,383)
Changes in fair value	–	–	8,529,127	(1,507,674)	–	–	7,021,453
Recycling to profit or loss (see Notes 13 and 14)	–	–	(8,947,596)	–	–	–	(8,947,596)
Remeasurement gain (see Note 25)	–	–	–	–	2,574,682	(772,405)	1,802,277
Balance at December 31, 2017	₱–	₱–	(₱39,612,493)	(₱43,141)	₱3,741,979	(₱1,122,594)	(₱37,036,249)
Balance at January 1, 2016	₱–	₱–	(₱37,532,107)	₱2,657,153	₱11,864,970	(₱3,559,491)	(₱26,569,475)
Changes in fair value	–	–	25,673,283	(1,192,620)	–	–	24,480,663
Recycling to profit or loss (see Notes 13 and 14)	–	–	(27,335,200)	–	–	–	(27,335,200)
Remeasurement loss (see Note 25)	–	–	–	–	(10,697,673)	3,209,302	(7,488,371)
Balance at December 31, 2016	₱–	₱–	(₱39,194,024)	₱1,464,533	₱1,167,297	(₱350,189)	(₱36,912,383)

22. Non-toll Revenues

Details of non-toll revenues follow:

	2018	2017	2016
Income from advertising (see Note 18)	**₱123,193,147**	₱98,277,947	₱106,466,110
Income from TSF	**47,083,187**	41,650,548	36,414,084
Service revenue	**19,481,006**	27,015,077	2,410,563
Rental income (see Notes 11 and 30)	**13,120,770**	4,307,205	4,307,205
Income from utility facilities (see Note 18)	**5,430,617**	3,127,412	7,836,678
	₱208,308,727	₱174,378,189	₱157,434,640

23. Cost of Services

This account consists of:

	2018	2017	2016
Concession fees (see Note 2)	**₱1,076,031,647**	₱931,554,970	₱791,493,044
Operator's fee (see Note 18)	**825,787,622**	1,528,987,544	2,001,498,970
Amortization of service concession assets (see Note 9)	**810,648,908**	762,794,599	615,120,463
PNCC fee (see Note 30)	**640,780,400**	571,525,093	527,740,201
Outside services (see Note 18)	**309,440,398**	81,266,336	72,496,308
Repairs and maintenance (see Note 18)	**391,172,574**	209,594,390	77,200,629
Advertising and promotions	**175,864,336**	18,582,496	743,557
Provision for heavy maintenance (see Note 17)	**153,060,609**	215,471,251	113,971,317
Insurance	**79,555,712**	76,414,846	78,074,708
Salaries and employee benefits (see Note 25)	**69,148,173**	46,550,029	51,244,292
Depreciation of property and equipment (see Note 10)	**29,531,188**	17,517,022	4,977,014
Toll collection and medical services	**22,450,044**	27,056,449	25,484,409
Fuel and oil (see Note 18)	**15,537,452**	2,992,892	–
Professional fee	**45,071,595**	16,953,421	5,372,675
Light and water (See Note 18)	**22,984,008**	7,876,108	2,710,635
Others (see Note 18)	**81,326,918**	39,222,772	24,760,233
	₱4,748,391,584	₱4,554,360,218	₱4,392,888,455

24. General and Administrative Expenses

This account consists of:

	2018	2017	2016
Advertising and marketing expenses (see Note 18)	**₱199,535,600**	₱225,106,556	₱135,303,974
Salaries and employee benefits (see Note 25)	**197,175,921**	224,262,714	190,906,315
Management fees (see Note 18)	**150,306,417**	72,639,227	72,639,227
Taxes and licenses	**82,496,390**	74,298,362	62,504,339
Depreciation of property and equipment (see Note 10)	**45,955,316**	34,425,546	25,001,484
Provisions (see Note 17)	**39,416,013**	31,274,789	29,537,324
Professional fees (see Note 18)	**32,474,295**	81,289,362	93,149,171
Representation and travel (see Note 18)	**26,232,961**	34,106,956	31,245,455
Outside services (see Note 18)	**21,229,233**	13,452,613	21,802,034
Decline in value of inventories	**16,615,395**	–	–
Training and development costs	**16,494,501**	5,978,446	5,042,927
Provision for unclaimable input VAT (see Note 15)	**14,271,746**	–	–
Office supplies	**13,108,635**	5,002,650	4,301,753
Repairs and maintenance (see Note 18)	**10,766,645**	7,762,093	13,649,163
Provision for doubtful accounts (see Note 8)	**6,324,289**	1,500,575	10,776,531
Amortization of other intangible assets (see Note 12)	**5,674,998**	11,861,791	5,924,711
Communication, light and water (see Note 18)	**4,407,308**	7,316,492	10,428,199
Rentals	**2,894,112**	2,161,328	1,612,882
Directors' fees (see Note 18)	**920,000**	830,000	695,000
Miscellaneous	**11,803,555**	12,183,452	11,648,913
	₱898,103,330	₱845,452,952	₱726,169,402

25. Personnel Cost and Employee Benefits

This account consists of:

	2018	2017	2016
Salaries expense	**₱181,254,596**	₱176,563,038	₱165,166,190
LTIP	**27,573,136**	64,000,000	58,964,008
Retirement expense	**12,661,013**	13,547,673	10,772,390
ESOP expense (see Note 26)	–	–	1,244,843
Other employee benefits	**44,835,349**	16,702,032	6,003,176
	₱266,324,094	₱270,812,743	₱242,150,607

	2018	2017	2016
Cost of services (see Note 23)	**₱69,148,173**	₱46,550,029	₱51,244,292
General and administrative expenses (see Note 24)	**197,175,921**	224,262,714	190,906,315
	₱266,324,094	₱270,812,743	₱242,150,607

LTIP

On April 27, 2012, MPTC's BOD approved the implementation of 2012 to 2014 LTIP of MPTC and its subsidiaries (MPTC Group) which will be effective on January 1, 2012. 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 for the years ended December 31, 2018, 2017 and 2016 included in "Salaries and employee benefits" account under "General and administrative expenses" in the consolidated statements of income amounted to ₱27.8 million, ₱64.0 million and ₱59.0 million, respectively. Total long-term incentive plan payable amounted to ₱86.0 million and ₱193.4 million as at December 31, 2018 and December 31, 2017, respectively. The outstanding long-term incentive plan payable as at December 31, 2017 was settled on March 5, 2018.

Retirement Costs

NLEX Corp. has a funded noncontributory defined benefit retirement plan covering all of its regular and full time employees. The plan provides for a lump sum benefit payment upon retirement. Contributions and costs are determined in accordance with the actuarial study made for the plan which is normally obtained every two years. The most recent actuarial valuation of plan assets and the present value of the defined benefit obligation was carried out as at December 31, 2018 by a certified actuary.

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

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

Changes in pension liability in 2018 are as follows:

	Present Value of Defined Benefit Obligation	Fair Value of Plan Assets	Pension Asset
At January 1, 2018	(₱148,879,918)	₱154,450,608	₱5,570,690
Net benefit income (cost) in statement of consolidated statement of income:			
Current service cost	(13,179,458)	–	(13,179,458)
Net interest	(8,238,904)	8,757,349	518,445
	(170,298,280)	163,207,957	(12,661,013)
Benefits paid	12,531,725	(12,531,725)	□
Remeasurement loss in other comprehensive income (see Note 21):			
Return on plan assets (excluding amount included in net interest)	–	(8,958,916)	(8,958,916)
Actuarial changes arising from changes in financial assumptions	9,872,252	–	9,872,252
Actuarial changes due to experience adjustment	(8,152,630)	–	(8,152,630)
	1,719,622	(8,958,916)	(7,239,294)
Contribution	–	17,936,547	17,936,547
Transfer of obligation to affiliates	3,572,955	–	3,572,955
Retirement obligation assumed from merger	(27,342,572)	–	(27,342,572)
At December 31, 2018	(₱179,816,550)	₱159,653,863	(₱20,162,687)

Changes in pension asset in 2017 are as follows:

	Present Value of Defined Benefit Obligation	Fair Value of Plan Assets	Pension Asset
At January 1, 2017	(₱135,712,706)	₱136,617,386	₱904,680
Net benefit income (cost) in statement of consolidated statement of income:			
Current service cost	(13,591,640)	–	(13,591,640)
Net interest	(6,595,638)	6,639,605	43,967
	(20,187,278)	6,639,605	(13,547,673)
Benefits paid	834,285	(834,285)	–
Remeasurement gain (loss) in other comprehensive income (see Note 21):			
Return on plan assets (excluding amount included in net interest)	–	(3,611,099)	(3,611,099)
Actuarial changes arising from changes in financial assumptions	6,669,056	–	6,669,056
Actuarial changes due to experience adjustment	(483,275)	–	(483,275)
	6,185,781	(3,611,099)	2,574,682
Contributions	–	15,639,001	15,639,001
At December 31, 2017	(₱148,879,918)	₱154,450,608	₱5,570,690

Changes in pension asset in 2016 are as follows:

	Present Value of Defined Benefit Obligation	Fair Value of Plan Assets	Pension Asset
At January 1, 2016	(₱110,939,146)	₱122,994,910	₱12,055,764
Net benefit income (cost) in statement of consolidated statement of income:			
Current service cost	(11,325,749)	–	(11,325,749)
Net interest	(5,092,107)	5,645,466	553,359
	(16,417,856)	5,645,466	(10,772,390)
Benefits paid	73,647	(73,647)	–
Remeasurement gain (loss) in other comprehensive income (see Note 21):			
Return on plan assets (excluding amount included in net interest)	–	(2,268,322)	(2,268,322)
Actuarial changes arising from changes in financial assumptions	2,679,135	–	2,679,135
Actuarial changes due to experience adjustment	(11,108,486)	–	(11,108,486)
	(8,429,351)	(2,268,322)	(10,697,673)
Contributions	–	10,318,979	10,318,979
At December 31, 2016	(₱135,712,706)	₱136,617,386	₱904,680

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

The actual return (loss) on plan assets amounted to (₱0.2 million), ₱3.0 million and ₱3.4 million on 2018, 2017 and 2016, respectively.

NLEX Corp. expects to contribute ₱18.7 million in 2019.

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

	2018		2017	
	Amount	**Percentage**	Amount	Percentage
Investments in:				
Government securities	**₱123,758,462**	**77.52%**	₱105,770,543	68.48%
Debt securities	**28,052,563**	**17.57%**	28,200,145	18.26%
Equity securities	**1,518,400**	**0.38%**	1,648,000	1.07%
UITFs	**600,108**	**0.95%**	17,440,754	11.29%
Cash and cash equivalents	**4,157,928**	**2.60%**	483	–
Receivables and others	**1,566,402**	**0.98%**	1,390,683	0.90%
	₱159,653,863	**100.00%**	₱154,450,608	100.00%

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

The plan assets consist of the following:

- Investments in government securities consist primarily of fixed-rate treasury notes and retail treasury bonds that bear interest ranging from 3.19% to 7.88% per annum and have maturities from 2019 to 2031.
- Investments in debt instruments consist of quoted, unsecured, long-term corporate bonds and subordinated notes, which bear interest ranging from 4.62% to 6.27% per annum and have maturities from 2020 to 2024.
- Investment in equity securities consist of non-voting perpetual preferred shares Series A of GTCHI amounting to ₱1.6 million as at December 31, 2018. Loss on change in the fair value of the equity securities amounted to ₱81,600 in 2018.
- As at December 31, 2018 and 2017, cash and cash equivalents include regular savings and time deposits, which bear interest of ranging 4.25% to 5.38% and 1.25% to 3.47% per annum, respectively.
- Other financial assets held by the plan are primarily accrued interest income from cash and cash equivalents, investments in UITFs, and investments in debt securities.

The latest actuarial valuation of the Company is as at December 31, 2018.

The principal assumptions used to determine accrued retirement costs as at December 31, 2018 and 2017 are as follows:

	2018	2017
Discount rate	**7.17%**	5.67%
Salary increase rate	**7.00%**	7.00%

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as at December 31, 2018 and 2017, assuming if all other assumptions were held constant:

				Amount
Discount rate				
	2018	**(Actual + 1.00%)**	**8.17%**	**(₱147,411,137)**
		(Actual - 1.00%)	**6.17%**	**158,791,000**
	2017	(Actual + 1.00%)	6.67%	(141,838,834)
		(Actual - 1.00%)	4.67%	157,285,034
Salary increase rate				
	2018	**(Actual + 1.00%)**	**8.00%**	**₱158,607,707**
		(Actual - 1.00%)	**6.00%**	**(147,440,858)**
	2017	(Actual + 1.00%)	8.00%	156,651,368
		(Actual - 1.00%)	6.00%	(142,168,335)

The management performed an Asset-Liability Matching Study (ALM) annually. The overall investment policy and strategy of NLEX Corp.'s defined benefit plan is guided by the objective of achieving an investment return which, together with contributions, ensures that there will be sufficient assets to pay pension benefits as they fall due while also mitigating the various risk of the plans. NLEX Corp.'s current strategic investment strategy consists of 97.40% of debt instruments and 2.60% cash.

The average duration of the defined benefit obligation as at December 31, 2018 and 2017 is 15 years and 14 years, respectively.

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

	December 31, 2018	December 31, 2017
Less than 1 year	**₱62,084,149**	₱58,997,935
More than 1 year to 5 years	**66,424,849**	28,206,997
More than 5 years to 10 years	**56,918,239**	86,822,503
More than 10 years to 15 years	**116,965,418**	128,014,395
More than 15 years to 20 years	**125,022,847**	72,982,410
More than 20 years	**302,190,618**	256,496,989

26. Share-based Payment Plan

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

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

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

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

A summary of the Company's stock option activity received from MPIC and related information for the years ended December 31, 2018, 2017 and 2016 follows:

	2013 Grant	
	Number of Shares	Exercise Price
Outstanding at December 31, 2018, 2017 and 2016	4,000,000	₱4.60
Exercisable at:		
2018	**4,000,000**	**₱4.60**
2017	4,000,000	4.60

The weighted average remaining contractual life for the 2013 share options outstanding as at December 31, 2018 and 2017 is 0.8 year and 1.8 year, respectively.

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

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

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

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

ESOP expense, recognized by the Company in "Salaries and employee benefits" account under "General and administrative expenses" in the consolidated statements of income amounted to nil in 2018 and 2017 and ₱1.2 million in 2016 (see Notes 23 and 24).

Carrying value of the ESOP, recognized under "Other reserve" in the consolidated statement of changes in equity, amounted to ₱13.0 million as at December 31, 2018, 2017 and 2016.

27. Interest Income

Sources of interest income follow:

	2018	2017	2016
Cash and cash equivalents (see Note 6)	**₱39,322,583**	₱8,974,924	₱20,600,148
Investments in bonds and treasury notes	**38,904,828**	42,293,468	40,128,011
Others	–	75,764	1,361,545
	₱78,227,411	₱51,344,156	₱62,089,704

28. Interest Expense and Other Finance Costs

Sources of interest expense and other finance costs follow:

	2018	2017	2016
Interest expense on:			
Loans (see Notes 19 and 34)	**₱374,618,715**	₱470,433,620	₱405,396,398
Provision for heavy maintenance (see Note 17)	**17,486,761**	16,112,360	13,355,182
Amortization of deferred lease income (see Note 30)	**88,513**	7,588	7,148
Finance costs:			
Amortization of debt issue costs (see Note 19)	**10,792,716**	21,439,355	19,912,748
Commitment fee (see Note 19)	**–**	12,141,577	–
Lenders' fees	**3,450,910**	2,979,762	3,726,452
Bank charges	**155,180**	257,463	514,689
	₱406,592,795	₱523,371,725	₱442,912,617

29. Income Taxes

The provision for (benefit from) income tax for the years ended December 31, 2018, 2017 and 2016 are as follows:

	2018	2017	2016
Current:			
Regular corporate income tax	**₱1,520,174,917**	₱1,284,804,724	₱1,140,798,359
Final tax on interest income from banks	**15,531,199**	10,101,463	12,008,044
	1,535,706,116	1,294,906,187	1,152,806,403
Deferred	**48,630,259**	17,206,867	(33,191,446)
	₱1,584,336,375	₱1,312,113,054	₱1,119,614,957

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

	2018	2017
Deferred tax assets:		
Service concession fees payable	**₱810,434,590**	₱756,428,738
Provision for heavy maintenance	**58,111,287**	67,751,608
Accrued expenses and provisions	**29,077,849**	16,733,310
LTIP payable	**25,800,000**	58,032,694
Unamortized past service cost	**10,395,104**	5,915,176
Allowance for doubtful accounts	**9,829,036**	7,931,749
Pension liability	**6,695,508**	–
Unearned rental income	**1,956,712**	–
Deferred lease income	**1,789,788**	39,084
Fair value changes on financial assets at FVOCI (see Note 14)	**345,742**	–
Total *(Carried Forward)*	**954,435,616**	912,832,359

	2018	2017
Total *(Brought Forward)*	**₱954,435,616**	₱912,832,359
Deferred tax liabilities:		
Present value of concession fees capitalized as service concession assets	**(810,434,590)**	(756,428,738)
Difference in amortization of service concession assets	**(656,103,405)**	(641,896,621)
Unamortized realized foreign exchange losses capitalized	**(16,921,140)**	(17,811,727)
Present value of rental deposits	**(2,295,914)**	(41,177)
Pension asset	**(2,153,965)**	(1,671,207)
Accrued rental income	**(1,183,963)**	(649,237)
Unrealized foreign exchange gain	**(241,323)**	(17,100)
Fair value changes on AFS financial assets (see Note 14)	**–**	(43,141)
	(1,489,334,300)	(1,418,558,948)
Deferred tax liabilities - net	**(₱534,898,684)**	(₱505,726,589)

Reflected in the consolidated statement of financial position as follows:

	2018	2017
Deferred tax assets - net	**₱275,623**	₱–
Deferred tax liabilities - net	**(535,165,307)**	(505,726,589)
	(₱534,889,684)	(₱505,726,589)

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

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

	2018	2017	2016
Income before income tax	**₱7,339,785,905**	₱5,956,353,268	₱5,206,692,229
Income tax computed at statutory tax rate of 30%	**2,201,935,772**	1,786,905,981	1,562,007,669
Add (deduct) the tax effects of:			
Effect of optional standard deduction	**(604,747,273)**	(475,867,879)	(443,264,106)
Interest income already subjected to final tax	**(23,468,223)**	(15,380,518)	(18,218,447)
Nondeductible expenses (nontaxable income) and others	**(4,915,100)**	6,354,007	7,081,797
Final tax on interest income	**15,531,199**	10,101,463	12,008,044
Provision for income tax	**₱1,584,336,375**	₱1,312,113,054	₱1,119,614,957

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

The Company opted to avail of the OSD for the taxable years 2018, 2017 and 2016.

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

	2018	2017	2016
Balance at the beginning of year	**₱505,726,589**	₱486,239,643	₱521,447,771
Provision for (benefit from) income tax during the year recognized in the consolidated statements of income	**48,630,259**	17,206,867	(33,191,446)
Income tax effect during the year recognized in the consolidated statements of comprehensive income (see Note 21)	**(2,560,671)**	2,280,079	(2,016,682)
Deferred tax asset acquired through merger (see Note 6)	**(16,906,493)**	–	–
Balance at the end of year	**₱534,889,684**	₱505,726,589	₱486,239,643

30. Significant Contracts and Commitments

PNCC Fee

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

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

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

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

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

The Company recorded PNCC fee amounting to ₱640.8 million, ₱571.5 million and ₱527.7 million for the years ended December 31, 2018, 2017 and 2016, respectively (see Note 23).

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

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

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

Construction of the 5.65 kilometer fully-elevated segment is now underway. Project is estimated to be completed on January 26, 2019.

As at December 31, 2018 and 2017, the balance of the escrow account is presented as "Restricted Cash" under "Other current assets" (see Note 15).

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

Unapplied advances payment to First Balfour, Inc., included under "Advances to contractors and other noncurrent assets", amounted to nil and ₱21.7 million as at December 31, 2018 and 2017, respectively.

NLEX-SCTEX Integration Agreement
On February 5, 2015, NLEX Corp. and BCDA executed the Integration Agreement relating to the TCS integration of the NLEX-SCTEX that will involve the adoption of an advanced common transit ticket system which will make operations more efficient and enhance motorists' convenience. The total project cost including civil works, FOE design supply and installation, and independent design checker and certification engineer amounted to ₱786.1 million and completed in March 2016 (see Note 9).

Toll Collection Interoperability Agreement
On September 15, 2017, NLEX Corp., together with together with San Miguel Holdings Corporation, Private Infra Development Corporation, Citra Metro Manila Tollways Corporation, Skyway O&M Corporation, Citra Central Expressway Corporation, Vertex Tollways Development Incorporation, South Luzon Tollways Corporation, Manila Toll Expressway Systems Incorporated, Star Infrastructure Development Corporation, Star Tollway Corporation, MPTC, CIC, MHI, BCDA, Ayala Corporation, MCX Tollway, Inc., Department of Transportation, DPWH, and Land Transportation Office, has signed the MOA for Toll Collection Interoperability with TRB; whereby the concessionaires or facility operators agreed to timely, smoothly, and fairly implement the interoperability of the electronic toll collection systems and cash payment systems of the covered expressways and of future toll expressways, consistent with and subject to the concessionaires and operators' respective concession agreements, toll operations agreements, and supplemental toll operations agreement, as applicable.

The agreement will be implemented in two phases and to be operationalized within twelve (12) months from signing of the MOA. The first phase covers electronic collection interoperability, while the second phase covers cash collection interoperability. As at February 15, 2019, the implementation is still on the works.

Lease Contract
The Company entered into various lease agreements covering its leased commercial spaces. The lease agreements have lease terms of five (5) to twenty (20) years and a rental fee that is based on a minimum guaranteed rent for the first two (2) or three (3) years depending on the agreement with the lessee, or a percentage of gross sales, whichever is higher.

Upon signing of the lease contract, the lessees shall pay an advance rent and rental deposit amounting which shall be returned to the lessee after the expiration or termination of the lease contract.

Unearned rental income related to the advance rent amounted to ₱6.4 million and nil as at December 31, 2018 and 2017 respectively. Rent receivable amounted to ₱25.1 million and ₱24.0 million as at December 31, 2018 and 2017, respectively.

Rental income earned from this investment property amounted to ₱13.8 million and ₱4.3 million in 2018 and 2017 respectively.

As at December 31, 2018 and 2017, the rental deposit recognized in the books of the amounted to ₱4,577,671 and ₱130,601 respectively. The accretion on the rental deposit of ₱88,513, ₱7,588 and ₱7,148 for the years ended December 31, 2018, 2017 and 2016, respectively, were recognized as interest expense in the statements of comprehensive income (see Note 28).

The difference between the principal amount and present value of the rental deposit at lease inception date of ₱7,523,847, and ₱151,992 in 2018 and 2017, respectively is recognized as deferred lease income in the Company's balance sheet. This deferred lease income is regarded as additional lease payments that the lessee is required to make and therefore was amortized using straight-line method over the lease. The amortization of deferred lease income, included as part of "Rental income" in the statement of comprehensive income amounted to ₱169,904 and ₱10,857 in 2018 and 2017, respectively (see Note 22).

As at December 31, 2018, the minimum lease receivables are as follows:

Within one year	₱23,942,473
After one year but not more than five years	120,275,784
After five years	264,308,085
	₱408,526,342

NLEX Drive and Dine Project
In 2017, NVC entered into a contract agreement with R.D. Policarpio & Co., Inc. for the design and construction of the NLEX Drive and Dine Project (see Note 11).

On October 6, 2017, an advance payment was made by NVC to the contractor amounting to ₱29.9 million (inclusive of VAT). The NLEX Drive and Dine Project started to commence its operation in September 2018. As at December 31, 2018, the remaining advances to contractor after the application of the advances to billing from contractors amounted to ₱3.9 million.

31. **Financial Risk Management Objectives and Policies**

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

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

Interest Rate Risk
Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is not significantly exposed to interest rate risk since the Company's interest-bearing financial instruments, particularly its short-term notes payable and long-term debt, bear fixed interest rates as at December 31, 2018 and 2017. In accordance with its interest rate management policy, the Company converted its outstanding loans into fixed-rate debt, effectively locking in the interest rate on its loan obligations and reducing exposure to interest rate fluctuations.

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

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

		December 31, 2018				
	Interest Rate	**Within the Year ('000)**	**2–3 Years ('000)**	**4–5 Years ('000)**	**More than 5 Years ('000)**	**Total ('000)**
Financial Assets at Amortized Cost						
Cash and cash equivalents[a]	0.10%–3.50%	**₱2,340,626**	**₱–**	**₱–**	**₱–**	**₱2,340,626**
Restricted cash[b]	1.00%	**321,000**	–	–	–	**321,000**
Financial Assets at FVOCI						
Investments in bonds and treasury notes	2.13%–5.75%	**61,533**	**520,000**	**565,100**	–	**1,146,633**
		₱2,723,159	**₱520,000**	**₱565,100**	**₱–**	**₱3,808,259**
Financial Liabilities at Amortized Cost						
Fixed-rate loans:						
Series A-10	7.70%	**₱10,000**	**₱920,000**	**₱–**	**₱–**	**930,000**
Term-loan facility	5.00%–5.80%	**350,000**	**700,000**	**1,700,000**	**5,550,000**	**8,300,000**
Fixed-rate bonds	5.07%–6.90%	–	**4,400,000**	–	**8,600,000**	**13,000,000**
		₱360,000	**₱6,020,000**	**₱1,700,000**	**₱14,150,000**	**₱22,230,000**

[a] *Excluding cash on hand ₱108.4 million.*
[b] *Included under "Other current assets" account in the consolidated statement of financial position.*

		December 31, 2017				
	Interest Rate	Within the Year ('000)	2–3 Years ('000)	4–5 Years ('000)	More than 5 Years ('000)	Total ('000)
Loans and Receivables						
Cash and cash equivalents[a]	0.10%–4.50%	₱2,656,157	₱–	₱–	₱–	₱2,656,157
Restricted cash[b]	1.00%	321,000	–	–	–	321,000
AFS Investments						
Investments in bonds and treasury notes	2.13%–5.75%	50,000	431,230	250,000	565,100	1,296,330
		₱3,027,157	₱431,230	₱250,000	₱565,100	₱4,273,487
Financial Liabilities at Amortized Cost						
Fixed-rate loans:						
Series A-7	7.27%	₱3,957,617	₱–	₱–	₱–	₱3,957,617
Series A-10	7.70%	10,000	20,000	910,000	–	940,000
Term-loan facility	5.00%–5.80%	350,000	700,000	700,000	6,900,000	8,650,000
Fixed-rate bonds	5.07%–5.50%	–	–	4,400,000	2,600,000	7,000,000
		₱4,317,617	₱720,000	₱6,010,000	₱9,500,000	₱20,547,617

[a] *Excluding cash on hand ₱59.1 million.*
[b] *Included under "Other current assets" account in the consolidated statement of financial position.*

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

Credit Risk

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

Receivables arose mainly from ESC when Easytrip tag-motorists ply in NLEX and those non-toll revenues in the form of advertising services particularly from Smart. ESC, Smart and TMC are considered as low-risk counterparties as these are well-established companies. Moreover, the Company has payment obligations to TMC which far exceed the aggregate amounts of receivables. Receivables also arose from motorists who cause accidental damage to NLEX property from day-to-

day operations. Property damage claims are initially processed by TMC and are eventually turned over to NLEX Corp. The Company also has advances to DPWH, a Philippine government entity, which is covered by a Reimbursement Agreement.

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

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

The Company's credit risk is concentrated on investments in bonds and treasury notes, covering at least 50% and 55% of the Company's financial assets, except cash and cash equivalents, as at December 31, 2018 and 2017, respectively. The table below shows the maximum exposure to credit risk for the Company's financial assets, without taking account of any collateral, credit enhancements and other credit risk mitigation techniques.

	2018	2017
Financial Assets at Amortized Cost[(a)]		
Cash and cash equivalents[(b)]	**₱2,340,625,842**	₱2,656,156,532
Receivables[(c)]	**713,778,773**	704,398,236
Refundable deposits[(d)]	**3,682,967**	3,694,561
Restricted cash[(e)]	**321,000,000**	321,000,000
Financial Assets at FVOCI		
Investments in bonds and treasury notes[(f)]	**1,041,121,457**	1,254,406,932
Total credit risk exposure	**₱4,420,209,039**	₱4,939,656,261

[(a)] *Classified as Loans and Receivables under PAS 39 as at December 31, 2017.*
[(b)] *Excluding cash on hand.*
[(c)] *Excluding advances to officers and employees.*
[(d)] *Included in "Other noncurrent assets" account in the consolidated statement of financial positions.*
[(e)] *Included in "Other current assets" account in the consolidated statement of financial positions.*
[(f)] *Classified as AFS financial assets under PAS 39 as at December 31, 2017.*

Cash and cash equivalents and investments in bonds and treasury notes are placed with reputable local and international banks and companies and Philippine Government which meet the standards of the Company's BOD.

The financial assets, except for trade receivables, are grouped according to stage whose description is explained as follows:

Stage 1 - those that are considered current and up to 30 days past due, and based on change in rating, delinquencies and payment history, do not demonstrate significant increase in credit risk.

Stage 2 - those that, based on change in rating, delinquencies and payment history, demonstrate significant increase in credit risk, and/or are considered more than 30 days past due but does not demonstrate objective evidence of impairment as of reporting date.

Stage 3 - those that are considered in default or demonstrate objective evidence of impairment as of reporting date.

The table below shows determination of ECL stage of the Company's financial assets:

	2018				2017
	ECL Staging				
	Stage 1	**Stage 2**	**Stage 3**		
	12-month ECL	Lifetime ECL	Lifetime ECL	**Total**	Total
Financial Assets at Amortized Cost[(a)]					
Cash and cash equivalents[(b)]	**₱2,340,625,842**	**₱–**	**₱–**	**₱2,340,625,842**	₱2,656,156,532
Receivables:					
Advances to DPWH	**193,112,244**	**–**	**–**	**193,112,244**	179,535,742
Interest receivables	**21,286,789**	**–**	**–**	**21,286,789**	20,003,187
Due from related parties	**9,179,525**	**–**	**–**	**9,179,525**	5,982,581
Other receivables:					
Neither past due nor impaired					
High grade	**53,178,862**	**–**	**–**	**53,178,862**	28,506,946
Past due and impaired	**–**	**–**	**26,230,449**	**26,230,449**	23,234,568
Refundable deposits[(c)]	**3,694,561**	**–**	**–**	**3,694,561**	3,682,967
Restricted cash[(d)]	**321,000,000**	**–**	**–**	**321,000,000**	321,000,000
Financial Assets at FVOCI					
Investments in bonds and treasury notes[(e)]	**1,041,121,457**	**–**	**–**	**1,041,121,457**	1,254,406,932
Gross Carrying Amount	**₱3,983,199,280**	**₱–**	**₱26,230,449**	**₱4,009,429,729**	₱4,492,509,455

[(a)] *Classified as Loans and Receivables under PAS 39 as at December 31, 2017.*
[(b)] *Excluding cash on hand of ₱108,360,356 and ₱59,054,309 as at December 31, 2018 and 2017, respectively.*
[(c)] *Included in "Other noncurrent assets" account in the consolidated statement of financial position.*
[(d)] *Included under "Other current assets" account in the consolidated statement of financial position.*
[(e)] *Classified as AFS Financial Assets under PAS 39 as at December 31, 2017.*

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

Applicable as at December 31, 2017

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

	Neither Past Due nor	Past Due but not Impaired						
Year	Impaired	<31 Days	31–60 Days	61–90 Days	91–180 Days	Over 180 Days	Total	Total
2017	₱325,324,050	₱45,299,302	₱9,262,264	₱11,771,623	₱35,963,493	₱42,749,048	₱145,045,730	₱470,369,780

Management has assessed that trade receivables which are above 30 days past due have no significant increase in credit risk based on the historical collection experience of the Company from its customers.

Foreign Currency Risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. As at December 31, 2018 and 2017, the Company is not significantly exposed to foreign currency risk. The minimal exposure to foreign currency risk relates to the Company's foreign currency denominated cash and cash equivalents and accounts payables as at December 31, 2018 and 2017.

Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. The Company is not exposed to significant liquidity risk because of the nature of its operations which provides daily inflows of cash from toll collections. The Company is able to build up sufficient cash from operating revenues prior to the maturity of its payment obligations. The Company arranged additional short-term lines to boost its ability to meet short-term liquidity needs. The Company has short-term credit lines amounting to ₱11,617.0 million and ₱14,872.0 million as at December 31, 2018 and 2017, respectively, and cash and cash equivalents amounting to ₱2,449.0 million and ₱2,715.2 million as at December 31, 2018 and 2017, respectively, that are allocated to meet the Company's short-term liquidity needs.

The tables below summarize the maturity profile of the Company's financial assets and financial liabilities as at December 31, 2018 and 2017 based on undiscounted payments:

	December 31, 2018				
	Within the Year	**2–3 Years**	**4–5 Years**	**More than 5 Years**	**Total**
Financial Assets at Amortized Cost					
Cash and cash equivalents	**₱2,448,906,198**	**₱–**	**₱–**	**₱–**	**₱2,448,906,198**
Receivables[(a)]	**713,778,773**	–	–	–	**713,778,773**
Refundable deposits	–	–	–	**3,682,967**	**3,682,967**
Restricted cash	**321,000,000**	–	–	–	**321,000,000**
Financial Assets at FVTPL					
Investments in UITFs[(b)]	**67,858,720**	–	–	–	**67,858,720**
Financial Assets at FVOCI					
Investments in bonds and treasury notes[(c)]	**106,754,444**	**603,211,069**	**583,669,814**	–	**1,293,635,327**
	₱3,658,298,135	**₱603,211,069**	**₱583,669,814**	**₱3,682,967**	**₱4,848,861,985**
Financial Liabilities at Amortized Cost					
Accounts payable and other current liabilities [(d)]	**₱2,415,150,288**	**₱–**	**₱–**	**₱–**	**₱2,415,150,288**
Short-term notes payable	**2,720,475,000**	–	–	–	**2,720,475,000**
Dividends payable	**2,100,000,000**	–	–	–	**2,100,000,000**
Long-term debt [(e)]	**1,263,050,702**	**7,748,788,154**	**1,776,308,945**	**10,457,303,521**	**21,245,451,322**
Service concession fees payable	–	–	**486,309,163**	**8,024,101,186**	**8,510,410,349**
Rental deposits	–	–	–	**4,577,671**	**4,577,671**
	₱8,498,675,990	**₱7,748,788,154**	**₱2,262,618,108**	**₱18,485,982,378**	**₱36,996,064,630**

[(a)] *Excluding advances to officers and employees.*
[(b)] *Classified as financial assets at FVTPL under PFRS 9.*
[(c)] *Classified as financial assets at FVOCI under PFRS 9. Including interest to be received.*
[(d)] *Excluding statutory liabilities, unearned revenues and unearned rental income.*
[(e)] *Including interest to be paid.*

	December 31, 2017				
	Within the Year	2–3 Years	4–5 Years	More than 5 Years	Total
Loans and Receivables					
Cash and cash equivalents [(a)]	₱2,715,210,842	₱–	₱–	₱–	₱2,715,210,842
Receivables [(b)]	704,398,236	–	–	–	704,398,236
Refundable deposits	–	–	–	3,694,561	3,694,561
Restricted cash	321,000,000	–	–	–	321,000,000
AFS Investments					
Investments in UITFs [(c)]	217,749,970	–	–	–	217,749,970
Investments in bonds and treasury notes [(d)]	100,355,867	527,394,473	273,388,981	597,648,190	1,498,787,511
	₱4,058,714,915	₱527,394,473	₱273,388,981	₱601,342,751	₱5,460,841,120
Financial Liabilities at Amortized Cost					
Accounts payable and other current liabilities [(e)]	₱3,021,311,460	₱–	₱–	₱–	₱3,021,311,460
Dividends payable	1,840,000,000	–	–	–	1,840,000,000
Long-term debt [(f)]	5,077,667,726	2,483,606,168	7,180,023,115	10,990,588,136	25,731,885,145
Service concession fees payable	–	–	486,309,163	8,024,101,186	8,510,410,349
Rental deposits	–	–	–	267,857	267,857
	₱9,938,979,186	₱2,483,606,168	₱7,666,332,278	₱19,014,957,179	₱39,103,874,811

[(a)] *Classified as loans and receivables under PAS 39.*
[(b)] *Classified as loans and receivables under PAS 39. Excluding advances to officers and employees.*
[(c)] *Classified as AFS financial assets under PAS 39.*
[(d)] *Classified as AFS financial assets under PAS 39. Including interest to be received.*
[(e)] *Excluding statutory liabilities, unearned revenues and unearned rental income.*
[(f)] *Including interest to be paid.*

Capital Management

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

The Company's long-term debt to equity ratio stood at 1.19 times and 1.92 times for December 31, 2018 and 2017, respectively, indicating that the Company has the capacity to incur additional long-term debt to build up its capital.

	2018	2017
Long-term debt	**₱22,077,424,463**	₱20,440,596,145
Total equity	**18,561,313,931**	10,655,734,083
Total capital	**₱40,638,738,394**	₱31,096,330,228
Debt to equity ratio	**1.19 times**	1.92 times

The Company continuously evaluates whether its capital structure can support its business strategy. No changes were made in the objectives, policies or processes for managing capital during the year ended December 31, 2018 and 2017.

32. Financial Assets and Financial Liabilities

Fair Values

A comparison of carrying and fair values of all of the Company's financial instruments, other than those with carrying amounts that are reasonable approximate of fair values, by category as at December 31, 2018 and 2017 follows:

	December 31, 2018		December 31, 2017	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Financial Assets				
Financial assets at FVTPL:				
Investments in UITFs[(a)]	**₱67,858,720**	**₱67,858,720**	₱217,749,970	₱217,749,970
Financial assets at FVOCI:				
Investment in treasury bonds and notes[(a)]	**511,522,957**	**511,522,957**	701,530,432	701,530,432
Investment in corporate bonds[(a)]	**434,293,000**	**434,293,000**	453,879,000	453,879,000
Investment in LTNCD[(a)]	**95,305,500**	**95,305,500**	98,997,500	98,997,500
	₱1,108,980,177	**₱1,108,980,177**	₱1,472,156,902	₱1,472,156,902
Financial Liabilities				
Other financial liabilities:				
Long-term debt	**₱22,077,424,462**	**₱20,401,737,578**	₱20,440,596,145	₱20,246,309,035
Service concession fees payable	**2,701,448,632**	**2,128,511,528**	2,521,429,127	2,448,647,138
Rental deposits	**4,577,671**	**4,001,962**	124,033	120,076
	₱24,783,450,765	**₱22,534,251,068**	₱22,962,149,305	₱22,695,076,249

[(a)] *Classified as AFS financial assets under PAS 39 as at December 31, 2017.*

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

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

Investments in UITFs

Fair value of investments in UITFs is determined based on published net asset value per share (NAVPS). NAVPS is computed as total assets of the fund less total liabilities over the total units outstanding as of the end of the reporting period. The funds are primarily invested in quoted securities in various industries and quoted government securities.

Investments in Treasury Bonds and Notes, Corporate Bonds and LTNCD

The fair value of investment in treasury bonds and notes, corporate bonds and LTNCD is based on the quoted market price of the financial instruments as at December 31, 2018 and 2017. When the market prices are not readily available, the Company uses adjusted quoted market prices of comparable investments or applied discounted cash flow methodologies.

Long-term Debt

For fixed peso-denominated notes and loans, except the fixed-rate bonds where the fair value is based on its quoted market price as at December 31, 2018 and 2017, estimated fair value is based on the discounted value of future cash flows using the prevailing peso interest rates. In 2018 and 2017, the prevailing peso interest rates ranged from 6.3% to 8.6% and 3.6% to 7.2%, respectively.

Service Concession Fee Payable
The estimated fair value of the service concession fees payable is based on the discounted value of future cash flows using the prevailing peso interest rates. In 2018 and 2017, the prevailing peso interest rates ranged from 8.5% to 9.0% and 4.5% to 7.2%, respectively.

Rental Deposits
The estimated fair value of the rental deposits is based on the discounted value of future cash flow using the prevailing peso interest rates. In 2018, the prevailing peso interest rate used ranges from 7.0% to 7.5% and 6.7% in 2017.

Fair Value Hierarchy
As at December 31, 2018 and 2017, the Company held the following financial instruments measured at fair value:

	2018	**Level 1**	**Level 2**	**Level 3**
Assets Measured at Fair Value				
Financial assets at FVTPL:				
Investments in UITFs[(a)]	**₱67,858,720**	**₱–**	**₱67,858,720**	**₱–**
Financial assets at FVOCI:				
Investment in treasury bonds and notes[(a)]	**511,134,404**	**18,513,447**	**492,620,957**	**–**
Investment in corporate bonds[(a)]	**434,681,553**	**434,681,553**	**–**	**–**
Investment in LTNCD[(a)]	**95,305,500**	**95,305,500**	**–**	**–**
	₱1,108,980,177	**₱548,500,500**	**₱560,479,677**	**₱–**
Liabilities for which Fair Values are Disclosed				
Other financial liabilities:				
Long-term debt				
Fixed-rate bonds	**₱12,222,114,535**	**₱12,222,114,535**	**₱–**	**₱–**
Peso-denominated notes and loans	**8,179,623,043**	**–**	**₱8,179,623,043**	**–**
Service concession fees payable	**2,128,511,528**	**–**	**–**	**2,128,511,528**
Rental deposits	**4,001,962**			**4,001,962**
	₱22,534,251,068	**₱12,222,114,535**	**₱8,179,623,043**	**₱2,132,513,490**

(a) Classified as AFS financial assets under PAS 39 as at December 31, 2017.

	2017	Level 1	Level 2	Level 3
Assets Measured at Fair Value				
AFS financial assets				
Investments in UITFs	₱217,749,970	₱–	₱217,749,970	₱–
Investment in treasury bonds and notes	701,530,432	169,432,400	532,098,032	–
Investment in corporate bonds	453,879,000	453,879,000	–	–
Investment in LTNCD	98,997,500	–	–	98,997,500
	₱1,472,156,902	₱623,311,400	₱749,848,002	₱98,997,500
Liabilities for which Fair Values are Disclosed				
Other financial liabilities:				
Long-term debt				
Fixed-rate bonds	₱7,008,657,340	₱7,008,657,340	₱–	₱–
Peso-denominated notes and loans	13,237,651,695	–	13,237,651,695	–
Service concession fees payable	2,448,647,138	–	–	2,448,647,138
Rental deposits	120,076	–	–	120,076
	₱22,695,076,249	₱7,008,657,340	₱13,237,651,695	₱2,448,767,214

33. **Contingencies and Others**

a. VAT

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

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

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

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

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

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

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

b. RPT

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

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

to the alleged real property tax delinquency. In October 2013, the Provincial Treasurer of Bulacan has respected the directive from the DOF-BLGF to hold the enforcement of any collection remedies in abeyance. In January 2017, the Provincial Treasurer of Bulacan issued a notice of realty tax delinquencies for the years 2006 to 2017 stating that it could apply the remedies provided under the law for the collection of delinquent taxes.

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

c. Toll Rate Adjustments

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

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

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

On September 28, 2018, NLEX Corp. as petitioner-applicant, filed a Petition for Approval of Periodic Toll Rate Adjustment with the TRB praying for the adjustment of the toll rate for the NLEX effective January 1, 2019 (2018 Petition).

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

On January 22, 2019, NLEX Corp. as petitioner-applicant, filed a Petition for Implementation of Approved Adjustment to Authorized Toll Rates with Application for Provisional Relief with the TRB praying for the adjustment of the toll rate for the NLEX Open System effective February 15, 2019 upon completion of the NLEX Harbor Link Project (NLEX Segments 9 and 10) (Segment 10 Add-on Toll Rate Petition).

<u>2012 and 2014 Petitions</u>
On February 15, 2019, NLEX Corp received a Consolidated Resolution dated October 2018 issued by the TRB which approved and allowed NLEX Corp. to implement the toll rate adjustment indicated therein on a staggered basis in 2018, 2020, 2021, and 2023. Likewise, on February 15, 2019, the TRB issued a letter to NLEX Corp. instructing the latter to publish the Toll Fee Matrix, which is attached to the said letter in accordance with the 2013 Revised Rules of Procedure of the Toll Regulatory Board (TRB Rules). In full compliance with the letter, NLEX Corp. caused the publication of the Toll Fee Matrix in a newspaper of general circulation, once a week for three consecutive weeks in March 2019. On March 20, 2019, the TRB issued a Notice to Start Collection effective March 21, 2019.

Segment 10 Add-on Toll Rate Petition.
On February 15, 2019, the TRB issued an Order finding NLEX Corp.'s subject Petition to be sufficient in form and directed NLEX Corp. to publish in full the contents of the Petition in a newspaper of general circulation, in accordance with applicable rules and laws, with a notice that all interested tollway users may file a petition for review of the proposed adjusted toll rates. In full compliance with the Order and TRB Rules, NLEX Corp. caused the publication of the Petition in a newspaper of general circulation, once a week for three consecutive weeks in February and March 2019. On March 5, 2019, the TRB issued a letter to NLEX Corp. stating that the TRB (a) conditionally approved the subject Petition and granted NLEX Corp. provisional authority to collect the add-on tolls for the Open System of the NLEX and (b) allowing the implementation of the new authorized toll price for the NLEX (Integrated Toll Fee Matrix) which is attached to the said letter. The Integrated Toll Fee Matrix includes both: (a) the first tranche of the approved adjusted toll rates in the 2012 and 2014 Petitions stated in the TRB's Consolidated Resolution dated October 2018; and (b) the provisionally approved add-on toll rates in the Segment 10 Add-on Toll Rate Petition. In the same letter, the TRB instructed NLEX Corp. to: (a) cause the publication of the Integrated Toll Fee Matrix in accordance with the provisions of the TRB Rules and (b) post the required bond amounting to ₱530.0 million or the equivalent of one (1) year collection of add-on rate. In full and complete compliance with the instructions of the TRB, NLEX Corp. (a) submitted the original of the Surety Bond issued by the Prudential Guarantee and Insurance Inc. in favor of the Republic of the Philippines, acting by and through the TRB, and (b) caused the publication of the Integrated Toll Fee Matrix in a newspaper of general circulation once a week for three (3) consecutive weeks in March 2019. On March 20, 2019, the TRB issued a Notice to Start Collection effective March 21, 2019.

NLEX Corp. agreed to implement a ₱1.00 reduction in the Open system approved toll fees across all vehicle classes to cushion the impact of toll adjustments to motorists.

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

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

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

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

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

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

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

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

In January 2018, the ROP/TRB and NLEX Corp. have submitted their respective statements on the matter of jurisdiction. In July 2018, the Arbitral Tribunal issued Procedural Order No. 2 whereby the Arbitral Tribunal declined to dismiss the claim on the basis of the ROP's/TRB's objections to jurisdiction and ordered the ROP/TRB to submit its Statement of Defense. In September 2018, the ROP/TRB submitted its Statement of Defense. In October to November 2018, NLEX Corp. and the ROP/TRB submitted their respective Requests for Production of Documents, Objections to the Request for Production of Documents, and Reply to the Objections to the Request for Production of Documents. In December 2018 and January 2019, the Arbitral Tribunal resolved NLEX Corp.'s and the ROP's/TRB's Request for Production of Documents. In February 2019, the ROP/TRB informed the Arbitral Tribunal that it has released a Consolidated Resolution on NLEX Corp.'s pending 2012 and 2014 petitions for toll rate adjustment. In the Consolidated Resolution, the TRB approved and allowed the implementation of toll rates on a staggered basis in 2018, 2020, 2021, and 2023. In February to March 2019, NLEX Corp. filed its Reply, Supplemental Reply, and Addendum to the Supplemental Reply while the ROP/TRB filed its Rejoinder.

As at December 31, 2018 and 2017, total amount of compensation for TRB's inaction on lawful toll rate adjustments which were due since January 1, 2013 for NLEX, is approximately at ₱7.3 billion and ₱5.7 billion (VAT-exclusive), respectively.

As at February 15, 2019, NLEX Corp. has yet to receive regulatory approval for the 2016 Petition and 2018 Petition.

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

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

NLEX Corp. filed its comment praying that the Petition be denied. The BCDA, through the Office of the Government Corporate Counsel, and the Executive Secretary, through the OSG, also filed their respective Comment praying that the Petition be denied due course and dismissed for lack of merit. The case is pending as at February 15, 2019.

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

34. Supplemental Cash Flow Information

Changes in Liabilities Arising from Financing Activities

In 2018 and 2017, movement in the Company's liabilities arising from financing activities follow:

			Non-cash Changes			
	January 1, 2018	**Cash Flows**	**Amortization of DIC**	**Interest Accretion**	**Other**	**December 31, 2018**
Current portion of long-term debt (see Note 18)	**₱4,304,208,838**	**(₱4,317,616,999)**	**₱5,419,658**	**–**	**₱360,000,000**	**₱352,011,497**
Long-term debt-net of current portion (see Note 18)	**16,136,387,307**	**5,926,524,745***	**22,500,915**	**–**	**(360,000,000)**	**21,725,412,967**
Interest payable	**28,314,769**	**(308,145,357)**	**–**	**–**	**378,222,870**	**98,392,282**
Dividends payable (see Note 20)	**1,840,000,000**	**(3,840,000,000)**	**–**	**–**	**4,100,000,000**	**2,100,000,000**
Service concession fees payable (see Note 19)	**2,521,429,127**	□	**–**	**180,019,505**	**–**	**2,701,448,632**
Total liabilities from financing activities	**₱24,830,340,041**	**(₱2,539,237,611)**	**₱27,920,573**	**₱180,019,505**	**₱4,478,222,870**	**₱26,977,265,378**

**Proceeds from loans of ₱6,000.0 million net of debt issue costs of ₱73.5 million.*

			Non-cash Changes			
	January 1, 2017	Cash Flows	Amortization of DIC	Interest Accretion	Other	December 31, 2017
Current portion of long-term debt (see Note 19)	₱278,737,740	(₱402,102,309)	₱23,740,348	₱–	₱4,404,208,838	₱4,304,208,838
Long-term debt-net of current portion (see Note 19)	18,543,924,749	1,985,788,530*	10,507,087	–	(4,404,208,838)	16,136,387,307
Interest payable	24,517,438	(482,015,091)	–	–	485,812,422	28,314,769
Dividends payable (see Note 20)	–	(1,760,000,000)	–	–	3,600,000,000	1,840,000,000
Service concession fees payable (see Note 19)	2,335,916,229	–	–	185,512,898	–	2,521,429,127
Total liabilities from financing activities	₱21,183,096,156	(₱658,328,870)	₱34,247,435	₱185,512,898	₱4,085,812,422	₱24,830,340,041

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

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

Non-cash Investing Activities
The following table shows the Company's significant non-cash investing activities and corresponding transaction amounts for the years ended December 31, 2018 and 2017:

	2018	2017
Additions to properties and equipment pertaining to assets acquired through merger with TMC (see Notes 6 and 10)	**₱53,780,166**	₱–
Additions to noncurrent assets pertaining to assets acquired through merger with TMC (see Note 6)	**12,782,152**	–
Additions to service concession asset and service concession fees payable pertaining to accretion of service concession fees payable (see Notes 9 and 20)	**180,019,505**	185,512,898
Additions to investment properties on account	**18,487,433**	–

35. Events after the Reporting Period

On February 11, 2019, the Company received a letter from Privatization and Management Office, on behalf of ROP, notifying the TMC's BOD an Invitation to Bid for prospective bidders to participate in the equity sale transaction of the 76,000 common shares owned by ROP in TMC (converted into NLEX Corp. shares following the merger of NLEX Corp. and TMC).

On February 15, 2019, the Company's BOD approved the declaration of cash dividends amounting to ₱26.6 per share, payable to the Company's stockholder of record as of February 26, 2019.

36. Standards Issued but Not Yet Effective

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

Effective beginning on or after January 1, 2019

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

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

  The Company does not expect for these amendments to have an impact on the consolidated financial statements.

- PFRS 16, *Leases*

  PFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-statement of financial position 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 19, *Employee Benefits, Plan Amendment, Curtailment or Settlement*

  The amendments to PAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

  - Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event;

  - Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

  The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognized in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognized in other comprehensive income.

The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after January 1, 2019, with early application permitted. These amendments will apply only to any future plan amendments, curtailments, or settlements of the Company.

- 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 Company does not expect for these amendments to have an impact on the consolidated financial statements.

- 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, *Income Taxes* 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.

Annual Improvements to PFRSs 2015-2017 Cycle

- Amendments to PFRS 3, *Business Combinations,* and PFRS 11, *Joint Arrangements*, *Previously Held Interest in a Joint Operation*

  The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

  A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in PFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2019 and to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after January 1, 2019, with early application permitted. These amendments are currently not applicable to the Company but may apply to future transactions.

- Amendments to PAS 12, *Income Tax Consequences of Payments on Financial Instruments Classified as Equity*

  The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognizes the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events.

  An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application is permitted. These amendments are not relevant to the Company because dividends declared by the Company do not give rise to tax obligations under the current tax laws.

- Amendments to PAS 23, *Borrowing Costs, Borrowing Costs Eligible for Capitalization*

  The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

  An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application permitted.

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

Effective beginning on or after January 1, 2020

- Amendments to PFRS 3, *Definition of a Business*

  The amendments to PFRS 3 clarify the minimum requirements to be a business, remove the assessment of a market participant's ability to replace missing elements, and narrow the definition of outputs. The amendments also add guidance to assess whether an acquired process is substantive and add illustrative examples. An optional fair value concentration test is introduced which permits a simplified assessment of whether an acquired set of activities and assets is not a business.

  An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

  These amendments will apply on future business combinations of the Company.

- Amendments to PAS 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, *Definition of Material*

  The amendments refine the definition of material in PAS 1 and align the definitions used across PFRSs and other pronouncements. They are intended to improve the understanding of the existing requirements rather than to significantly impact an entity's materiality judgments.

  An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

Effective beginning on or after January 1, 2021

- PFRS 17, *Insurance Contracts*

  PFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, PFRS 17 will replace PFRS 4. This new standard on insurance contracts applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

  The overall objective of PFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in PFRS 4, which are largely based on grandfathering previous local accounting policies, PFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of PFRS 17 is the general model, supplemented by:

  - A specific adaptation for contracts with direct participation features (the variable fee approach).
  - A simplified approach (the premium allocation approach) mainly for short-duration contracts.

  PFRS 17 is effective for reporting periods beginning on or after January 1, 2021, with comparative figures required. Early application is permitted.

  These amendments have no impact on the consolidated financial statements of the Company.

Deferred effectivity

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

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

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

These amendments have no impact on the consolidated financial statements of the Company.