

Cavitex Infrastructure Corp.

Financial Statements
December 31, 2018 and 2017

and

Independent Auditor's Report



INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors
Cavitex Infrastructure Corp.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Cavitex Infrastructure Corp. (the Company), which comprise the statements of financial position as at December 31, 2018 and 2017, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

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

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

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

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



Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



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

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in Note 29 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of Cavite Infrastructure Corp. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.



Mariecris N. Barbaso

Partner

CPA Certificate No. 97101

SEC Accreditation No. 1513-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 14, 2019



CAVITEX INFRASTRUCTURE CORP.
STATEMENTS OF FINANCIAL POSITION

	December 31	
	2018	2017
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 5 and 26)	₱364,006,619	₱29,921,080
Restricted cash (Notes 5, 16 and 26)	563,758,668	334,691,521
Receivables (Notes 6, 24 and 26)	221,633,594	85,457,109
Financial assets at fair value through profit or loss (Notes 7, 26 and 27)	182,751,543	–
Available-for-sale financial assets (Notes 7, 26 and 27)	–	526,849,424
Prepaid expenses and other current assets (Note 8)	105,357,323	41,622,005
Total Current Assets	1,437,507,747	1,018,541,139
Noncurrent Assets		
Service concession asset (Note 9)	8,338,200,115	7,336,761,650
Property and equipment (Note 11)	112,074,051	101,198,125
Advances to contractors (Note 12)	262,951,863	275,236,253
Other noncurrent assets (Notes 14 and 26)	193,521,824	169,818,958
Total Noncurrent Assets	8,906,747,853	7,883,014,986
	₱10,344,255,600	₱8,901,556,125
LIABILITIES AND EQUITY		
Current Liabilities		
Accrued expenses and other current liabilities (Notes 15, 23 and 26)	₱954,826,904	₱502,934,765
Current portion of long-term debt (Notes 16, 26 and 27)	469,145,854	274,906,784
Provisions (Notes 17 and 26)	151,258,371	164,537,407
Retention sum and contractors payable (Notes 12 and 26)	164,479,977	96,184,527
Long-term incentive plan (Note 17)	–	12,300,000
Income tax payable	71,851,728	33,953,743
Total Current Liabilities	1,811,562,834	1,084,817,226
Noncurrent Liabilities		
Long-term debt - net of current portion (Notes 16, 26 and 27)	4,827,662,291	5,089,325,049
Deposit for future stock subscription (Note 23)	759,433,000	200,000,000
Provisions (Notes 17 and 26)	221,144,531	155,482,235
Deferred tax liabilities - net (Note 24)	127,177,863	140,904,407
Other noncurrent liabilities (Note 18)	256,700,000	256,700,000
Total Noncurrent Liabilities	6,192,117,685	5,842,411,691
Total Liabilities	8,003,680,519	6,927,228,917
Equity		
Capital stock (Note 19)	1,228,375,000	1,228,375,000
Additional paid-in capital	391,500,000	391,500,000
Retained earnings	720,700,081	352,950,896
Other comprehensive income reserve - net (Note 19)	–	1,501,312
Total Equity	2,340,575,081	1,974,327,208
	₱10,344,255,600	₱8,901,556,125

See accompanying Notes to Financial Statements.



CAVITEX INFRASTRUCTURE CORP.
STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2018	2017
TOLL REVENUES (Note 25)	₱1,643,785,539	₱1,520,921,587
COST OF SERVICES (Note 20)	(489,869,298)	(496,130,940)
GROSS PROFIT	1,153,916,241	1,024,790,647
CONSTRUCTION REVENUE (Note 9)	1,116,860,978	88,027,845
CONSTRUCTION COSTS (Note 9)	(1,116,860,978)	(88,027,845)
GENERAL AND ADMINISTRATIVE EXPENSES (Notes 21 and 23)	(304,526,826)	(414,440,383)
INTEREST EXPENSE (Note 16)	(372,082,462)	(401,472,525)
INTEREST INCOME (Notes 5, 13 and 14)	6,595,524	9,893,402
FOREIGN EXCHANGE GAIN – net	71,709	1,190,835
DIVIDEND INCOME (Note 10)	–	83,434,194
OTHER CHARGES (Note 13)	–	(152,753,815)
OTHER INCOME (Note 22)	44,727,575	26,274,829
INCOME BEFORE INCOME TAX	528,701,761	176,917,184
PROVISION FOR INCOME TAX (Note 24)	(160,952,576)	(59,462,752)
NET INCOME	367,749,185	117,454,432
OTHER COMPREHENSIVE INCOME (LOSS)		
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</i>		
Reversal of other reserves	(1,501,312)	–
Unrealized gain on available-for-sale financial asset	–	6,528,149
Realized gain transferred to profit or loss	–	(6,269,521)
Income tax effect	–	(643,420)
<i>Other comprehensive income not to be reclassified to profit or loss in subsequent periods:</i>		
Remeasurement gains on retirement plan – net	–	79,161
	(1,501,312)	(305,631)
TOTAL COMPREHENSIVE INCOME	₱366,247,873	₱117,148,801

See accompanying Notes to Financial Statements.



CAVITEX INFRASTRUCTURE CORP.**STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

	Capital Stock (Note 19)	Additional Paid-in Capital	Retained Earnings	Other Comprehensive Income Reserve - net (Note 19)	Total Equity
As at January 1, 2018	₱1,228,375,000	₱391,500,000	₱352,950,896	₱1,501,312	₱1,974,327,208
Net income	–	–	367,749,185	–	367,749,185
Other comprehensive loss (Note 19)	–	–	–	(1,501,312)	(1,501,312)
Total comprehensive income for the year	–	–	367,749,185	(1,501,312)	366,247,873
As at December 31, 2018	₱1,228,375,000	₱391,500,000	₱720,700,081	₱–	₱2,340,575,081
As at January 1, 2017	₱1,228,375,000	₱391,500,000	₱235,496,464	₱1,806,943	₱1,857,178,407
Net loss	–	–	117,454,432	–	117,454,432
Other comprehensive income – net (Note 19)	–	–	–	(305,631)	(305,631)
Total comprehensive income for the year	–	–	117,454,432	(305,631)	117,148,801
As at December 31, 2017	₱1,228,375,000	₱391,500,000	₱352,950,896	₱1,501,312	₱1,974,327,208

See accompanying Notes to Financial Statements.



CAVITEX INFRASTRUCTURE CORP.
STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	₱528,701,761	₱176,917,184
Adjustments for:		
Interest expense (Note 16)	372,082,462	401,472,525
Depreciation and amortization (Notes 9, 11, 14, 20 and 21)	145,279,587	184,565,661
Gain on sale of investments in UITF (Notes 7 and 19)	(12,431,831)	(6,269,521)
Interest income (Notes 5, 6 and 14)	(6,595,524)	(9,893,402)
Reversal of other reserves (Note 19)	(2,144,732)	–
Unrealized gain or loss on investments in UITF (Note 7)	(1,046,851)	–
Dividend income (Note 10)	–	(83,434,194)
Other charges (Note 13)	–	152,753,815
Provision for doubtful accounts (Note 14)	–	2,284,226
Retirement expense	–	495,831
Operating income before changes in working capital	1,023,844,872	818,892,125
Decrease (increase) in:		
Restricted cash	(229,067,147)	78,221,242
Receivables	(136,176,485)	192,522,583
Prepaid expenses and other current assets	(65,865,979)	(19,331,199)
Increase (decrease) in:		
Accrued expenses and other current liabilities	(53,267,288)	112,169,135
Provisions	52,383,260	146,973,811
Retention sum and contractors payable	68,295,450	167,500
Long term incentive plan	(12,300,000)	–
Net cash generated from operations	660,146,683	1,329,615,197
Interest and other charges paid	(225,928,687)	(503,466,965)
Income taxes paid	(132,688,005)	(49,696,340)
Interest received	5,276,475	7,354,277
Net cash flows from operating activities	289,229,991	783,806,169
CASH FLOWS FROM INVESTING ACTIVITIES		
Increase in other noncurrent assets	(11,510,577)	(223,493,217)
Additions to:		
Investments in UITF (Note 7)	(1,696,000,000)	(1,247,500,000)
Service concession asset (Notes 9, 15 and 28)	(621,899,122)	(88,027,845)
Property and equipment (Note 11)	(39,207,400)	(45,192,701)
Computer software (Note 14)	(1,433,499)	(4,976,682)
Proceeds from:		
Redemption of investment in preferred shares (Note 10)	–	2,745,000,000
Disposal of investments in UITF (Note 7)	2,051,431,831	1,090,769,521
Dividends received	–	89,618,274
Net cash flows generated from (used in) investing activities	(318,618,767)	2,316,197,350

(Forward)



	Years Ended December 31	
	2018	2017
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from:		
Availment of long-term debt (Note 28)	₱5,500,000,000	₱-
Deposit for future stock subscription (Notes 23 and 28)	559,433,000	200,000,000
Availment of short-term debt (Note 28)	-	600,000,000
Payments of:		
Long-term debt (Notes 16 and 28)	(5,627,500,000)	(152,500,000)
Payment of debt issue cost	(75,879,892)	-
Obligation to a special purpose entity (Notes 13 and 28)	-	(3,305,013,370)
Short-term debt (Note 28)	-	(600,000,000)
Net cash flows generated from (used in) financing activities	356,053,108	(3,257,513,370)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	334,085,539	(157,509,851)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	29,921,080	187,430,931
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 5)	₱364,006,619	₱29,921,080

See accompanying Notes to Financial Statements.



CAVITEX INFRASTRUCTURE CORP.

NOTES TO FINANCIAL STATEMENTS

1. General Information

Corporate Information

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

As further discussed in Note 25, CHI, Metro Pacific Tollways Corporation (MPTC) and the Company executed a Management Letter-Agreement (MLA) on December 27, 2012 for the management of the Company by MPTC starting on January 2, 2013. By virtue of this MLA, MPTC acquired control over the Company and therefore MPTC became its parent company effective January 2, 2013.

MPTC, a Philippine corporation, is 99.9% owned by Metro Pacific Investments Corporation (MPIC). MPIC is a publicly listed Philippine corporation and is 41.9% owned by Metro Pacific Holdings, Inc. (MPHI) as at December 31, 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 Company's registered address and principal place of business is at the PEA Tollway Compound, Aguinaldo Blvd. Coastal Road, Brgy. San Dionisio, Parañaque City.

Approval and Authorization for Issuance of Financial Statements

The financial statements of the Company as at and for the years ended December 31, 2018 and 2017 were authorized for issuance by the Company's Board of Directors (BOD) on February 14, 2019.

2. Basis of Preparation and Statement of Compliance

Basis of Preparation

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

Statement of Compliance

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



3. Summary of Significant Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year, except that the Company has adopted the following new accounting pronouncements starting January 1, 2018. The standards that have been adopted did not have any significant impact on the Company's financial statements, unless otherwise indicated.

- 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. Entities are required to apply the amendments to: (1) share-based payment transactions that are unvested or vested but unexercised as of January 1, 2018, (2) share-based payment transactions granted on or after January 1, 2018 and to (3) modifications of share-based payments that occurred on or after January 1, 2018. Retrospective application is permitted if elected for all three amendments and if it is possible to do so without hindsight.

The Company's accounting policy for cash-settled share-based payments is consistent with the approach clarified in the amendments. In addition, the Company has no share-based payment transaction with net settlement features for withholding tax obligations and had not made any modifications to the terms and conditions of its share-based payment transaction. Therefore, these amendments do not have any impact on the Company's financial statements.

- PFRS 9, *Financial Instruments*

PFRS 9 replaces PAS 39, *Financial Instruments: Recognition and Measurement*, for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The Company applied PFRS 9 prospectively, with an initial application date of January 1, 2018. The Company has not restated the comparative information, which continues to be reported under PAS 39. Differences arising from the adoption of PFRS 9 have been recognized directly in retained earnings and other components of equity.

The impact of adoption of PFRS 9 is as follows:

(a) Classification and measurement

Under PFRS 9, debt instruments are subsequently measured at fair value through profit or loss (FVTPL), amortized cost, or fair value through other comprehensive income (FVOCI). The classification is based on two criteria: the Company's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding.

The assessment of the Company's business model was made as of the date of initial application, January 1, 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.



The following are the changes in in the classification of the Company's financial assets:

- Receivables and refundable deposits classified as loans and receivables as at December 31, 2017 are held to collect contractual cash flows and give rise to cash flows representing solely payments of principal and interest. These are classified and measured as debt instruments at amortized cost beginning January 1, 2018.
- Investments in UITF classified at AFS financial assets as at December 31, 2017 are classified and measured as equity instruments designated at FVTPL beginning January 1, 2018.

The Company has not designated financial instruments at FVOCI. Also, the Company has not designated any financial liabilities at FVTPL.

There are no changes in classification and measurement for the Company's financial liabilities.

In summary, upon adoption of PFRS 9, the Company had the following required or elected reclassification as at January 1, 2018:

	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	₱19,564,920	₱19,564,920
Restricted cash	Loans and receivables	Financial assets at amortized cost	334,691,521	334,691,521
Receivables	Loans and receivables	Financial assets at amortized cost	85,457,109	85,457,109
Investments in UITF	AFS investments	Financial assets at FVTPL	526,849,424	526,849,424
Refundable deposits	Loans and receivables	Financial assets at amortized cost	8,415,626	8,415,626
Sinking Fund	Loans and receivables	Financial assets at amortized cost	159,170,880	159,170,880
			₱1,134,149,480	₱1,134,149,480
Financial liabilities:				
Accrued expenses and other current liabilities	Financial liabilities at amortized cost	Financial liabilities at amortized cost	₱502,934,765	₱502,934,765
Long-term debt (current and noncurrent)	Financial liabilities at amortized cost	Financial liabilities at amortized cost	5,364,231,833	5,364,231,833
			₱5,867,166,598	₱5,867,166,598

* Excluding cash on hand.

(b) Impairment

The adoption of PFRS 9 has fundamentally changed the Company's accounting for impairment losses for financial assets by replacing PAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. PFRS 9 requires the Company to recognize an allowance for ECLs for all debt instruments not held at FVTPL and contract assets.

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

The amendments address concerns arising from implementing PFRS 9, the new financial instruments standard before implementing the new insurance contracts standard. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying PFRS 9 and an overlay approach. The temporary exemption is first applied for reporting periods beginning on or after January 1, 2018. An entity may elect the overlay approach when it



first applies PFRS 9 and apply that approach retrospectively to financial assets designated on transition to PFRS 9. The entity restates comparative information reflecting the overlay approach if, and only if, the entity restates comparative information when applying PFRS 9.

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

- PFRS 15, *Revenue from Contracts with Customers*

PFRS 15 supersedes Philippine Accounting Standards (PAS) 11, *Construction Contracts*, PAS 18, *Revenue* and related interpretations and it applies with limited exemptions, to all revenue arising from contracts with customers. PFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and reassures that revenue be 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.

PFRS 15 requires entities to exercise judgements, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with customers made in determining the timing of satisfaction of performance obligations. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosure.

The Company adopted PFRS 15 using the modified retrospective method of adoption with initial application of January 1, 2018. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Company elected to apply the standard to all contract as at January 1, 2018. The effect of adopting PFRS 15 is as follows:

Toll Revenue

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

Construction Revenue

Service concession asset not yet in operations and upgrade of the existing toll expressway, which were note yet completed as of reporting period, totaling ₱1,237.7 million and ₱120.9 million as at December 31, 2018 and December 31, 2017, respectively, are considered as contract assets under PFRS 15.

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

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



(a) the investment entity associate or joint venture is initially recognized; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent. Retrospective application is required.

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

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

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

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

The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the nonmonetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. The interpretation may be applied on a fully retrospective basis. Since the Company's current practice is in line with the clarifications issued, the Company does not expect any effect on its financial statements upon adoption of this interpretation.

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 financial statements. The Company intends to adopt the following pronouncements when these become effective.

Effective beginning on or after January 1, 2019

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

Under PFRS 9, a debt instrument can be measured at amortized cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to PFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. The amendments should be applied retrospectively and are effective from January 1, 2019, with earlier application permitted.



- PFRS 16, *Leases*

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

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

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

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

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.

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

The amendments clarify that an entity applies PFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in PFRS 9 applies to such long-term interests.

The amendments also clarified that, in applying PFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognized as adjustments to the net investment in the associate or joint venture that arise from applying PAS 28, *Investments in Associates and Joint Ventures*.

The amendments should be applied retrospectively and are effective from January 1, 2019, with early application permitted.

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

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

The interpretation specifically addresses the following:

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

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

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

▪ *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.

- 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.

- 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.

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.



- 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 judgements.

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, *Insurance Contracts*. 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.

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.



Current versus Noncurrent Classification

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

An asset is classified as current when it is:

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

All other assets are classified as noncurrent.

A liability is classified as current when it is:

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

All other liabilities are classified as noncurrent.

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

Cash and Cash Equivalents

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

Restricted Cash

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

Sinking Fund

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

Fair Value Measurement

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

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

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



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

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

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 – Valuation techniques for which the lowest-level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 – Valuation techniques for which the lowest-level input that is significant to the fair value measurement is unobservable

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

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

Financial Instruments

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

Date of Recognition. The Company recognizes a financial asset or a financial liability in the 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.

Financial Assets

Initial Recognition and Subsequent Measurement

a. Initial Recognition and Subsequent Measurement of Financial Assets Upon Adoption of PFRS 9

Initial Recognition and Measurement. Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, FVTPL and FVOCI.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient, the Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at FVTPL, transaction



costs. Trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient are measured at the transaction price determined under PFRS 15.

In order for a financial asset to be classified and measured at amortized cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI) on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

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.

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

- Financial assets at amortized cost (debt instruments)
- Financial assets at FVOCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at FVOCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at FVTPL

As at December 31, 2018, the Company has no financial assets at FVOCI.

Financial Assets at Amortized Cost (Debt Instruments). This category is the most relevant to the Company. The Company measures financial assets at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The 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

Financial assets at amortized cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

As at December 31, 2018, the Company's financial assets at amortized cost includes cash in banks and cash equivalents, restricted cash, receivables, sinking fund and refundable deposits.

Financial Assets at FVTPL. Financial assets at FVTPL include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt



instruments to be classified at amortized cost or at FVOCI, as described above, debt instruments may be designated at FVTPL on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at FVTPL are carried in the statement of financial position at fair value with net changes in fair value recognized in the statement of comprehensive income.

As at December 31, 2018, the Company's financial assets at FVTPL include investments in UITF.

b. Initial Recognition and Subsequent Measurement of Financial Assets Before Adoption of PFRS 9

Initial Recognition and Measurement. Financial assets are classified, at initial recognition, as financial assets at FVTPL, loans and receivables, AFS financial assets and held-to-maturity (HTM) investments.

The Company recognizes a financial instrument when it becomes a party to the contractual provisions of the instrument. All financial assets are initially recognized at fair value, which is the fair value of the considerations given. Except for financial assets and financial liabilities measured at FVTPL, the initial measurement of financial assets includes transaction costs. The classification depends on the purpose for which the instruments were acquired and whether they are quoted in an active market. Management determines the classification of its financial instruments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

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

Subsequent Measurement. For purposes of subsequent measurement, financial assets are classified as Financial assets at FVTPL, loans and receivables, AFS financial assets and HTM investments.

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

Loans and Receivables. Loans and receivables include non-derivative financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not designated as financial asset at FVPL or AFS financial assets.

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



As at December 31, 2017, the Company's cash in banks and cash equivalents, restricted cash, receivables, sinking fund and refundable deposits are classified under this category.

AFS Financial Assets. AFS financial assets are non-derivative financial assets that are designated as AFS or are not classified as loans and receivables, financial assets at FVPL or HTM investments. Equity investments classified as AFS are those which are intended to be held for an indefinite period of time and are neither classified as held for trading nor designated as at FVPL. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial recognition, AFS financial assets are subsequently measured at fair value with unrealized gains or losses being recognized under OCI, net of related deferred tax, until the investment is derecognized or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in OCI is reclassified to profit or loss. AFS financial assets that are not quoted in an active market and whose fair value cannot be measured reliably are measured at cost, being the fair value of the consideration paid for the acquisition of the investment. Transaction costs directly attributable to the acquisition are also included in the cost of investments. Interest earned on the investments is reported as interest income using the EIR method. These financial assets are classified as noncurrent assets unless the intention is to dispose such assets within 12 months from the reporting date.

As at December 31, 2017, the Company's investment in UITF are classified under this category.

Impairment of Financial Assets

a. Impairment of Financial Assets Upon Adoption of PFRS 9 (Starting January 1, 2018)

The Company recognizes an allowance for expected credit losses (ECLs) for all debt instruments not held at FVTPL. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For receivables and contract assets, the Company applies a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Company considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the



outstanding contractual amounts in full before taking into account any credit enhancements held by the Company. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

b. Impairment of Financial Assets Before Adoption of PFRS 9 (Prior to January 1, 2018)

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

▪ Assets Carried at Amortized Cost

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

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

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

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



- AFS Financial Assets

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

In the case of equity investments classified as AFS financial assets, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. “Significant” is to be evaluated against the original cost of the investment and “prolonged” against the period in which the fair value has been below its original cost. When there is evidence of impairment, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in the profit or loss) is removed from other comprehensive income and recognized in the profit or loss. Impairment losses on equity investments are not reversed through the profit or loss. Increases in their fair value after impairment are recognized directly in other comprehensive income.

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

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

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

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

Derecognition of Financial Assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized (i.e., removed from the Company’s 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 Company continues to recognize the transferred asset to the extent of its continuing involvement. In that case, the Company also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

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

Financial Liabilities

Initial Recognition and Measurement. Financial liabilities are classified, at initial recognition, as financial liabilities at FVTPL, loans and borrowings, payables, 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 and payables, net of directly attributable transaction costs.

The Company has no financial liabilities at FVTPL or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

Subsequent Measurement – Loans and Borrowings. This is the category most relevant to the Company. After initial recognition, loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the EIR amortization process.

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 as finance costs in the statement of comprehensive income.

This category includes the Company's accrued expenses and other current liabilities, retention sum and contractors payable, provisions and long-term debt.

Derecognition of 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 the statement of comprehensive income.

Day 1' Difference

When the transaction price in a non-active market is different than the fair value from other observable current market transactions of the same instrument or based on a valuation technique whose variables include only data from observable market, the Company recognizes the difference between the transaction price and fair value (a 'Day 1' difference) in the statement of comprehensive income. In cases where use is made of data which is not observable, the difference between the



transaction price and model value is only recognized in profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Company determines the appropriate method of recognizing the 'Day 1' difference amount.

Offsetting of Financial Instruments

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

Classification of Financial Instruments between Liability and Equity

A financial instrument is classified as liability if it provides for a contractual obligation to:

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

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

Service Concession Arrangement

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

In addition, the Company recognizes and measures revenue in accordance with PFRS 15 in 2018 and PAS 11, *Construction Contracts* and PAS 18, *Revenue* in 2017, for the services it performs.

When the Company provides construction or upgrade services, the consideration received or receivable by the Company is recognized at its fair value. The revenue and cost from these services are recognized based on the percentage of completion measured principally on the basis of estimated completion of a physical proportion of the contract works, and by reference to the actual costs incurred to date over the estimated total cost of the project.

The Company also recognizes its contractual obligations to restore the toll roads to a specified level of serviceability in accordance with PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, as the obligations arise which is as a consequence of the use of the toll roads and therefore it is proportional to the number of vehicles using the toll roads and increasing in measurable annual increments.

Service Concession Asset

The service concession asset is recognized initially at the fair value of the construction services. The fair value of the construction services provided is calculated as the estimated total construction cost with no profit margin recognized. Following initial recognition, the service concession asset is carried at cost, which includes capitalized borrowing costs less accumulated amortization and any impairment losses.



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

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

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

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

Property and Equipment

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

The initial cost of property and equipment consists of its purchase price, including import duties, non-refundable purchase taxes and any directly attributable cost to bring the property and equipment to its working condition and location for its intended use. Expenditures incurred after the property and equipment have been put into operation, such as repairs and maintenance are normally charged against operations in the year the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional costs of property and equipment.

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

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

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

Construction-in-progress (CIP) represents property and equipment under construction and is stated at cost. This includes cost of construction and other direct costs. CIP is transferred to the related property and equipment when the construction or installation and related activities necessary to prepare the property and equipment for their intended use have been completed and the property and



equipment are ready for service. CIP is not depreciated until such time that assets are completed and available for use.

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

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

Other Intangible Assets (Software Costs)

The Company's other intangible assets pertain to various computer software used in administration and operations. Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

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

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

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

Impairment of Non-Financial Assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators. Impairment losses are recognized in profit or loss in those expense categories consistent with the function of the impaired asset.



An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses no longer exist or have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss. After such reversal, the depreciation and amortization charges are adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Provisions

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

Capital Stock and Additional Paid-in Capital

Capital stock is measured at par value and is classified as equity for all shares issued.

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

Deposit for Future Stock Subscription

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

Retained Earnings

Retained earnings represents accumulated earnings, net of dividends declared.

Other Comprehensive Income Reserve

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

Revenue Recognition

Effective beginning January 1, 2018

Revenue from Contracts with Customers. The Company primarily derived its revenue from toll revenue. 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 has concluded that it is acting as principal in all of its revenue arrangements because it typically controls the goods or services before transferring them to the customer. The following specific recognition criteria must also be met before revenue is recognized:



Toll Revenues. Revenue from toll fees is recognized over time upon the sale of toll tickets and passage on the toll roads. Toll fees received in advance are recognized as revenue upon the holders' availment of the toll road services. The unused portion of toll fees received in advance is reflected as "Contract liabilities" under "Accrued expenses and other current liabilities" in the statement of financial position.

Construction Revenue and Costs. 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 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 costs.

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

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

Other Income. Other income is recognized when earned or when control of goods or services were transferred to the customer.

Contract Balances

Receivables. A receivable represents the Company's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due).

Contract Assets. A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Company performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognized for the earned consideration that is conditional.

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.

Contract Liabilities. A contract liability is the obligation to transfer goods or services to a customer for which the Company has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Company transfers goods or services to the customer, a contract liability is recognized when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognized as revenue when the Company performs under the contract.

Effective prior to January 1, 2018

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



acting as principal or agent. The Company has concluded that it is acting as principal in all arrangements. The following specific recognition criteria must also be met before income is recognized:

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

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

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

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

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

Costs and Expenses

Expenses are decreases in economic benefits during the accounting period in the form of outflows or decrease of assets or incurrence of liabilities that result in decreases in equity, other than those relating to distributions to equity participants, and are recognized when these are incurred.

Foreign Currency Transactions

The Company determines its own functional currency and items included in the financial statements are measured using that functional currency. Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency using the closing exchange rate at reporting date. All differences are taken to the statement of comprehensive income with the exception of differences on foreign currency borrowings that are regarded as adjustments to interest cost and are capitalized as part of the cost of the roads and tollways during the construction period. Nonmonetary items that are measured in terms of historical cost in a foreign currency are translated using the closing exchange rate as at the date of initial transaction.

Borrowing Costs

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

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



Operating Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

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

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

Company as Lessee

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

Income Taxes

Current Taxes

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

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

Deferred Taxes

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

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

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

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



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

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

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

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

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

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

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

The net amount of VAT recoverable from or payable to the taxation authority is included as part of "Prepaid expenses and other current assets" or "accrued expenses and other current liabilities" accounts in the statement of financial position.

Contingencies

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

Events after the Reporting Date

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



4. Significant Accounting Judgments, Estimates and Assumptions

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

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

Judgments

a. Service concession arrangement

In applying Philippine Interpretation IFRIC 12, *Service Concession Arrangements*, the Company determined that the service concession agreements (discussed in Note 25) qualify under the intangible asset model.

The amortization of service concession asset is calculated based on the ratio of actual traffic volume of the underlying toll expressways compared to the total expected traffic volume of the underlying toll expressways over the remaining concession periods of the service concession agreements.

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

In 2018, as part of the established policy of the Company, the Company's management reviewed the total expected traffic volume and made appropriate adjustments. 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. The change in total expected traffic volume was accounted for prospectively. Amortization of service concession asset in 2018 decreased by ₱64.04 million as a result of the change in accounting estimate.

Amortization of service concession asset amounted to ₱115.4 million and ₱158.6 million in 2018 and 2017, respectively. The carrying value of service concession asset amounted to ₱8,338.2 million and ₱7,336.8 million as at December 31, 2018 and 2017, respectively (see Note 9).

b. Contingencies

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



Estimates

a. Impairment of receivables (Starting January 1, 2018 upon adoption of PFRS 9)

The Company uses a provision matrix to calculate ECLs for receivables and contract assets. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns. The provision matrix is initially based on the Company's historical observed default rates. The Company will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed. The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Company's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

There was no impairment loss recognized in 2018. The carrying values of receivables amounted to ₱221.6 million as at December 31, 2018 (see Note 6).

b. Impairment of receivables (Prior to January 1, 2018 before adoption of PFRS 9)

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

There was no impairment loss recognized in 2017. The carrying values of receivables amounted to ₱85.5 million as at December 31, 2017 (see Note 6).

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

For purposes of impairment testing related to service concession asset not yet available for use, the Company determines whether the service concession asset is impaired at least annually. This requires the estimation of the value in use of the CGU to which the service concession asset is allocated. Estimating value in use requires management to make an estimate of the expected future cash flows from the CGU and to choose a suitable discount rate to calculate the present value of those cash flows. 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 discounted cash flows as well as the expected future cash inflows and the growth rate used for extrapolation purposes. The key assumptions used to determine the recoverable amount, are disclosed and further explained in Note 9.

There was no impairment recognized in 2018 and 2017. Allowance for impairment of advances to contractors as at December 31, 2018 and 2017 amounted to ₱55.3 million (see Note 12).



The carrying values of the Company's non-financial assets as at December 31, 2018 and 2017 are as follows:

	2018	2017
Service concession asset* (see Note 9)	₱7,512,680,081	₱7,245,608,819
Property and equipment (see Note 11)	112,074,051	101,198,125
Advances to contractors (see Note 12)	262,951,863	275,236,253
Computer software** (see Note 14)	4,711,439	4,803,540
Others** (see Note 14)	2,365,527	2,365,527

*Excluding service concession asset not yet available for use.

**Included as part of "Other noncurrent assets" account in the statements of financial position.

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

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

There was no impairment recognized in 2018 and 2017. The carrying value of service concession asset not yet available for use amounted to ₱825.5 million and ₱91.2 million as at December 31, 2018 and 2017, respectively (see Note 9).

e. Recognition of deferred tax assets

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

Deferred tax assets amounted to ₱124.6 million and ₱110.6 million as at December 31, 2018 and 2017, respectively (see Note 24).

f. Provisions

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

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

Provisions (current and noncurrent) amounted to ₱372.4 million and ₱320.0 million as at December 31, 2018 and 2017, respectively (see Note 17).



5. Cash and Cash Equivalents and Restricted Cash

Cash and Cash Equivalents

This account consists of:

	2018	2017
Cash in banks	₱30,950,453	₱19,564,920
Cash on hand	3,056,166	10,356,160
Short-term investments	330,000,000	–
	₱364,006,619	₱29,921,080

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

Restricted Cash

Revenue and debt service reserve accounts amounted to ₱563.8 million and ₱334.7 million as at December 31, 2018 and 2017, respectively, are established and maintained solely for debt servicing of the Company's currently maturing long-term debt. The revenue and debt service reserve accounts also form part of the securities for the Company's long-term debt (see Note 16).

Interest earned from cash and cash equivalents and restricted cash amounted to ₱3.0 million and ₱6.3 million in 2018 and 2017, respectively.

6. Receivables

This account consists of:

	2018	2017
Receivables from affiliated companies (see Note 23)	₱168,831,608	₱68,820,958
Receivables from DPWH	44,987,841	5,719,528
Other receivables	7,814,145	10,916,623
	₱221,633,594	₱85,457,109

Receivables from affiliated companies include billings related to toll passages from Easytrip Services Corporation and advances to Metro Pacific Tollways South Management Corporation and Metro Pacific Tollways South Corporation.

Receivable from DPWH is pursuant to the Reimbursement Agreement entered into by the Company with DPWH in 2017 where DPWH requested these advances in order to fast track the acquisition of right-of-way (ROW) for the construction of Segments 3, now referred to as the C5 South Link Expressway Project. The balance also includes direct advances to certain Segment landowners as consideration for the grant of immediate right-of-way possession to the Company ahead of the expropriation proceedings.

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



7. Financial Asset at Fair Value Through Profit or Loss and Available-for-sale Financial Assets

These accounts pertain to investments in UITF classified as FVTPL under PFRS 9 as at December 31, 2018 and AFS Financial assets as at December 31, 2017.

Financial Assets at fair Value Through Profit or Loss

The movement of financial assets at FVTPL in 2018 is as follows:

Balance at beginning of year	P-
Reclassification from AFS financial assets	526,849,424
Additions	1,696,000,000
Disposals*	(2,053,576,563)
Changes in fair value during the year	13,478,682
Balance at end of year	₱182,751,543

*Includes gain on sale of investments in UITFs amounting to ₱14,576,563.

Available-for-sale Financial Assets

The movement of financial assets at AFS in 2017 is as follows:

Balance at beginning of year	₱363,590,796
Additions	1,247,500,000
Disposals*	(1,090,769,521)
Changes in fair value during the year	6,528,149
Balance at end of year	₱526,849,424

*Includes gain on sale of investments in UITFs amounting to ₱6,269,521 (see Note 19).

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

8. Prepaid Expenses and Other Current Assets

This account consists of:

	2018	2017
Prepayments	₱65,625,677	₱8,237,354
Deposits	24,780,000	24,780,000
Input VAT – net	7,885,778	–
Security deposit	4,936,615	6,516,819
Inventories	1,374,477	776,913
Advances to suppliers	754,776	1,310,919
	₱105,357,323	₱41,622,005



Deposits pertain to the amount paid by the Company to the Permanent Court of Arbitration on June 15, 2017 amounting to ₱24.8 million (\$500,000) to assure the availability of sufficient funds for the arbitration proceedings on the Company's claim for compensation against the Republic of the Philippines on the inaction of Toll Regulatory Board (TRB) on the petition for toll rate adjustments (see Note 25).

Advances to suppliers pertain to the advance payments to be applied to future billings for PEATC uniform and gifts and rewards for media token.

Prepayments include to toll risk property insurance and arranger's fee. The insurance covers all of the Company's assets including the toll road itself in order to safeguard against any unforeseen disasters/occurrences that would prove disadvantageous to the normal business operations of the Company. As required by the Company's toll operations agreement with the government, the Company is required to obtain insurance during the operation until the end of the concession period. The arranger's fee amounting to ₱56.3 million pertains to the advance payment to BDO Unibank, Inc. in relation to the Tranche B of the new loan.

Security deposit amounting to ₱4.76 million pertains to the voluntary tender of payment of the Company to the National Labor Relation Commission (NLRC) regarding the case against Janitorial Maintenance Manpower and Allied Services, Incorporated (JAMMAS), previous employer of Public Estates Authority Tollway Corporation (PEATC). As PEATC's joint venture partner, the Company facilitates the toll collecting functions in the Manila-Cavite Toll Expressway. The Company has to undertake this function as the former does not have a functioning board for toll operations. On May 23, 2018, the Court of Appeals granted JAMMAS' motion for issuance of writ of execution and garnished one of the Company's bank accounts. On December 4, 2018, the Company filed a manifestation with urgent motion to lift garnishment and motion to declare the closure of execution proceedings. On December 17, 2018, a Notice of Garnishments on the Company's bank accounts were lifted.

9. Service Concession Asset

The movements in this account follow:

	2018			Total
	R-1 Expressway	R-1 Extension	C5 Link*	
Cost				
Balances at beginning of year	₱1,126,261,283	₱7,554,481,863	₱91,152,831	₱8,771,895,977
Additions	380,916,384	1,577,391	734,367,203	1,116,860,978
Balances at end of year	1,507,177,667	7,556,059,254	825,520,034	9,888,756,955
Accumulated Amortization				
Balances at beginning of year	552,019,878	883,114,449	–	1,435,134,327
Amortization (see Note 20)	25,428,845	89,993,668	–	115,422,513
Balances at end of year	577,448,723	973,108,117	–	1,550,556,840
Net Book Value	₱929,728,944	₱6,582,951,137	₱825,520,034	₱8,338,200,115

*Not yet available for use as at December 31, 2018.



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

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

Additions in 2018 pertain to the civil works of R1 Enhancements and C5 Link Project based on the actual percentage of completion as at December 31, 2018. It also includes technical services for Detailed Engineering Design (DED) of Segment 3B, R1 Widening, eastbound and westbound of Segment 3A-1 and relocation of facilities for Marina Right Turn Facility.

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

As at December 31, 2018, the remaining concession terms for R-1 Expressway and R-1 Expressway Extension are 15 years and 28 years, respectively. Franchise Period for C5 Link has not yet commenced as at December 31, 2018 (see Note 25).

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

The period over which management has projected cash flows is beyond five years based on franchise period of each segment as management can reliably estimate the cash flow for the entire duration of the franchise period. However, the cash flow projection of a new segments should not be later than end of the existing concession asset based on the latest discussion with TRB.

The cash flow projection covers 28 years for Segment 3A and 30 years for Segments 2 and 3B of the C5 Link Project, which represent 35 years concession period but not to exceed 2048 and the construction period from valuation date to estimated operations start date in 2019 for Segment 3A and in 2021 for Segments 2 and 3B.

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

Discount Rate. Discount rate reflects management's estimate of the risks specific to the cash-generating unit. The pre-tax discount rate of 11.6% and 10.8% was used based on the weighted average cost of capital of comparable companies in 2018 and 2017, respectively.

Revenue Growth Rate. Revenue growth is mainly dependent on the traffic growth. Traffic growth is based on the historical traffic of the operating segments of MCTE. Annual growth rate ranging from 0.4% to 5.2% were applied in 2018 and 2017.



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

10. Investment in Preferred Shares

Movements in this account in 2017 follow:

Balance at beginning of year	₱2,745,000,000
Redemption	(2,745,000,000)
Balance at end of year	₱-

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

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

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

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

The Company earned dividend income amounting to nil and ₱83.4 million in 2018 and 2017, respectively.

11. Property and Equipment

The composition of and movements in property and equipment follow:

	2018							Total
	Transportation Equipment	Office Equipment	Traffic Management Equipment	Leasehold Improvements	Furniture and Fixtures	Other Equipment*	Construction in Progress	
Cost								
Balances at beginning of year	₱29,122,368	₱23,350,993	₱43,322,422	₱2,774,666	₱6,390,027	₱86,371,645	₱9,387,495	₱200,719,616
Additions	1,017,857	2,701,386	11,701,635	-	782,829	9,744,846	13,258,847	39,207,400
Balances at end of year	30,140,225	26,052,379	55,024,057	2,774,666	7,172,856	96,116,491	22,646,342	239,927,016
Accumulated Depreciation								
Balances at beginning of year	22,071,057	17,006,993	6,108,386	2,774,666	5,178,252	46,382,137	-	99,521,491
Depreciation (see Notes 20 and 21)	3,364,731	2,620,498	8,859,512	-	554,708	12,932,025	-	28,331,474
Balances at end of year	25,435,788	19,627,491	14,967,898	2,774,666	5,732,960	59,314,162	-	127,852,965
Net Book Value	₱4,704,437	₱6,424,888	₱40,056,159	₱-	₱1,439,896	₱36,802,329	₱22,646,342	₱112,074,051

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



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

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

The cost of fully depreciated property and equipment still in use amounted to ₱64.97 million and ₱55.5 million as at December 31, 2018 and 2017, respectively.

There were no idle property and equipment as at December 31, 2018 and 2017.

The Company has no restriction on the title and no property and equipment was pledged as security for the Company's outstanding liabilities as at December 31, 2018 and 2017, respectively.

12. Advances to Contractors and Retention Sum and Contractors Payable

Advances to Contractors

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

	2018	2017
Advances to contractors:		
C-5 link expressway	₱202,063,568	₱149,565,939
R-1 expressway	116,207,868	180,989,887
	318,271,436	330,555,826
Less: allowance for impairment loss	55,319,573	55,319,573
	₱262,951,863	₱275,236,253

Retention Sum and Contractors Payable

Retention sum represents a portion of the amount due to the contractor that is deducted from the amount due and retained by the Company. Retention payable is usually released upon completion of the project. Contractor's payable pertains to unpaid progress billings from various contractors in the construction of the R-1 Expressway Extension.

	2018	2017
Retention sum	₱127,920,297	₱59,624,848
Contractors payable	36,559,679	36,559,679
	164,479,977	96,184,527



13. Obligation to an SPE

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

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

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

Issuance of Series 2010-1 Notes

On August 27, 2010, the SPE issued the Series 2010-1 Notes with principal amount of US\$160.0 million with a coupon rate of 12.0%. Interest on the Series 2010-1 Notes will be payable quarterly in arrears, on the 15th day of each March, June, September and December, or if any such day is not a Business Day, on the next succeeding Business Day (each, a Payment Date), commencing December 15, 2010. Principal payments (Scheduled Principal Amounts) will be made quarterly in accordance with the amortization schedule for the Series 2010-1 Notes, commencing on the March 2013 Payment Date. Unless redeemed, repurchased or amortized prior thereto, the final payment on the Series 2010-1 Notes is expected to be made on the September 2022 Payment Date.

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

- The net proceeds from the issuance of the Series 2010-1 Notes will be used by the SPE to pay the Company as part of the purchase payment of the Transferred Assets. The Company will in turn apply such payment in the following approximate amounts:
 - to repay existing bank financings (US\$55.0 million);
 - to fund the Construction Cost Account (US\$46.4 million);
 - to fund the Series 2010-1 Debt Service Reserve Account (US\$45.7 million);
 - to fund the Operations and Maintenance Account (US\$3.4 million); and
 - to fund the Major Maintenance Reserve Account (US\$1.4 million).

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

In 2017, the Company earned interests from Transactions accounts amounting to ₱0.01 million.



Issuance of Series 2012-1 Notes and Refinancing of Series 2010-1 Notes

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

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

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

Series 2012-1 Notes is subject to floating interest rate per annum equal to the higher of (i) the sum of the prevailing PDST-F bid yield for 3-month treasury securities and 3.5% or (ii) the sum of the BSP Overnight Reverse Repurchase Rate and 3.5%. Interest on the Series 2012-1 Notes will be payable quarterly in arrears commencing on the June 2012 payment date. Principal repayments are set quarterly starting June 2012 until March 2019.

Interest and other finance charges on obligation to an SPE which is recorded as part of “Other charges” account in the statement of comprehensive income amounted to nil and ₱152.8 million for the years ended December 31, 2018 and 2017, respectively.

Prepayment of Series 2010-1 Notes and Series 2012-1 Notes

On June 15, 2017, the Company prepaid its Series 2010-1 Notes in full. Total payments made amounted to ₱698.2 million of which, ₱560.1 million pertains to the outstanding principal and accrued interest for the quarter and ₱160.4 million pertains to the prepayment penalties and legal and professional fees incurred for the pre-termination of the notes (see Note 21).

Also, the balance of Series 2012-1 Notes was paid in full in 2017.

14. Other Noncurrent Assets

This account consists of:

	2018	2017
Sinking fund	₱182,965,847	₱159,170,880
Computer software	4,711,439	4,803,540
Security deposit	3,479,011	3,479,011
Other noncurrent assets	2,365,527	2,365,527
	₱193,521,824	₱169,818,958



The sinking fund was established to finance the future major road repairs, re-pavements and other extraordinary costs and expenses of the R-1 Expressway (see Note 25). Interest earned from sinking fund amounted to ₱3.6 million and ₱3.5 million in 2018 and 2017, respectively.

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

The movement of computer software follows:

	2018	2017
Cost:		
Balance at beginning of year	₱22,700,796	₱17,724,114
Additions	1,433,499	4,976,682
Balance at end of year	24,134,295	22,700,796
Accumulated amortization:		
Balance at beginning of year	17,897,256	14,861,644
Amortization (see Note 20)	1,525,600	3,035,612
Balance at end of year	19,422,856	17,897,256
Net book value	₱4,711,439	₱4,803,540

As at December 31, 2018, unamortized life of software ranges from 0.33 to 4.67 years.

15. Accrued Expenses and Other Current Liabilities

This account consists of:

	2018	2017
Accounts payable:		
Third parties	₱33,415,086	₱36,047,082
Related parties (see Note 23)	72,767,966	42,600,511
Payable to CHI	163,428,840	163,428,840
Withholding tax payable	6,603,819	2,607,328
VAT payable	-	11,817,346
Deferred output VAT payable	998,876	699,885
Accrued expenses:		
Related parties (see Note 23):		
Outside services	1,464,773	2,524,131
Reimbursable costs	451,868	1,288,843
Shared services cost (see Note 21)	-	6,235,604
Transfer of retirement	-	3,543,286
Third parties:		
Construction costs (see Note 9)	494,961,856	55,880,403
Interest	89,297,318	79,099,747

(Forward)



	2018	2017
Repairs and maintenance	₱33,649,027	₱31,372,814
Outside services	9,642,091	14,762,896
Loan transaction costs	4,122,524	2,824,285
MCTE expenses	2,270,000	1,630,600
Professional fees	1,913,946	10,650,934
Others	14,611,626	8,737,296
Contract liabilities	3,951,591	-
Unearned toll revenue	-	4,808,845
Other payables	21,275,697	22,374,089
	₱954,826,904	₱502,934,765

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

Payable to CHI relates to noninterest-bearing advances obtained by the Company in 2012 for its debt service requirements. The amount is payable on demand.

Contract liabilities in 2018 and unearned toll revenue in 2017 pertains to advance collections from motorists which are earned once these are utilized by motorists.

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

Other payables pertain to the services provided by Easytrip Corporation for RFID transactions, Paymaya for Beep transactions, RCBC for MyWallet transactions and obligations to government institutions and are payable based on regulation within the next financial year.

16. Loans

Short-term Loan

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

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

Long-term Debt

2013 Omnibus Agreement

This account consists of:

	2018	2017
Principal - Loan facility	₱5,362,500,000	₱5,490,000,000
Less unamortized debt issue costs	65,691,855	125,768,167
	5,296,808,145	5,364,231,833
Less current portion of long term debt – net of unamortized costs of ₱12,104,146 in 2018 and ₱30,079,901 in 2017	469,145,854	274,906,784
	₱4,827,662,291	₱5,089,325,049



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

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

Under the Omnibus Agreement, the Company shall provide collateral security, which shall consist of the mortgage on the Company's investment in 40,000 preferred shares of CFC (see Note 10), pledge of the Series 2012-1 bonds held by CFC, assignment of the revenue and debt service reserve accounts (see Note 5) and pledge of the 5,000 ordinary voting shares of CFC held and owned by Goldbow. On December 16, 2013, the Company entered into an Amended and Restated Omnibus Agreement with CFC, Goldbow, RCBC Capital Corporation, BDO Capital and Investments Corporation, BDO and RCBC for a ₱6.1 billion loan for the main purpose of refinancing the Company's existing loan and other obligations under the existing Omnibus Agreement (as discussed above). The loan is subject to quarterly principal amortizations starting from January 13, 2014 to December 26, 2023. Interest rate (a) during the period from December 26, 2013 to December 26, 2018 shall be 6.5% per annum, and (b) during the period from December 26, 2018 until December 26, 2023, the rate per annum shall be the higher of (i) the 5-year PDST-F on December 26, 2018 plus 3.0% margin and (ii) the minimum interest rate of 6.25%.

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

The agreement covering the loan provides, among others, that for as long as the loans remain outstanding, the Company is subject to certain negative covenants requiring prior approval of the creditors for specified corporate acts. In addition, except as otherwise disclosed in the Disclosure Letter, the Company is required to maintain certain financial ratios.

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

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

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

Interest charged to operations amounted to ₱88.1 million and ₱369.6 million for the years ended December 31, 2018 and 2017, respectively. Amortization of debt issue cost recognized as part of



“interest expense” account in the statement of comprehensive income amounted to ₱7.1 million and ₱29.6 million in 2018 and 2017, respectively.

2018 Loan Agreement

On March 26, 2018, the Company entered into a ₱16.2 billion loan facility agreement, with tenor of 10 years. The loan facility consists of Tranche A and B, with BDO Unibank, Inc. as the Lender and BDO Unibank, Inc. – Trust and Investment Group as the Facility Agent.

The Facility consists of Tranche A and Tranche B as follows: (a) The proceeds of Tranche A shall be used exclusively to finance the prepayment of the Company’s outstanding loan obligations under the 2013 Term Loan and for general corporate purposes; (b) The proceeds of Tranche B shall be used to finance up to 70% of the total costs of the C5 South Link Expressway Project.

In March 2018, the Company made a drawdown from Tranche A of the loan facility with principal amount of ₱5.5 billion. The proceeds of the Tranche A loan were used to refinance or to prepay the Company’s existing long-term debt with outstanding principal balance (after principal payments during the period of ₱76.3 million) of ₱5,413.8 million. The refinancing warrants derecognition of the old liability and recognition of new liability since there is a substantial modification in the terms of the agreement. Prepayment penalties incurred for the prepayment of the 2013 loan amounted to ₱118.7 million (see Note 21).

The Tranche A loan is subject to interest rate of the 6.31%. The interest rate is subject to repricing after 5 years from drawdown, which shall be the higher of (i) 5-year PDST-R2 rate plus 1% spread divided by 0.95; and (ii) interest rate applicable for Tranche B prior to repricing date. The interest shall be payable semi-annually.

The Company undertakes and agrees with the Lender throughout the continuance of the agreement and so long as any sum remains owing hereunder that the Company will not, unless the Lender otherwise consents in writing create or permit to exist any Lien over all or any part of its property, assets or revenues except (1) Liens arising by Operation of law, or (2) Liens arising in the ordinary course of its business and not in connection with the borrowing or raising of money or credit unless the benefit of such Lien is at the same time extended equally and ratably to secure the payment of principal, interest and sums payable.

Under the 2018 loan agreement, the Company shall maintain a Debt Service Coverage Ratio of at least 1.05x or, for the purpose of declaring dividends, 1.20x; provided, that the Borrower’s compliance with the covenant shall be tested on a semi-annual basis commencing on the first payment date; except as otherwise disclosed in writing by the Borrower to the Lender prior to the signing of the Loan Facility Agreement maintain a Debt to Equity Ratio of at least 3.0x; provided, that the compliance with this covenant shall be tested on a semi-annual basis commencing at the end of the first payment period.

As at December 31, 2018 and 2017, the Company is in compliance with the loan covenants.

Interest charged to operations amounted to ₱266.7 million and nil for the years ended December 31, 2018 and 2017, respectively, excluding amortization of debt issue costs of ₱10.2 million and nil in 2018 and 2017, respectively.

As at December 31, 2018, there were no drawdown on Tranche B of the loan facility.



Repayment of the undiscounted long-term debt outstanding as at December 31, 2018 are scheduled as follows:

Within one year	₱481,250,000
More than one year but less than five years	1,581,250,000
More than five years but less than ten years	3,300,000,000
Within one year	₱5,362,500,000

17. Provisions and Long-term Incentive Plan

Provisions

Movement in this account follows:

	Heavy Maintenance	Others	Total
At January 1, 2017	₱119,491,971	₱58,935,535	₱178,427,506
Additions (see Notes 20 and 21)	35,990,264	123,972,335	159,962,599
Reclassification	–	1,736,926	1,736,926
Payments	–	(20,107,389)	(20,107,389)
At December 31, 2017	155,482,235	164,537,407	320,019,642
Additions (see Notes 20 and 21)	65,662,296	62,260,063	127,922,359
Payments	–	(80,205,765)	(80,205,765)
Reclassification	–	4,666,666	4,666,666
At December 31, 2018	₱221,144,531	₱151,258,370	₱372,402,902

	Heavy Maintenance	Others	Total
At December 31, 2018:			
Current	₱–	₱151,258,371	₱151,258,371
Noncurrent	221,144,531	–	221,144,531
	₱221,144,531	₱151,258,371	₱372,402,902

At December 31, 2017:			
Current	₱–	₱164,537,407	₱164,537,407
Noncurrent	155,482,235	–	155,482,235
	₱155,482,235	₱164,537,407	₱320,019,642

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

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

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



Long-term Incentive Plan

Movement in this account follows:

At January 1, 2017	₱6,918,325
Additions (see Notes 20 and 21)	5,381,675
At December 31, 2017	12,300,000
Reversals	(2,045,027)
Payments	(10,254,973)
At December 31, 2018	₱-

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

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

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

The total cost of the LTIP recognized by the Company in 2018 and 2017 included in "Provisions" account under "General and administrative expenses" in the statements of comprehensive income amounted to nil and ₱5.4 million, respectively. Total long-term incentive plan payable amounted to nil and ₱12.3 million as at December 31, 2018 and 2017, respectively.

18. Deposit for future construction

On October 20, 2011, the Company and CHI executed a Memorandum of Agreement (MOA), wherein, CHI shall grant the Company a right-of-way to certain segments of the property CHI plans to reclaim to allow the Company to construct four feeder roads. The four feeder roads are estimated to cost ₱520.0 million where CHI shall be liable for approximately fifty percent (50%) of construction costs. Actual contribution of CHI amounting to ₱256.7 million was received by the Company in 2012. As at February 14, 2019, the construction of the feeder roads has not yet started. The deposit received from CHI was presented under "Other noncurrent liabilities" account in the statement of financial position.



19. Equity

Capital Stock

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

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

Other Comprehensive Income Reserve

Movements in this account are as follows:

	Unrealized gain on investments in UITF	Remeasurement of Defined Retirement Plan	Total
At January 1, 2017	₱1,886,104	(₱79,161)	₱1,806,943
Unrealized gain on investments in UITFs (see Notes 7)	6,528,149	-	6,528,149
Recycling to profit or loss	(6,269,521)	-	(6,269,521)
Remeasurement gain (see Note 22)	-	79,161	79,161
Income tax effect	(643,420)	-	(643,420)
At December 31, 2017	1,501,312	-	1,501,312
Reversal of other reserves	(1,501,312)	-	(1,501,312)
At December 31, 2018	₱-	₱-	₱-

20. Costs of Services

This account consists of:

	2018	2017
Amortization of service concession asset (see Note 9)	₱115,422,513	₱158,589,809
Provision for heavy maintenance (see Note 17)	65,662,296	35,990,264
Toll collector services (see Note 23)	61,551,323	45,637,418
Operating and maintenance expenses	55,630,388	52,853,025
MCTE expenses	21,529,208	22,907,302
Depreciation and amortization (see Notes 11 and 14)	21,051,637	17,852,473
Communication, light and water	20,054,768	18,050,319
Repairs and maintenance	18,776,649	41,143,456
Provisions (Note 17)	12,000,000	9,652,140
Transportation and travel	6,252,892	3,838,887
Supplies	306,456	188,953
Other general services (see Note 23)	91,631,168	89,426,894
	₱489,869,298	₱496,130,940

MCTE expenses include various payments made to different parties for minor reworks and repairs, site office expenses, sports and recreation, advertising expenses, stationary and office supplies, LTO renewal for licenses and documentary stamp tax for Company vehicle insurance.

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



21. General and Administrative Expenses

This account consists of:

	2018	2017
Finance costs on prepayment of obligation (see Notes 13 and 16)	₱118,688,843	₱160,382,206
Provision (see Note 17)	50,260,063	119,701,870
Shared service (see Note 23)	46,645,716	23,222,982
Management fee (see Note 23)	32,882,703	21,776,205
Professional fees	6,994,712	11,110,425
Depreciation (see Note 11)	8,805,437	8,123,379
Taxes and licenses	7,525,139	9,870,409
Outside services	3,446,456	-
Stationery and supplies	3,413,531	1,753,798
Salaries and employee benefits	2,619,613	20,186,592
Entertainment, amusement and recreation	1,927,574	2,590,090
Communication, light and water	1,013,259	704,449
Repairs and maintenance	1,011,811	300,898
Transportation and travel	586,254	3,898,731
Rent	471,157	205,046
Insurance	165,512	597,454
Directors' fees	50,000	40,000
Provision for doubtful accounts (see Note 14)	-	2,284,226
Others	18,019,046	27,691,624
	₱304,526,826	₱414,440,384

Others include arbitration cost, provisions, general maintenance and janitorial services, membership fees and dues, marketing expense, bank charges and other dues.

22. Other Income

Source of other income follows:

	2018	2017
Realized gain on sale of investments in UITF (see Note 7)	₱14,576,563	₱6,269,521
Advertisement fee	12,509,339	13,970,527
Traffic management fee	2,761,471	2,506,570
Unrealized gain on investments in UITF (see Note 7)	1,046,851	-
Others	13,833,351	3,528,211
	₱44,727,575	₱26,274,829

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

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



Realized gain on sale of investments in UITF pertain to gain realized on disposal of investments in UITF assets during the year.

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

23. Related Party Transactions

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

The Company's related party transactions are as follows:

Related Party	Year	Amount of Transaction	Receivables (see Note 6)	Accounts Payable (see Note 15)	Accrued Expenses (see Note 15)	Deposits	Terms	Conditions
Parent Company								
MPTC								
Reimbursable costs	2018	₱-	₱69,643	₱-	₱-	₱-	On demand,	Unsecured;
	2017	69,643	69,643	1,402,000	-	-	noninterest-bearing	no impairment
Deposit for future stock subscription	2018	-	-	-	-	200,000,000	On demand,	Unsecured;
	2017	-	-	-	-	200,000,000	noninterest-bearing	no impairment
Affiliates								
Metro Pacific Tollways North Corporation (MPTNC)								
Management fees (see Notes 15 and 21)	2018	16,185,794	-	-	-	-	On demand,	Unsecured
	2017	21,776,205	-	5,280,730	-	-	noninterest-bearing	
Metro Pacific Tollways South Corporation (MPTSC)								
Advances to shareholders	2018	95,000,000	95,000,000	-	-	-	On demand,	Unsecured;
	2017	-	-	-	-	-	noninterest-bearing	no impairment
Reimbursable costs	2018	251,317	251,317	-	-	-	On demand,	Unsecured; no
	2017	-	-	-	-	-	noninterest-bearing	impairment
Deposit for future stock subscription	2018	559,433,000	-	-	-	559,433,000	On demand,	Unsecured;
	2017	-	-	-	-	-	noninterest-bearing	no impairment
Metro Pacific Tollways South Management Corp. (MPTSMC)								
Service fee (see Note 21)	2018	46,645,716	48,161,116	11,416,644	-	-	On demand,	Unsecured;
	2017	23,222,982	44,573,700	23,299,513	6,235,604	-	noninterest-bearing	no impairment
Transfer of retirement	2018	-	-	-	-	-	On demand,	Unsecured
	2017	3,543,286	-	-	3,543,286	-	noninterest-bearing	
MPCALA Holdings Inc.								
Reimbursable costs	2018	115,227	21,416	187,637	-	-	On demand,	Unsecured;
	2017	794,124	794,124	653	-	-	noninterest-bearing	no impairment
NLEX Corporation (formerly Manila North Tollways Corporation)								
Advertisement fee	2018	940,800	940,800	-	-	-	On demand,	Unsecured;
	2017	1,945,440	1,945,440	-	-	-	noninterest-bearing	no impairment
Reimbursable costs	2018	568,960	568,960	738,338	451,868	-	On demand,	Unsecured;
	2017	-	-	-	-	-	noninterest-bearing	no impairment
Metro Pacific Tollways Management Services, Inc. (MPTMSI)								
Toll collection services	2018	33,598,999	-	33,598,999	-	-	30 days,	Unsecured
	2017	8,436,960	-	8,436,960	-	-	noninterest-bearing	
Management fees (see Notes 15 and 21)	2018	16,696,911	-	5,229,469	-	-	On demand,	Unsecured
	2017	-	-	-	-	-	noninterest-bearing	
Easytrip Services Corporation (ESC)								
Performance fee (see Note 20)	2018	6,170,724	23,802,040	6,170,724	-	-	15 days, noninterest	Unsecured
	2017	2,564,469	21,136,398	2,564,469	2,524,131	-	bearing	no impairment
Others								
	2018	-	16,316	15,426,155	1,464,773	-	On demand, noninterest	Unsecured
	2017	-	301,653	1,616,186	-	-	Bearing	no impairment
	2018		₱168,831,608	₱72,767,966	₱1,916,641	₱759,433,000		
	2017		68,820,958	42,600,511	13,591,864	200,000.00		



Deposit for Future Stock Subscription

The deposit for future stock subscription amounting to ₱759.4 million and ₱200.0 million as at December 31, 2018 and 2017, respectively, pertains to cash received from MPTC and MPTSC for conversion to equity. On April 20, 2017, the BOD approved the increase in authorized capital stock from 13.7 million shares to 14.9 million shares or ₱1.4 billion to ₱1.5 billion, respectively. As at February 14, 2019, the Company is completing the requirements for its application of increase in authorized capital stock with the SEC.

Management Service-Agreement

In relation to the agreement signed and executed on January 1, 2018 between Metro Pacific Tollways Management Services, Inc. (“MPTMSI”) to provide management and other advisory services to CIC through secondment and outsourcing of MPTMSI’s employees or personnel. These services shall include, among others, the coordination and utilization of CIC’s resources and personnel towards the attainment of the overall policies and goals of CIC to achieve profitability, stability and progressive growth and development, and provision of advice on corporate initiatives (the “Services”), and MPTMSI hereby accept the appointment.

Under the Agreement, MPTMSI shall also provide at its exclusive expense the necessary tools, equipment and supplies to be used by its employees or personnel in rendering the services. Each of MPTMSI and CIC acknowledge that each is separate and independent from each other. Nothing in the agreement shall construed to create the relation of principal and agent or employer and employee between MPTMSI and CIC.

CIC shall not responsible for complying with any labor laws, rules and regulations governing employer-employee relationships under Philippine laws involving the employees or personnel of MPTMSI and will not be liable for claims relating thereto including, without limitation, claims for personal injury or damages, illness, or death which may arise during the course of engagement. The Agreement shall take immediately on January 1, 2018 and remain effect for a period of twelve (12) months, unless terminated by the parties and subject to renewal.

Performance Fee

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

Service Fee

On June 1, 2017, the Company executed a Reimbursement Agreement, engaging the services of MPTSMC to provide technical and management services, including advice on corporate initiatives, through the assignment and/or secondment of appropriate personnel of MPTSMC to the Company. The said agreement shall be for a period of twelve (12) months. The Company shall pay MPTSMC an estimated monthly contract service fee equivalent to its share of the expenses incurred by MPTSMC, plus 5%, exclusive of VAT and gross of the appropriate withholding taxes. On June 1, 2018, the Reimbursement Agreement was renewed for another twelve (12) months.



Toll Collection Services

On October 1, 2016, the Company executed a Service Agreement, engaging the services of MPTMSI, a wholly owned subsidiary of MPTC, to provide toll collection services to MCTE operations and management of the toll plazas, collection of toll fees, handling, counting, and storage of money, declaration and transfer of funds, and other general services. The said agreement is for two years effective on October 1, 2016. The Company shall pay M+ Corp. an estimated monthly contract service fee of ₱3.8 million, inclusive of VAT and mandatory ten percent (10%) administrative fee. On August 30, 2018, the Company renewed its contract with MPTMSI for another two years effective on October 1, 2018 under the same terms and conditions.

Utilities

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

24. Income and Other Taxes

The provision for current income tax in 2018 and 2017 represents regular corporate income tax and MCIT, respectively. Provision for income tax consists of the following:

	2018	2017
Current	₱172,716,651	₱60,225,355
Deferred	(13,083,124)	(3,301,728)
Final	1,319,049	2,539,125
	₱160,952,576	₱59,462,752

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

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

	2018	2017
Deferred tax assets:		
Provision for heavy maintenance	₱66,343,359	₱46,644,671
Provisions and accruals	36,756,822	44,158,074
Allowance for impairment loss	17,281,140	17,281,140
Unearned toll revenue	1,185,478	1,442,654
Accrued retirement costs	1,062,986	1,062,986
Interest on deficiency tax	2,007,684	-
	124,637,469	110,589,525
Deferred tax liabilities:		
Difference in amortization method of concession asset	251,501,276	213,120,062
Capitalized bond transaction costs	-	37,730,450
Reimbursement rights	314,056	643,420
	251,815,332	251,493,932
Deferred tax liabilities – net	(₱127,177,863)	(₱140,904,407)



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

	2018	2017
Statutory income tax	₱158,610,529	₱53,075,155
Tax effects of:		
Nondeductible expense	3,001,656	7,276,239
Interest income subjected to final tax	(1,978,658)	(2,968,020)
Final tax on interest income	1,319,049	2,539,125
Reversal of accrual	-	225,520
Deferred tax adjustments	-	(685,267)
	₱160,952,576	₱59,462,752

25. Significant Agreements

Management Letter-Agreement

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

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

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

Management Service-Agreement

In relation to the agreement signed and executed on January 1, 2018 between Metro Pacific Tollways Management Services, Inc. (“MPTMSI”) to provide management and other advisory services to CIC through secondment and outsourcing of MPTMSI’s employees or personnel. These services shall include, among others, the coordination and utilization of CIC’s resources and personnel towards the attainment of the overall policies and goals of CIC to achieve profitability, stability and progressive growth and development, and provision of advice on corporate initiatives (the “Services”), and MPTMSI hereby accept the appointment.

Under the Agreement, MPTMSI shall also provide at its exclusive expense the necessary tools, equipment and supplies to be used by its employees or personnel in rendering the services. Each of MPTMSI and CIC acknowledge that each is separate and independent from each other. Nothing in the agreement shall construed to create the relation of principal and agent or employer and employee between MPTMSI and CIC.

CIC shall not responsible for complying with any labor laws, rules and regulations governing employer-employee relationships under Philippine laws involving the employees or personnel of MPTMSI and will not be liable for claims relating thereto including, without limitation, claims for personal injury or damages, illness, or death which may arise during the course of engagement.

The Agreement shall take immediately on January 1, 2018 and remain effect for a period of twelve (12) months, unless terminated by the parties and subject to renewal.



Manila-Cavite Toll Expressway Project

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

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

- Phase I Design and improvement of the R-1 Expressway and the design and construction of the C-5 Link Expressway which connects the R-1 Expressway to the South Luzon Expressway

- Phase II Design and construction of the extension of the R-1 Expressway which connects the existing R-1 Expressway at Zapote to Noveleta

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

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

The following are the salient terms of the TOA:

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

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

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

- c. The right granted to the Company to perform the construction of the expressways shall be for a term of four (4) consecutive years counted from the effectiveness of the Notice to Proceed. The



Notice to Proceed is issued by the Grantor upon fulfillment of all the conditions precedent as set out in the TOA.

- d. Construction shall be carried out at the expense of the Company, provided that the Grantor shall fulfill all its obligations to the Company. In the event that the total construction costs estimated by the independent consultant are lower by 5.0% or more than the Company's cost estimate, the Grantor and PRA agree that the agreed toll rates shall be adjusted accordingly.
- e. The Grantor undertakes that there shall exist throughout the term of the construction, Land in Vacant Possession for the construction of any segment of an expressway to which the Notice to Proceed is issued so that construction can be carried out continuously without any interruption for at least 6 months.
- f. Any delay in the construction caused by (i) any delay in handing over the Land in Vacant Possession, (ii) any delay caused by significant changes made to the basic design, or (iii) any other cause not due to the willful act, fault or negligence of PRA and/or the Company, shall correspondingly extend the period of construction, provided however, that such extension of the period of construction shall not adversely affect the feasibility of the Project. If such extension affects the feasibility of the Project, the termination provisions shall apply.
- g. The expressways shall be owned by the Grantor without prejudice to the rights and entitlement of the Grantee and/or the Company.
- h. If the TOA is terminated by PRA and/or the Company by reason of the Grantor's default, the Grantor shall within six months from the date of notice of termination by the PRA and/or the Company: (i) be obliged to take over the Project, and shall forthwith assume all attendant rights and liabilities thereof including without limitation the obligations under the loan and (ii) pay just compensation to PRA and/or the Company.

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

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

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

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

The TRB has issued conditional Notice to Proceed (NTP) for Segment 3A-1 and Segment 3A-2 of the C-5 South Link Expressway Project on August 17, 2015 and February 22, 2016, respectively. The effectivity of the NTP shall be subject to the fulfillment of the conditions precedent as stated in the TOA. The design for Phase 1 of the C-5 South Link Expressway Project (Merville to C5 crossing



SLEX/Skyway) including the cost estimate has been completed and certified by the independent consultant (IC). On May 16, 2017, the Company entered into a contract with FF Cruz for the construction of Phase 1 (Segment 3-A). Construction officially commenced on June 2, 2017. The project is expected to be completed by second quarter of 2019. The construction of Phase 2 (R-1 to Merville) is expected to commence on the third quarter of 2019. The C-5 South Link is expected to be fully operational by the second quarter of 2021.

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

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

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

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

1. Redefinition of Phase I and II of the Project

Phase I of the Project will now relate to the design and improvement of the R-1 Expressway and the design and construction of the R-1 Expressway Extension which consist of Segment 1 (from Seaside Drive to Zapote), Segment 4 (from Zapote to Kawit) and Segment 5 (from Kawit to Noveleta), provided that, subject to the approval of the TRB, Segment 5 will be excluded from Phase I in the event that its construction does not begin within two years from the completion of the design and construction works for Segment 4 that is estimated to be in December 2008. In case of exclusion from Phase I, Segment 5 shall now form part of the Phase II, subject to the approval of the TRB.

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

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

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

3. Appointment of Directors and Officers



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

other officers to the key position of PEATC as may be necessary to effectively implement the participation.

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

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

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

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

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

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

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

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

- a) The 91.0% share of the Company shall absorb all O&M costs and expenses. The Company shall continue to set aside sinking fund in accordance with the TOA schedule of maintenance per segment. The sinking fund interest income shall remain intact and shall not be subject to revenue sharing of the JVA partners.
- b) The sinking fund which shall remain with PEATC and maintained adequately at all times, shall be solely used for major road repairs and re-pavement and for extraordinary costs and expenses needed by the operation but not provided in the annual budget (see Note 14). Any shortage in the sinking fund shall be the sole responsibility of the Company; and
- c) All disbursements for O&M shall be authorized solely by the Company.



6. Acknowledgement of all parties that in the event of a default under the loan, the Lenders shall be granted step-in rights in respect of the share of the Company on the revenues from the toll collections in favor of the Lenders as security for the financing provided by such Lenders.
7. Unless otherwise amended, revised or modified by the Company, PRA and TRB after obtaining the necessary regulatory approvals, the Company's participation in the O&M under this O&M Agreement shall be terminated upon repayment in full of the loans subject of the OLA dated August 25, 2006 and repayment to the Equity Contractor.

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

The Company has a pending claim for compensation against the Republic of the Philippines, acting by and through the TRB. As at December 31, 2018, total revenue loss due to the pending toll rate adjustment amounted to ₱2,149.6 million (net of VAT), of which, CIC and PRA's share amounted to ₱1,938.7 million and ₱210.9 million, respectively.

The Company's claim is based on TRB's inaction on lawful toll rate adjustments which were due in January 1, 2012, 2014, 2015 and 2016. The Company sent a demand letter in August 2015 to TRB seeking payment of the said amount. TRB disputed the demand letter and claimed that no compensation is due to the Company as the toll rate adjustment petitions have not yet been resolved. Subsequently, the Company sent a Notice of Dispute to the TRB in September 2015 pursuant to the dispute resolution provisions of the TOA. The Company filed a Petition for Periodic Toll Rate Adjustment on September 20, 2016. TRB replied, stating that they are studying the petition based on their Rule of Procedure. On November 16, 2016, the Company filed a Motion for Provisional Approval of Toll Rates under petition filed in 2014. There has been no action on the 2014 petition on the Motion for Provisional Approval. On September 30, 2017, the Company filed another Petition for the next cycle, covering both R-1 and R-1 expressway extension. The Petition has been published in a newspaper of general circulation and the Company is awaiting TRB's action thereon as of February 14, 2019.

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

In December 2017, Claimants CIC and PRA submitted their updated statement of claim with the Arbitration Tribunal. On December 29, 2017, the Arbitration Tribunal issued a ruling bifurcating the proceedings, i.e., separating the issue on its jurisdiction from the merits of the main claim for arbitration.

On January 12, 2018, TRB has filed with the Arbitration Tribunal its jurisdictional objections, essentially alleging arguments in support of its intention to immediately have the arbitration case dismissed for lack of jurisdiction on the part of the Tribunal. The Respondent has filed its jurisdictional objections and CIC and PRA filed their opposition to those objections on January 26, 2018. As at February 14, 2018, the Company and PRA are still awaiting the Tribunal's resolution on the jurisdictional objections. The Procedural order no. 2 issued by TRB on July 9, 2018: (a) Denied the request for dismissal of the claims; (b) reserved the decision on the objections to jurisdiction and admissibility to the merit phase of the proceedings; (c) instructed the filing in the Statement of Defense from the respondent, to which the claimant may file a reply brief; and (d) instructed the parties to confer and agree on an updated timetable to file pleadings, which must be reported to the Tribunal not later than August 6, 2018.



On August 28, 2018, CIC filed its Compliance Ad Cautelam to TRB's Order stating that: (a) Under the Toll Operation Agreement, PRA and/or CIC each have distinct and separate right to a periodic adjustment of the Agreed Toll Rate. Petitions for toll adjustments can be filed by either PRA or CIC, (b) CIC filed its petition within the prescribed period and the subsequent filing of a similar petition by PRA is a mere superfluity. On October 12, 2018, CIC filed its petition for approval of add-on agreed toll rate with application for provisional relief for Phase 1 of Segment project, requesting the TRB to approve and allow the implementation of an add-on toll of ₱0.20 per kilometer.

26. Financial Risk Management Objectives and Policies

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

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

Credit Risk

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

The maximum exposure to credit risks for the financial assets of the Company approximates their carrying values as at December 31, 2018 and 2017.

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

	2018					Total
	Current	Past Due but not Impaired			Impaired	
		1 to 30 days	31 to 60 days	Over 61 days		
Financial assets at amortized cost						
Cash and cash equivalents*	₱360,950,453	₱-	₱-	₱-	₱-	₱360,950,453
Restricted cash	563,758,668	-	-	-	-	563,758,668
Receivables	198,833,765	3,384,985	291,711	19,123,133	-	221,633,594
Refundable deposits**	8,415,626	-	-	-	-	8,415,626
Sinking fund***	182,965,847	-	-	-	-	182,965,847
Financial assets at FVTPL	182,751,543	-	-	-	-	182,751,543
	₱1,497,675,902	₱3,384,985	₱291,711	₱19,123,133	₱-	₱1,520,475,731

*Excluding cash on hand.

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

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

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

*Excluding cash on hand.

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

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



Credit Quality

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

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

	2018			2017	
	ECL Staging			Total	Total
	Stage 1	Stage 2	Stage 3		
	12-month ECL	Lifetime ECL	Lifetime ECL		
Financial assets at amortized cost^(a)					
Cash and cash equivalents ^(b)	₱360,950,453	₱-	₱-	₱360,950,453	₱19,564,920
Restricted cash	563,758,668	-	-	563,758,668	334,691,521
Receivables:					
Neither past due nor impaired					
High grade	198,833,765	-	-	198,833,765	52,527,418
Past due but not impaired	3,384,985	19,414,844	-	22,799,829	52,239,755
Refundable deposits	8,415,626	-	-	8,415,626	9,995,830
Sinking fund ^(c)	182,965,847	-	-	182,965,847	159,170,880
Gross carrying amount	₱1,318,309,344	₱19,414,844	₱-	₱1,337,724,188	₱628,190,324

^(a) Classified as Loans and Receivables under PAS 39 as at December 31, 2017.

^(b) Excluding cash on hand of ₱3,056,166 and ₱10,356,160 as at December 31, 2018 and 2017, respectively.

^(c) Included as part of "Other noncurrent assets" account in the statement of financial position.

Liquidity Risk

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

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

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

	2018					Total
	On Demand	Less than 3 months	3-12 months	1-2 years	Over 2 years	
Financial assets at amortized cost						
Cash and cash equivalents*	₱360,950,453	₱-	₱-	₱-	₱-	₱360,950,453
Restricted cash	-	190,277,672	373,480,996	-	-	563,758,668
Receivables	103,673,849	3,983,561	56,217,958	55,146,460	2,611,766	221,633,594
Refundable deposits	-	-	4,700,412	-	3,715,214	8,415,626
Sinking fund**	-	-	-	-	182,965,847	182,965,847
Financial assets at FVTPL	182,751,543	-	-	-	-	182,751,543
	₱647,375,845	₱194,261,233	₱434,399,366	₱-	₱189,292,827	₱1,520,475,731



	2018					Total
	On Demand	Less than 3 months	3-12 months	1-2 years	Over 2 years	
Financial Liabilities						
Accrued expenses and other current liabilities***:						
Accounts payable	₱28,786,735	₱-	₱-	₱-	₱-	₱28,786,735
Payable to CHI	163,428,840	-	-	-	-	163,428,840
Accrued expenses	₱-	₱563,087,712	₱-	₱-	₱-	₱563,087,712
Other payables	21,275,696	-	-	-	-	21,275,696
Retention sum and contractors payable	164,479,977	-	-	-	-	164,479,977
Provisions	-	-	222,131,579	-	150,271,323	372,402,902
Long-term debt****	-	293,236,434	526,290,005	723,406,991	5,903,107,636	7,446,041,066
	₱377,971,248	₱856,324,146	₱748,421,584	₱723,406,991	₱6,053,378,959	₱8,759,502,928

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

	2017					Total
	On Demand	Less than 3 months	3-12 months	1-2 years	Over 2 years	
Loans and Receivables						
Cash and cash equivalents*	₱19,564,920	₱-	₱-	₱-	₱-	₱19,564,920
Restricted cash	-	334,304,480	387,041	-	-	334,691,521
Receivables	33,217,354	52,239,755	-	-	-	85,457,109
Refundable deposits	-	45,416	6,235,201	-	3,715,213	9,995,830
Sinking fund**	-	-	-	-	159,170,880	159,170,880
AFS Financial assets	526,849,424	-	-	-	-	526,849,424
	₱579,631,698	₱372,023,142	₱6,622,242	₱-	₱162,886,093	₱1,135,729,684

	2017					Total
	On Demand	Less than 3 months	3-12 months	1-2 years	Over 2 years	
Financial Liabilities						
Accrued expenses and other current liabilities***:						
Accounts payable	₱78,647,593	₱-	₱-	₱-	₱-	₱78,647,593
Payable to CHI	163,428,840	-	-	-	-	163,428,840
Accrued expenses	-	218,550,839	-	-	-	218,550,839
Other payables	22,374,089	-	-	-	-	22,374,089
Retention sum and contractors payable	96,184,527	-	-	-	-	96,184,527
Provisions	-	-	98,897,030	130,133,514	25,348,721	254,379,265
Long-term debt****	-	168,366,162	564,451,108	885,050,803	5,370,693,192	6,988,561,265
	₱360,635,049	₱386,917,001	₱663,348,138	₱1,015,184,317	₱5,396,041,913	₱7,822,126,418

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

Capital Management

The Company considers its equity and deposit for future stock subscription amounting to ₱3,100.0 million and ₱2,174.3 million as at December 31, 2018 and 2017, respectively, as its capital.

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

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

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

The Company has not paid any dividends in 2018 and 2017. On July 15, 2017, the Company prepaid its Series 2010-1 Notes (see Note 13).



27. Fair Value Measurement

The following table sets forth the carrying values and fair values of the Company's financial instruments, other than those whose carrying amounts are reasonable approximation of fair values as at December 31, 2018 and 2017:

	2018		2017	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets at FVTPL				
Investments in UITF	₱182,751,543	₱182,751,543	₱-	₱-
Financial liabilities at amortized cost				
Long-term debt	5,296,808,145	5,040,496,350	5,364,231,833	5,438,278,704
AFS Financial assets	-	-	526,849,424	526,849,424

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

Long-term Debt. The estimated fair value of the long-term debt is based on the discounted value of future cash flows using prevailing peso interest rates ranging from 3.1% to 5.7% and 3.1% to 5.7% in 2018 and 2017, respectively. The fair value of obligation to SPE, series 2012-1 Notes, with variable interest rates approximates its carrying amount due to quarterly repricing of interest.

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

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

The carrying value of noncurrent portion of provisions approximate fair value as at December 31, 2018 and 2017 due to unavailability of information as to the prepayment date that would provide a reasonable basis for the fair value measurement.

Fair Value Hierarchy

The following table provides the fair value measurement hierarchy of the Company's assets and liabilities as at December 31, 2018 and 2017:

	Date of Valuation	2018			Total
		Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Assets measured at fair value –					
Financial assets at FVTPL	December 31, 2018	₱-	₱182,751,543	₱-	₱182,751,543
Liabilities for which fair values are disclosed:					
Long-term debt	December 31, 2018	₱-	₱5,040,496,350	₱-	₱5,040,496,350



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

During the years ended December 31, 2018 and 2017, there were no transfers between Level 1 and Level 2 fair value measurements and no transfers into and out of Level 3 fair value measurements.

28. Supplemental Cash Flow Information

Changes in liabilities arising from financing activities

	January 1, 2018	Cash Flows	<u>Non-cash charges</u> Amortization of DIC	December 31, 2018
Long-term debt (see Note 16)*	₱5,364,231,833	(₱203,379,892)	₱135,956,204	₱5,296,808,145
Advances for future stock subscription	200,000,000	559,433,000	–	759,433,000
Total liabilities from financing activities	₱5,564,231,833	₱356,053,108	₱135,956,204	₱6,056,241,145

*Long-term debt is net of cash inflow of ₱5,500,000,000 and outflows of ₱5,627,500,000 and ₱75,879,892.

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

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

Non-cash investing activities

The Company has non-cash investing activities from Service concession asset amounting to ₱495. 0 million and nil in 2018 and 2017, respectively.



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

The Company reported and/or paid the following types of taxes for the year ended December 31, 2018:

Value Added Tax (VAT)

- a. Net Sales/Receipts and Output VAT declared in the Company's VAT returns for 2018

	Net Sales/Receipts	Output VAT
<u>Vatable Sales</u>	<u>₱1,660,646,781</u>	<u>₱199,277,614</u>

- b. Input VAT

Balance at January 1		
Current year's domestic purchases/payments for:		₱-
Goods other than capital goods		5,032,817
Domestic purchase of service		113,570,689
<u>Total</u>		<u>118,603,506</u>
<u>Input VAT applied against output VAT</u>		<u>(110,717,728)</u>
<u>Balance at December 31</u>		<u>₱7,885,778</u>

Taxes and Licenses

Taxes and licenses under operating expenses, local and national, include real estate taxes, licenses and permit fees for 2018:

Business permit	₱7,425,458
Documentary stamp tax	1,680,797
Registration	8,780
Others	162,639
	<u>₱9,277,674</u>

Taxes and licenses amounting to ₱7.5 million is presented as "General and administrative expenses" account and the remaining ₱1.8 million is presented as part "Cost of services" account.

In 2018, the Company paid documentary stamp tax pertaining to loan transaction amounting to ₱41.3 million, which was capitalized as debt issue costs.

Withholding Taxes

Details of withholding tax paid and accrued for the year ended December 31, 2018 are as follows:

Expanded withholding taxes	₱33,761,809
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Tax Assessments

The Company has not received any Final Assessment Notice as at December 31, 2018. Likewise, the Company has no other pending tax case outside the administration of BIR as at December 31, 2018.

