

Cavitex Infrastructure Corp.

Financial Statements
December 31, 2019 and 2018

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, 2019 and 2018, 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, 2019 and 2018, 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 27 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of Cavitex Infrastructure Corp. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.



Mariecris N. Barbaso

Partner

CPA Certificate No. 97101

SEC Accreditation No. 1513-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. 8116727, January 2, 2020, Makati City

February 20, 2020



CAVITEX INFRASTRUCTURE CORP.
STATEMENTS OF FINANCIAL POSITION

	December 31	
	2019	2018
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 5 and 24)	₱163,509,916	₱364,006,619
Restricted cash (Notes 5,14, and 24)	524,575,364	563,758,668
Receivables (Notes 6 and 24)	249,864,938	221,633,594
Financial assets at fair value through profit or loss (Notes 7, 24, and 25)	656,227,368	182,751,543
Prepaid expenses and other current assets (Note 8)	100,416,946	105,357,323
Total Current Assets	1,694,594,532	1,437,507,747
Noncurrent Assets		
Service concession asset (Note 9)	9,123,527,279	8,338,200,115
Property and equipment (Note 10)	95,984,810	112,074,051
Advances to contractors (Note 11)	313,326,439	262,951,863
Other noncurrent assets (Notes 12 and 24)	193,140,076	193,521,824
Total Noncurrent Assets	9,725,978,604	8,906,747,853
	₱11,420,573,136	₱10,344,255,600
LIABILITIES AND EQUITY		
Current Liabilities		
Accrued expenses and other current liabilities (Notes 13, 21, and 24)	₱734,800,557	₱954,826,904
Current portion of long-term debt (Notes 14, 24, and 25)	412,023,530	469,145,854
Provisions (Notes 15 and 24)	132,721,345	151,258,371
Retention sum and contractors payable (Notes 11 and 24)	240,200,190	164,479,977
Income tax payable	70,385,721	71,851,728
Total Current Liabilities	1,590,131,343	1,811,562,834
Noncurrent Liabilities		
Long-term debt - net of current portion (Notes 14, 24, and 25)	5,301,321,967	4,827,662,291
Deposit for future stock subscription (Note 21)	759,433,000	759,433,000
Provisions (Notes 15 and 24)	241,714,864	221,144,531
Deferred tax liabilities - net (Note 22)	167,018,975	127,177,863
Other noncurrent liabilities (Note 16)	256,700,000	256,700,000
Total Noncurrent Liabilities	6,726,188,806	6,192,117,685
Total Liabilities	8,316,320,149	8,003,680,519
Equity		
Capital stock (Note 17)	1,228,375,000	1,228,375,000
Additional paid-in capital	391,500,000	391,500,000
Retained earnings	1,484,377,987	720,700,081
Total Equity	3,104,252,987	2,340,575,081
	₱11,420,573,136	₱10,344,255,600

See accompanying Notes to Financial Statements.



CAVITEX INFRASTRUCTURE CORP.
STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2019	2018
TOLL REVENUES (Note 23)	₱1,917,487,646	₱1,643,785,539
COST OF SERVICES (Note 18)	(489,312,226)	(489,869,298)
GROSS PROFIT	1,428,175,420	1,153,916,241
CONSTRUCTION REVENUE (Note 9)	888,039,155	1,116,860,978
CONSTRUCTION COSTS (Note 9)	(888,039,155)	(1,116,860,978)
GENERAL AND ADMINISTRATIVE EXPENSES (Notes 19 and 21)	(166,186,314)	(304,526,826)
INTEREST EXPENSE (Note 14)	(340,543,941)	(372,082,462)
INTEREST INCOME (Notes 5 and 12)	44,070,750	6,595,524
FOREIGN EXCHANGE GAIN – net	14,917	71,709
OTHER INCOME (Note 20)	95,114,719	44,727,575
INCOME BEFORE INCOME TAX	1,060,645,551	528,701,761
PROVISION FOR INCOME TAX (Note 22)	(296,967,645)	(160,952,576)
NET INCOME	763,677,906	367,749,185
OTHER COMPREHENSIVE LOSS <i>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</i>		
Reversal of other reserves	–	(1,501,312)
TOTAL COMPREHENSIVE INCOME	₱763,677,906	₱366,247,873

See accompanying Notes to Financial Statements.



CAVITEX INFRASTRUCTURE CORP.

**STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

	Capital Stock (Note 17)	Additional Paid-in Capital	Retained Earnings	Other Comprehensive Income Reserve - net	Total Equity
As at January 1, 2019	₱1,228,375,000	₱391,500,000	₱720,700,081	₱-	₱2,340,575,081
Net income	-	-	763,677,906	-	763,677,906
Other comprehensive loss	-	-	-	-	-
Total comprehensive income for the year	-	-	763,677,906	-	763,677,906
As at December 31, 2019	₱1,228,375,000	₱391,500,000	₱1,484,377,987	₱-	₱3,104,252,987
As at January 1, 2018	₱1,228,375,000	₱391,500,000	₱352,950,896	₱1,501,312	₱1,974,327,208
Net loss	-	-	367,749,185	-	367,749,185
Other comprehensive income – net (Note 17)	-	-	-	(1,501,312)	(1,501,312)
Total comprehensive income for the year	-	-	367,749,185	(1,501,312)	366,247,874
As at December 31, 2018	₱1,228,375,000	₱391,500,000	₱720,700,081	₱-	₱2,340,575,081

See accompanying Notes to Financial Statements.



CAVITEX INFRASTRUCTURE CORP.
STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	₱1,060,645,551	₱528,701,761
Adjustments for:		
Interest expense (Note 14)	340,543,941	372,082,462
Depreciation and amortization (Notes 9, 10, 12, 18, and 19)	179,420,180	145,279,587
Interest income (Notes 5 and 12)	(44,070,750)	(6,595,524)
Gain on sale of investments in UITF (Note 20)	(8,747,108)	(12,431,831)
Unrealized gain on investments in UITF (Note 20)	(6,475,824)	(1,046,851)
Gain on sale of property and equipment	(28,425)	–
Reversal of provisions (Note 20)	(37,761,131)	–
Reversal of other reserves	–	(2,144,732)
Operating income before changes in working capital	1,483,526,434	1,023,844,872
Decrease (increase) in:		
Restricted cash	39,183,304	(229,067,147)
Receivables	(28,231,344)	(136,176,485)
Prepaid expenses and other current assets	3,118,977	(65,865,979)
Increase (decrease) in:		
Accrued expenses and other current liabilities	(500,162,014)	(53,267,288)
Provisions	21,437,127	52,383,260
Retention sum and contractors payable	75,720,213	68,295,450
Long term incentive plan	–	(12,300,000)
Net cash generated from operations	1,094,592,697	647,846,683
Interest and other charges paid	(360,838,849)	(225,928,687)
Income taxes paid	(247,957,015)	(132,688,005)
Interest received	35,256,625	5,276,475
Net cash flows from operating activities	521,053,458	294,506,466
CASH FLOWS FROM INVESTING ACTIVITIES		
Increase in other noncurrent assets	(51,443,867)	(11,510,577)
Additions to:		
Investments in UITF (Note 7)	(2,344,850,000)	(1,696,000,000)
Service concession asset (Notes 9, 13, 14, and 26)	(589,694,146)	(621,899,122)
Property and equipment (Note 10)	(26,099,714)	(39,207,400)
Computer software (Note 12)	(102,486)	(1,433,499)
Proceeds from:		
Disposal of investments in UITF (Note 7)	1,886,597,107	2,053,576,563
Disposal of property and equipment (Note 10)	954,522	–
Net cash flows used in investing activities	(1,124,638,584)	(316,474,035)

(Forward)



	Years Ended December 31	
	2019	2018
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from:		
Availment of long-term debt (Note 26)	₱902,000,000	₱5,500,000,000
Deposit for future stock subscription (Notes 21 and 26)	–	559,433,000
Payments of:		
Long-term debt (Notes 14 and 26)	(487,400,000)	(5,627,500,000)
Payment of debt issue cost	(11,511,577)	(75,879,892)
Net cash flows generated from financing activities	403,088,423	356,053,108
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(200,496,703)	334,085,539
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	364,006,619	29,921,080
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 5)	₱163,509,916	₱364,006,619

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 23, 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, 2019 and 2018. 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, 2019 and 2018. 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, 2019 and 2018 were authorized for issuance by the Company's Board of Directors (BOD) on February 20, 2020.

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 Philippine Financial Reporting Standard (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, 2019. The standards that have been adopted did not have any significant impact on the Company's financial statements, unless otherwise indicated.

▪ 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.

▪ PFRS 16, *Leases*

PFRS 16 supersedes PAS 17, *Leases*, Philippine Interpretation IFRIC 4, *Determining whether an Arrangement Contains a Lease*, Philippine Interpretation SIC-15, *Operating Leases-Incentives* and Philippine Interpretation SIC-27, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognize most leases on the statement of financial position.

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. Therefore, PFRS 16 did not have an impact for leases where the Company is the lessor.

The Company adopted PFRS 16 using the modified retrospective approach upon adoption of PFRS 16 in 2019 and elects to apply the standard to contracts that were previously identified as leases applying PAS 17 and Philippine Interpretation IFRIC-4. The Company will therefore not apply the standard to contracts that were not previously identified as containing a lease applying PAS 17 and Philippine Interpretation IFRIC-4.

The Company has lease contracts of office space and various items of equipment. Before the adoption of PFRS 16, the Company classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. Refer to the accounting policy on leases prior to January 1, 2019.

Upon adoption of PFRS 16, the Company applied a single recognition and measurement approach for all leases except for short-term leases and leases of low-value assets. Refer to the accounting policy on leases upon adoption of PFRS 16 beginning 1 January 2019.

Leases previously accounted for as operating leases

The Company's leases as at January 1, 2019 are either short-term leases or leases of low-value assets. The Company applied the available practical expedients wherein it:

- Applied the short-term leases exemptions to leases with lease term that ends within 12 months of the date of initial application
- Applied exemption to leases of low-value assets.



Since the Company applied the above practical expedients, the adoption of PFRS 16 did not have significant impact on the Company's financial statements.

▪ 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.

▪ 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*.

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

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12, *Income Taxes*. It 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.

The Company is required to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and use the approach that better predicts the resolution of the uncertainty. The Company shall assume that the taxation authority will examine amounts that it has a right to examine and have full knowledge of all related information when making those examinations. If the Company concludes that it is not probable that the taxation authority will accept an uncertain tax treatment, it shall reflect the effect of the uncertainty for each uncertain tax treatment using the method the entity expects to better predict the resolution of the uncertainty.

Upon adoption of the Interpretation, the Company has assessed whether it has any uncertain tax position. The Company applies significant judgement in identifying uncertainties over its income tax treatments. The Company assessed whether the Interpretation had an impact on its financial statements. The Company determined, based on its assessment, that it is probable that its uncertain tax treatments will be accepted by the taxation authority. Accordingly, the interpretation did not have an impact on the financial statements of the Company.

- *Annual Improvements to PFRSs 2015-2018 Cycle*

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

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

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

An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2019 and to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after January 1, 2019, with early application permitted. These amendments had no impact on the financial statements of the Company as there is no transaction where joint control is obtained.

- 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.



- 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.

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, 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. The Company is currently assessing the impact of adopting this amendment.

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.

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

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 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.

The terms of the liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

All other liabilities are classified as noncurrent.

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

Cash 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. Financial assets are classified, at initial recognition, as financial assets measured at amortized cost, fair value through profit or loss (FVTPL) and fair value through comprehensive income (FVOCI). Financial assets are recognized initially at fair value plus, in the case of investments not at FVTPL, transaction costs that are attributable to the acquisition of the financial asset.

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 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. 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, *Revenue from Contracts with Customers*.

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. Financial assets classified and measured at amortized cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows while financial assets classified and measured at FVOCI are held within a business model with the objective of both holding to collect contractual cash flows and selling.



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, 2019 and 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 EIR method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

Financial assets at amortized cost are classified as current assets when the Company expects to realize the asset within 12 months from reporting date. Otherwise, these are classified as noncurrent assets.

As at December 31, 2019 and 2018, this category includes the Company's cash 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 profit or loss.

As at December 31, 2019 and 2018, the Company's financial assets at FVTPL include investments in UITF.

Impairment of Financial Assets. 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.

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

For purposes of subsequent measurement, financial liabilities are classified in two categories:

- Financial liabilities at FVTPL
- Financial liabilities at amortized cost (loans and borrowings)

As at December 31, 2019 and 2018, the Company has no financial liabilities at FVTPL.

Financial Liabilities at Amortized Cost (Loans and Borrowing). This is the category most relevant to the Company. After initial recognition, interest-bearing 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 profit or loss.

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

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, *Revenue from Contracts with Customers* and PAS 11, *Construction Contracts* 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 are calculated on a straight-line basis over the estimated useful lives of the assets as follows:

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

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

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

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

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

Other Intangible Assets (Software Costs)

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



development costs, are not capitalized and expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

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

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

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

Impairment of Non-Financial Assets

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

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

Provisions

Provisions are recognized when an obligation (legal or constructive) is incurred as a result of a past event and where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.



Where the Company expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in profit or loss, net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense during the period.

Capital Stock and Additional Paid-in Capital

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

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

Deposit for Future Stock Subscription

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

Retained Earnings

Retained earnings represents accumulated earnings, net of dividends declared.

Other Comprehensive Income Reserve

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

Revenue Recognition

Revenue 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.

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 directly attributable to the acquisition or construction of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective assets (included in "Service concession asset" account in the statement of financial position). Capitalization ceases when the asset is available for use. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.



The interest capitalized is calculated using the Company's weighted average cost of borrowings after adjusting for borrowings associated with specific developments. Where borrowings are associated with specific developments, the amounts capitalized is the gross interest incurred on those borrowings less any investment income arising on their temporary investment.

The capitalization of finance costs is suspended if there are prolonged periods when development activity is interrupted.

Leases Upon Adoption of PFRS 16 (Effective Starting January 1, 2019)

Leases. The Company assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Company as Lessee. The Company applies a single recognition and measurement approach for all leases, except for short-term leases and low-value assets. The Company recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

- *Short-term Leases and Low-value Assets.* The Company applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date or initial application of PFRS 16 and do not contain a purchase option). It also applies the leases of low-value assets recognition exemption to leases of equipment that are considered of low value (i.e., below ₱250,000). Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

Operating Leases Prior to Adoption of PFRS 16 (Effective Prior to January 1, 2019)

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 item recognized directly in equity is recognized in equity and not in the profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred 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.

Judgements

a. Service concession arrangement

In applying Philippine Interpretation IFRIC 12, *Service Concession Arrangements*, the Company determined that the service concession agreements (discussed in Note 23) 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 2019 and 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 2019 and 2018 decreased by ₱0.4 million and ₱64.04 million, respectively, as a result of the change in estimate in each year.

Amortization of service concession asset amounted to ₱145.9 million and ₱115.4 million in 2019 and 2018, respectively. The carrying value of service concession asset amounted to ₱9,123.5 million and ₱8,338.2 million as at December 31, 2019 and 2018, respectively (see Note 9).

b. Contingencies

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

Estimates

a. Impairment of receivables

The Company 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 2019 and 2018, respectively. The carrying values of receivables amounted to ₱249.9 million and ₱221.6 million as at December 31, 2019 and 2018, respectively (see Note 6).

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

The Company assesses whether there are any indicators of impairment for all nonfinancial assets at each reporting period. Nonfinancial assets are reviewed for impairment when there are indicators that the carrying amounts may not be recoverable. Determining the value in use of these nonfinancial assets, which requires the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets, requires the Company to make estimates and assumptions that can materially affect the parent company financial statements. Future events could cause the Company to conclude that such nonfinancial assets are impaired. Any resulting impairment loss could have a material adverse impact on the financial statements. There was no impairment recognized in 2019 and 2018. Allowance for impairment



of advances to contractors as at December 31, 2019 and 2018 amounted to ₱55.3 million (see Note 11).

The carrying values of the Company's non-financial assets as at December 31, 2019 and 2018 are as follows:

	2019	2018
Service concession asset* (see Note 9)	₱7,523,669,147	₱7,512,680,081
Property and equipment (see Note 10)	95,984,810	112,074,051
Advances to contractors (see Note 11)	313,326,439	262,951,863
Computer software** (see Note 12)	3,260,400	4,711,439
Others** (see Note 12)	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.

c. 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 2019 and 2018. The carrying value of service concession asset not yet available for use amounted to ₱1,599.9 million and ₱825.5 million as at December 31, 2019 and 2018, respectively (see Note 9).

d. 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 ₱123.6 million and ₱124.6 million as at December 31, 2019 and 2018, respectively (see Note 22).

e. 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 require 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 date 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 ₱374.4 million and ₱372.4 million as at December 31, 2019 and 2018, respectively (see Note 15).

5. Cash and Cash Equivalents and Restricted Cash

Cash and Cash Equivalents

This account consists of:

	2019	2018
Cash in banks	₱30,340,760	₱30,950,453
Cash on hand	23,169,156	3,056,166
Short-term investments	110,000,000	330,000,000
	₱163,509,916	₱364,006,619

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 ₱524.6 million and ₱563.8 million as at December 31, 2019 and 2018, 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 14).

Interest earned from cash and cash equivalents and restricted cash amounted to ₱34.3 million and ₱3.0 million in 2019 and 2018, respectively.

6. Receivables

This account consists of:

	2019	2018
Receivables from affiliated companies (see Note 21)	₱194,875,279	₱168,831,608
Receivables from DPWH	47,169,556	44,987,841
Other receivables	7,820,103	7,814,145
	₱249,864,938	₱221,633,594

Receivables from affiliated companies include billings related to toll passages from Easytrip Services Corporation and advances to Metro Pacific Tollways South Management Corporation (MPTSMC) and Metro Pacific Tollways South Corporation. The advances to MPTSMC pertain to the payroll funding of its employees under the service agreement with the Company.

Receivable from DPWH is pursuant to the Reimbursement Agreement entered by the Company with DPWH in 2018 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

These accounts pertain to investments in UITF classified as FVTPL. The movement of financial assets at FVTPL is as follows:

	2019	2018
Balance at beginning of year	₱182,751,543	₱526,849,424
Additions	2,344,850,000	1,696,000,000
Disposals*	(1,886,597,107)	(2,053,576,563)
Change in fair value during the year	15,222,932	13,478,682
Balance at end of the year	₱656,227,368	₱182,751,543

*Includes gain on sale of investments in UITFs amounting to ₱8,747,108 and ₱14,576,563 as of December 31, 2019 and December 31, 2018, respectively, (see Note 20).

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:

	2019	2018
Prepayments	₱66,875,594	₱65,625,677
Deposits	24,780,000	24,780,000
Security deposit	4,864,784	4,936,615
Advances to suppliers	2,283,295	754,776
Inventories	1,571,310	1,374,477
Input VAT – net	41,963	7,885,778
	₱100,416,946	₱105,357,323

Deposits pertain to the amount paid by the Company to the Permanent Court of Arbitration on June 15, 2018 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 23).

Advances to suppliers pertain to the advance payments to be applied to future billings of various service providers related to service contracts entered by the company.

Prepayments include to toll risk property insurance and arranger's fee. The insurance covers all 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 ₱51.6 million and ₱56.3 million as at December 31, 2019 and 2018, respectively pertains to the advance payment to BDO Unibank, Inc. in relation to the Tranche B of the new loan.

Security deposit amounting to ₱4.9 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, 2019, 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, 2019, the Company filed a manifestation with urgent motion to lift garnishment and motion to declare the closure of execution proceedings.

9. Service Concession Asset

The movements in this account follow:

	2019			
	R-1 Expressway	R-1 Extension	C5 Link*	Total
Cost				
Balances at beginning of year	₱1,507,177,667	₱7,556,059,254	₱825,520,034	₱9,888,756,955
Additions	150,283,481	1,984,821	769,662,659	921,930,961
Reclassification (see Note 10)	3,676,183	943,750	4,675,439	9,295,372
Balances at end of year	1,661,137,331	7,558,987,825	1,599,858,132	10,819,983,288
Accumulated Amortization				
Balances at beginning of year	577,448,723	973,108,117	–	1,550,556,840
Amortization (see Note 18)	33,507,237	112,391,932	–	145,899,169
Balances at end of year	610,955,960	1,085,500,049	–	1,696,456,009
Net Book Value	₱1,050,181,371	₱6,473,487,776	₱1,599,858,132	₱9,123,527,279

*Not yet available for use at December 31, 2019. Segment 3A-1 (a portion of C5 Link) commenced operations on October 24, 2019.

	2018			
	R-1 Expressway	R-1 Extension	C5 Link*	Total
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 18)	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.



Additions in 2019 pertain to the civil works of R1 Enhancements and C5 Link Project based on the actual percentage of completion as at December 31, 2019. It also includes reflectorized thermoplastic pavement markings for R-1 widening, consultancy fee for the feasibility study for Segment 4 extension, installation of reinforcing bars and meridian barrier, embankment and installation of mechanically stabilized earth retaining wall, construction of interim toll plaza and relocation of Meralco posts for Segment 3A-1, detailed engineering design for Segment 2 and the borrowing cost capitalized amounted to ₱43.2 million (see Note 14).

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.

As at December 31, 2019, the remaining concession terms for R-1 Expressway and R-1 Expressway Extension are 14 years and 27 years, respectively. Franchise Period for C5 Link has commenced on October 24, 2019 (see Note 23).

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 27 years for Segment 3A and 29 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 11.8% and 11.14% was used based on the weighted average cost of capital of comparable companies in 2019 and 2018, 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 3% to 5% were applied in 2019 and 2018.

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. Property and Equipment

The composition of and movements in property and equipment follow:

2019								
	Transportation Equipment	Office Equipment	Traffic Management Equipment	Leasehold Improvements	Furniture and Fixtures	Other Equipment*	Construction in Progress	Total
Cost								
Balances at beginning 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
Additions	1,242,857	15,542,218	1,046,607	–	244,551	4,288,978	3,734,503	26,099,714
Disposals	(14,649,893)	(10,741,205)	–	(2,774,666)	(2,997,343)	(25,978,720)	–	(57,141,827)
Reclassification (see Note 9)						926,871	(10,222,243)	(9,295,372)
Balances at end of year	16,733,189	30,853,392	56,070,664	–	4,420,064	75,353,620	16,158,602	199,589,531
Accumulated Depreciation								
Balances at beginning of year	25,435,788	19,627,491	14,967,898	2,774,666	5,732,960	59,314,162	–	127,852,965
Depreciation (see Notes 18 and 19)	2,244,575	4,481,375	11,022,255	–	498,557	13,720,724	–	31,967,486
Disposals	(13,723,796)	(10,741,205)	–	(2,774,666)	(2,997,343)	(25,978,720)	–	(56,215,731)
Balances at end of year	13,956,567	13,367,661	25,990,153	–	3,234,174	47,056,166	–	103,604,721
Net Book Value	₱2,776,622	₱17,485,731	₱30,080,511	₱–	₱1,185,890	₱28,297,454	₱16,158,602	₱95,984,810

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

2018								
	Transportation Equipment	Office Equipment	Traffic Management Equipment	Leasehold Improvements	Furniture and Fixtures	Other Equipment*	Construction in Progress	Total
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 18 and 19)	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 R-1 toll facilities, tools & engineering equipment and other fixed assets.

The cost of fully depreciated property and equipment still in use amounted to ₱25.25 million and ₱64.97 million as at December 31, 2019 and 2018, respectively. There were no idle property and equipment as at December 31, 2019 and 2018.

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, 2019 and 2018.

11. 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 Enhancement 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.



	2019	2018
Advances to contractors:		
C-5 link expressway	₱215,997,029	₱202,063,568
R-1 expressway	152,648,983	116,207,868
	368,646,012	318,271,436
Less: allowance for impairment loss	55,319,573	55,319,573
	₱313,326,439	₱262,951,863

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.

	2019	2018
Retention sum	₱151,644,004	₱127,920,298
Contractors payable	88,556,186	36,559,679
	₱240,200,190	₱164,479,977

12. Other Noncurrent Assets

This account consists of:

	2019	2018
Sinking fund	₱184,035,138	₱182,965,847
Computer software	3,260,400	4,711,439
Security deposit	3,479,011	3,479,011
Other noncurrent assets	2,365,527	2,365,527
	₱193,140,076	₱193,521,824

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 23). Interest earned from sinking fund amounted to ₱9.7 million and ₱3.6 million in 2019 and 2018, respectively.

The movement of computer software follows:

	2019	2018
Cost:		
Balance at beginning of year	₱24,134,295	₱22,700,796
Additions	102,486	1,433,499
Retirement	(7,914,806)	-
Balance at end of year	16,321,975	24,134,295
Accumulated amortization:		
Balance at beginning of year	19,422,856	17,897,256
Amortization (see Note 19)	1,553,525	1,525,600
Retirement	(7,914,806)	-
Balance at end of year	13,061,575	19,422,856
Net book value	₱3,260,400	₱4,711,439



As at December 31, 2019, unamortized life of software ranges from 0.33 to 4.67 years.

13. Accrued Expenses and Other Current Liabilities

This account consists of:

	2019	2018
Accounts payable:		
Third parties	₱56,665,336	₱33,415,086
Related parties (see Note 21)	62,082,788	72,767,966
Payable to CHI	163,428,840	163,428,840
Withholding tax payable	6,836,503	6,603,819
Deferred output VAT payable	513,672	998,876
Accrued expenses:		
Third parties:		
Construction costs (see Note 9)	289,049,636	494,961,856
Interest	98,740,660	89,297,318
Outside services	15,655,505	9,642,091
Professional fees	4,181,146	1,913,946
Repairs and maintenance	3,255,780	33,649,027
MCTE expenses	1,050,000	2,270,000
Loan transaction costs	-	4,122,524
Others	8,323,002	14,611,626
Related parties (see Note 21):		
Outside services	9,136,711	1,464,773
Management Fee	1,420,492	-
Reimbursable costs	451,868	451,868
Contract liabilities	3,951,591	3,951,591
Other payables	10,057,027	21,275,697
	₱734,800,557	₱954,826,904

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. The amount is payable on demand.

Contract liabilities in 2019 and 2018 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.



14. Long-term Debt

This account consists of:

	2019	2018
Principal - Loan facility	₱5,777,100,000	₱5,362,500,000
Less unamortized debt issue costs	63,754,503	65,691,855
	5,713,345,497	5,296,808,145
Less current portion of long-term debt – net of unamortized debt issue costs of ₱12,776,470 in 2019 and ₱12,104,146 in 2018	412,023,530	469,145,854
	₱5,301,321,967	₱4,827,662,291

2013 Omnibus Agreement

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. The preferred shares were fully redeemed in 2017.

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.

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. 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 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.

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 in 2017 and amendment to the definition of equity, for which the creditors waived and confirmed.

In March 2018, the Company refinanced and prepaid the outstanding balance of its long-term debt from the 2013 omnibus agreement amounting to ₱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 19).



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 of ₱5,413.8 million as discussed above.

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.

In April 2019 and July 2019, the Company made a drawdown from Tranche B1 and Tranche B2 amounting to ₱246.0 million and ₱656.0 million, respectively. The proceeds of Tranche B1 and Tranche B2 were used to facilitate the financing of R1 Bridge widening project and C5 Segment 3A-1. The Tranche B1 and B2 are subject to interest rate of the 7.73% and 6.49%, respectively. 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 1.75% 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, 2019 and 2018, the Company is in compliant with the loan covenants.

Interest charged to operations amounted to ₱328.4 million and ₱354.8 million for 2019 and 2018, respectively, excluding amortization of debt issue costs of ₱12.1 million and ₱17.3 million in 2019 and 2018, respectively.

Interest capitalized to service concession asset amounted to ₱41.9 million and nil in 2019 and 2018,



respectively, excluding amortization of debt issue cost of ₱1.3 million and nil in 2019 and 2018, respectively (see Note 9).

Repayment of the undiscounted long-term debt outstanding as at December 31, 2019 and 2018 are scheduled as follows:

	2019	2018
Within one year	₱424,800,000	₱481,250,000
More than one year but less than five years	2,274,600,000	1,581,250,000
More than five years but less than ten years	3,077,700,000	3,300,000,000
Within one year	₱5,777,100,000	₱5,362,500,000

15. Provisions

Provisions

Movement in this account follows:

	Heavy Maintenance	Others	Total
At January 1, 2018	₱155,482,235	₱164,537,407	₱320,019,642
Additions (see Notes 18 and 19)	65,662,296	62,260,063	127,922,359
Reclassification	–	4,666,666	4,666,666
Payments	–	(80,205,765)	(80,205,765)
At December 31, 2018	221,144,531	151,258,371	372,402,902
Additions (see Notes 18 and 19)	20,570,333	12,800,000	33,370,333
Reclassifications	–	18,357,311	18,357,311
Payments	–	(11,933,206)	(11,933,206)
Reversals (see Note 20)	–	(37,761,131)	(37,761,131)
At December 31, 2019	₱241,714,864	₱132,721,345	₱374,436,209

	Heavy Maintenance	Others	Total
At December 31, 2019:			
Current	₱–	₱ 132,721,345	₱132,721,345
Noncurrent	241,714,864	–	241,714,864
	₱241,714,864	₱132,721,345	₱374,436,209

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



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.

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.

In 2019 and 2018, the Company reclassified accrued expenses to provisions amounting to ₱18.4 million and ₱4.7 million, respectively.

16. Deposit for future construction

On October 20, 2011, the Company and CHI executed a Memorandum of Agreement (MOA), wherein, CHI shall grant the Company a right-of-way to certain segments of the property CHI plans to reclaim to allow the Company to construct four feeder roads. The four feeder roads are estimated to cost ₱520.0 million where CHI shall be liable for approximately fifty percent (50%) of construction costs. Actual contribution of CHI amounting to ₱256.7 million was received by the Company in 2012. As at February 20, 2020, 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.

17. Equity

Capital Stock

Details of common shares of stocks of the Company as at December 31, 2019 and 2018 follow:

	Number of Shares	Amount
Authorized - ₱100 par value	13,730,000	₱1,373,000,000
Issued and outstanding	12,283,750	1,228,375,000

Other Comprehensive Income Reserve

Other reserves pertains to unrealized gain on investments previously classified as available-for-sale investments prior to adoption of PFRS 9. In 2018, movements in this account follows:

	Unrealized gain on investments in UITF
Balance at beginning of year	₱1,501,312
Reversal of other reserves	(1,501,312)
Balance at end of year	₱-



18. Costs of Services

This account consists of:

	2019	2018
Amortization of service concession asset (see Note 9)	₱145,899,169	₱115,422,513
Toll collector services (see Note 21)	62,281,932	61,551,323
Operating and maintenance expenses	58,377,723	55,630,388
Depreciation (see Note 10)	25,686,567	21,051,637
MCTE expenses	25,276,176	21,529,208
Provision for heavy maintenance (see Note 15)	20,570,333	65,662,296
Communication, light and water	20,399,044	20,054,768
Repairs and maintenance	18,446,854	18,776,649
Transportation and travel	6,234,098	6,252,892
Supplies	2,390,875	306,456
Provisions (Note 15)	800,000	12,000,000
Other general services (see Note 21)	102,949,455	91,631,168
	₱489,312,226	₱489,869,298

MCTE expenses include various payments made to different parties which compose of professional fees, taxes and licenses, entertainment, amusement and recreation, rent, insurance and miscellaneous expenses.

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

19. General and Administrative Expenses

This account consists of:

	2019	2018
Shared service (see Note 21)	₱60,960,897	₱46,645,716
Management fee (see Note 21)	29,542,459	32,882,703
Provision (see Note 15)	12,000,000	50,260,063
Marketing expense	10,574,872	2,794,715
Professional fees	10,118,132	6,994,712
Taxes and licenses	8,393,176	7,525,139
Depreciation and Amortization (see Notes 10 and 12)	7,834,444	8,805,437
Stationery and supplies	5,036,638	3,413,531
Salaries and employee benefits	2,110,340	2,619,614
Repairs and maintenance	2,039,610	1,011,811
Entertainment, amusement and recreation	1,956,982	1,927,574
Transportation and travel	994,258	586,254
Communication, light and water	876,100	1,013,259
Outside services	458,667	3,446,456
Insurance	417,272	165,512

(Forward)



	2019	2018
Rent	₱338,825	₱471,157
Directors' fees	40,000	50,000
Finance costs on prepayment of obligation (see Note 14)	-	118,688,843
Others	12,493,642	15,224,330
	₱166,186,314	₱304,526,826

Shared Services pertains to the transfer of the Company's employees to Metro Pacific Tollways South Management Corporation (MPTSMC) wherein the latter bills the former for services rendered related to the salaries and benefits of the employees. Per the agreement of the parties, 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.

Miscellaneous includes membership fees, dues and subscription, sponsorship, donation and contributions, corporate giveaways, outside service-recruitment, bank charges, Company initiatives and other expenses.

20. Other Income

Source of other income follows:

	2019	2018
Advertisement fee	₱15,739,915	₱12,509,339
Realized gain on sale of investments in UITF (see Note 7)	8,747,108	14,576,563
Traffic management fee	2,250,309	2,761,471
Unrealized gain on investments in UITF (see Note 7)	6,475,824	1,046,851
Reversals from provisions (see Note 15)	37,761,131	-
Other income	24,140,432	13,833,351
	₱95,114,719	₱44,727,575

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 Investment in UITF pertain to gain realized on disposal of investments in UITF assets during the year. Unrealized gain on investment in UITF pertains to increase in value due to movements in the Net Asset Values per unit (NAVPU).

Other income pertains to claims on damage of the Company's properties from motorists for vehicular accidents along the expressway, income from car wash service, toll overages in accordance to the Revised Sinking Fund Agreement with PRA, and reversals of provisions from deficiency taxes and professional fees from traffic profiling.



21. Related Party Transactions

Parties are 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 13)	Accrued Expenses (see Note 13)	Deposits	Terms	Conditions
Parent Company								
MPTC								
Reimbursable costs	2019	₱375,049	₱91,445	₱396,851	₱-	₱-	On demand,	Unsecured;
	2018	-	69,643	-	-	-	noninterest-bearing	no impairment
Management fees (see Notes 13 and 19)	2019	7,279,839	-	13,408,389	-	-	On demand,	Unsecured
	2018	-	-	-	-	-	noninterest-bearing	
Deposit for future stock subscription	2019	-	-	-	-	200,000,000	On demand,	Unsecured;
	2018	-	-	-	-	200,000,000	noninterest-bearing	
Affiliates								
Metro Pacific Tollways North Corporation (MPTNC)								
Management fees (see Notes 13 and 19)	2019	7,525,726	-	1,459,991	-	-	On demand,	Unsecured
	2018	16,185,794	-	-	-	-	noninterest-bearing	
Metro Pacific Tollways South Corporation (MPTSC)								
Advances to shareholders	2019	-	-	-	-	-	On demand,	Unsecured;
	2018	95,000,000	95,000,000	-	-	-	noninterest-bearing	no impairment
Reimbursable costs	2019	-	251,317	-	-	-	On demand,	Unsecured;
	2018	251,317	251,317	-	-	-	noninterest-bearing	no impairment
Deposit for future stock subscription	2019	-	-	-	-	559,433,000	On demand,	Unsecured
	2018	559,433,000	-	-	-	559,433,000	noninterest-bearing	
Metro Pacific Tollways South Management Corp. (MPTSMC)								
Service fee (see Note 19)	2019	60,960,897	48,274,597	20,878,247	-	-	On demand,	Unsecured;
	2018	46,645,716	48,161,116	11,416,644	-	-	noninterest-bearing	no impairment
MPCALA Holdings Inc.								
Reimbursable costs	2019	454,289	1,060,484	793,832	-	-	On demand,	Unsecured;
	2018	115,227	21,416	187,637	-	-	noninterest-bearing	no impairment
Advances	2019	105,921,699	105,921,699	-	-	-	On demand,	Unsecured;
	2018	-	-	-	-	-	noninterest-bearing	no impairment



Related Party	Year	Amount of Transaction	Receivables (see Note 6)	Accounts Payable (see Note 13)	Accrued Expenses (see Note 13)	Deposits	Terms	Conditions
NLEX Corporation (formerly Manila North Tollways Corporation)								
Advertisement fee	2019	957,964	–	–	–	–	On demand,	Unsecured;
	2018	940,800	940,800	–	–	–	noninterest-bearing	no impairment
Reimbursable costs	2019	88,998	88,998	–	451,868	–	On demand,	Unsecured;
	2018	568,960	568,960	738,338	451,868	–	noninterest-bearing	no impairment
Metro Pacific Tollways Management Services, Inc. (MPTMSI)								
Toll collection services (see Note 18)	2019	62,281,932	–	16,905,575	–	–	30 days,	Unsecured
	2018	33,598,999	–	33,598,999	–	–	noninterest-bearing	
Management fees (see Notes 13 and 19)	2019	14,736,894	–	2,858,958	1,420,492	–	On demand,	Unsecured
	2018	16,696,911	–	5,229,469	–	–	noninterest-bearing	
Easytrip Services Corporation (ESC)								
Performance fee	2019	36,993,519	39,123,219	5,104,956	3,915,771	–	15 days,	Unsecured,
	2018	6,170,724	23,802,040	6,170,724	–	–	noninterest-bearing	no impairment
Southbend Express Services, Inc. (SESI)								
Outside services	2019	9,906,950	–	–	3,262,600	–	On demand,	Unsecured,
	2018	–	–	–	–	–	noninterest-bearing	no impairment
Others (PLDT, MERALCO, SMART, TMC AND PEATC)								
	2019	156,237	63,520	275,989	1,958,340	–	On demand,	Unsecured,
	2018	–	16,316	15,426,155	1,464,773	–	noninterest-bearing	no impairment
	2019		₱194,875,279	₱62,082,788	₱11,009,071	₱759,433,000		
	2018		168,831,608	72,767,966	1,916,641	759,433,000		

Deposit for Future Stock Subscription

The deposit for future stock subscription amounting to ₱759.4 million as at December 31, 2019 and 2018 pertains to cash received from MPTC and MPTSC for conversion to equity. On April 20, 2018, 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 20, 2020, 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, 2019 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, 2019 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 ₱1.00, ₱3.45 and ₱4.60 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, 2019, 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, 2019, the Company renewed its contract with MPTMSI for another two years effective on October 1, 2019 under the same terms and conditions.

Advances to MPCALA

The Company advanced to MPCALA for the initial payment to EGIS Philippines for the toll collection system that will be used in the Cavite-Laguna expressway project.

Outside Services

The Company executed a Service Agreement, engaging the services of SESI, a wholly owned subsidiary of MPTC, to provide outsource support general services. Under the agreement, SESI shall provide all the necessary personnel and resources and undertakes all works to complete the required services, all in accordance with the requirements and the terms and conditions of the agreement.



Utilities

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

22. Income and Other Taxes

The provision for current income tax in 2019 and 2018 represents regular corporate income tax. For the year ended December 31, 2019, the Company elected to use the Optional Standard Deduction (OSD) in computing its taxable income. Provision for income tax consists of the following:

	2019	2018
Current	₱248,312,408	₱172,716,651
Deferred	39,841,112	(13,083,124)
Final	8,814,125	1,319,049
	₱296,967,645	₱160,952,576

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

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

	2019	2018
Deferred tax assets:		
Provision for heavy maintenance	₱72,514,459	₱66,343,359
Provisions and accruals	31,596,902	38,764,506
Allowance for impairment loss	17,281,140	17,281,140
Unearned toll revenue	1,185,477	1,185,477
Accrued retirement costs	1,062,986	1,062,986
	123,640,964	124,637,468
Deferred tax liabilities:		
Difference in amortization method of concession asset	288,717,191	251,501,276
Unrealized gain on change in fair value of financial assets at FVTPL	1,942,748	314,055
	290,659,939	251,815,331
Deferred tax liabilities - net	(₱167,018,975)	(₱127,177,863)

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

	2019	2018
Statutory income tax	₱318,193,665	₱158,610,529
Tax effects of:		
Interest income subjected to final tax	(13,221,225)	(1,978,658)
Benefit of OSD	(9,798,190)	-
Nontaxable income	(9,320,656)	-
Final tax on interest income	8,814,125	1,319,049
Nondeductible expense	2,299,926	3,001,656
	₱296,967,645	₱160,952,576



23. 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, 2019 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 be 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, 2019 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 has 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, 2018, the Company entered into a contract with FF Cruz for the construction of Phase 1 (Segment 3-A). Construction officially commenced on June 2, 2018. The project was completed by second quarter of 2019. The construction of Phase 2 (R-1 to Merville) is expected to commenced 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 12). 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 (ROP), acting by and through the Toll Regulatory Board (TRB), in the amount of ₱2.7 billion and ₱1.9 billion (net of VAT and PRA share) as of December 31, 2019 and 2018, respectively. The Company's claim is based on TRB's inaction on lawful toll rate adjustments which were due in January 1, 2012, 2014, and 2015.

On August 26, 2015, the Company sent a Final Demand for Compensation to TRB based on overdue 2012, 2014, and 2015 Toll Rate Adjustments (Final Demand). 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. In view of the failure of TRB to heed the Final Demand for Compensation, the Company sent a Notice of Dispute to the TRB on September 11, 2015, pursuant to the dispute resolution provisions of the TOA.

On April 14, 2016, the Company was compelled to issue a Notice of Arbitration and Statement of Claim (Notice of Arbitration) to TRB. In the Notice of Arbitration, the Company appointed retired Justice Antonio Eduardo P. Nachura as its nominee to the arbitral tribunal. Justice Antonio Eduardo Nachura was later replaced by retired Justice Jose C. Vitug.

In a letter dated May 13, 2016, the ROP, acting by and through the Office of the Solicitor General (OSG), notified the Company of its appointment of retired Chief Justice Reynato S. Puno as its nominee to the arbitral tribunal.

In a letter dated June 1, 2016, the Company proposed that the arbitration be held in Singapore which is the seat of arbitration that the ROP has chosen for its various PPP projects, and proposed the Singapore International Arbitration Center as the Appointing Authority. The proposal was accepted by the ROP, acting by and through the OSG, in a letter dated July 13, 2016, but reiterated its previous proposal that a Philippine-based institution/person be the Appointing Authority.

In December 2016, the Company received a notice from the Permanent Court of Arbitration on designation of appointing authority who will appoint the chairperson of the Arbitration Panel. Thereafter, Mr. Kap-You (Kevin) Kim was appointed as Presiding Arbitrator.

On June 27, 2017, the initial case management conference was held in Singapore.

On December 11, 2017, Claimants CIC and PRA submitted their Updated Statement of Claim with the Arbitration Tribunal. On December 27, 2017, Respondent ROP/TRB filed its request for bifurcation, which was accordingly granted, i.e., the proceedings were divided into two parts: (i) the issue on whether or not the tribunal has jurisdiction over the claim; and (ii) the main merits of the claim as set forth in the Updated Statement of Claim.

On January 12, 2018, TRB 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. On January 26, 2018, Claimants CIC and PRA filed their opposition to those objections. On July 9, 2018, the Arbitral Tribunal issued Procedural Order No. 2 whereby the Arbitral Tribunal declined to dismiss the claim on the basis of the ROP/TRB's



objections to jurisdiction and ordered the ROP/TRB to submit its Statement of Defense, among others. On September 7, 2018, the ROP/TRB submitted its Statement of Defense.

In October to November 2018, Claimants CIC and PRA; and the ROP/TRB (collectively, the “Parties”) submitted their respective Requests for Production of Documents, Objections to the Request for Production of Documents, and Reply to the Objections to the Request for Production of Documents. In December 2018 and January 2019, the Arbitral Tribunal resolved the Parties’ Request for Production of Documents.

Within the period of March to May 2019, Claimants CIC and PRA and the ROP/TRB submitted their respective witness statements, pleadings, factual exhibits, legal authorities, and other pre-hearing documents.

On June 24 to 27, 2019 the arbitration hearings were held in Singapore. In August 2019, the Claimants CIC and PRA and the ROP/TRB submitted their respective Post-Hearing Briefs. In December 2019, Claimants CIC and PRA sought from the Arbitral Tribunal a 60-day suspension of the proceedings for the parties to discuss the matter.

In February 2020, the parties requested the Arbitral Tribunal for a further suspension of the proceedings for a period of 60 days or until April 17, 2020. The Arbitral Tribunal granted the request. The arbitration is still pending as of February 20, 2020.

Petition for Periodic Toll Rate Adjustment

2017: R-1 Expressway and R-1 Expressway Extension

On September 29, 2017, CIC filed its 2017 Petition requesting TRB to approve and allow the implementation of the following adjusted Agreed Toll Rate (inclusive of VAT):

R-1 Expressway

Vehicle Class	Adjusted Agreed Toll Rate
1	₱31.00
2	63.00
3	94.00

R-1 Expressway Extension

Vehicle Class	Adjusted Agreed Toll Rate
1	₱95.00
2	189.00
3	284.00

On December 11, 2017, TRB issued an Order finding the 2017 Petition sufficient in form and ordering CIC to publish in full the contents of the 2017 Petition in a newspaper of general circulation with a notice that all interested tollway users may file a petition for review. On December 22, 29, and 31, 2017, CIC completed the publication requirements of TRB.

On January 12, 2018, Atty. Ernesto B. Francisco, Jr. filed his Petition for Review Ad Cautelam. On March 2, 2018, CIC filed its Comment/Opposition to the Petition for Review Ad Cautelam.



On July 31, 2018, CIC filed its Urgent Motion to Resolve the 2017 Petition. As at February 20, 2020, the 2017 Petition is still pending with TRB.

Petitions for Add-on and Initial Toll

A. 2018: Phase 1 of Segment 1 (R-1 Expressway) Enhancement

On October 12, 2018, CIC filed its Petition for Approval of Add-On Agreed Toll Rate requesting TRB to approve and allow the implementation of the Add-On Agreed Toll Rate of ₱0.20 per kilometer for Phase 1 of Segment 1 (R-1 Expressway) Enhancement, which will result to the following adjusted Agreed Toll Rate (exclusive of VAT):

Vehicle Class	Adjusted Agreed Toll Rate (per km) – Phase 1
1	₱3.541364
2	7.082728
3	10.624092

On October 26, 2018, TRB issued an Order requiring CIC to publish in full the contents of the Petition in a newspaper of general circulation with a notice that all interested tollway users may file a petition for review. On November 2, 8, and 14, 2018, CIC completed the publication requirements of TRB. On December 7, 2018, CIC filed its Motion to Resolve.

On July 15, 2019, TRB issued a Resolution (a copy of which was received by CIC on October 14, 2019) allowing the implementation of the following Add-On Toll Rate (inclusive of VAT), subject to the continuing review and validation by TRB to determine the reasonableness of its imposition and the issuance by Commission on Audit of its recommendation once it has completed its audit, effective October 24, 2019 at 12:01am:

Vehicle Class	Authorized Rate Prior To Adjustment (2009)	Add-On Toll Rate Due to Cavitex Enhancement Project, Phase 1	Total Adjusted Rate
1	₱24	₱1	₱25
2	48	2	50
3	72	3	75

B. 2019: C5 Link Expressway

On July 4, 2019, CIC filed its Petition for Approval of Initial Toll for C-5 Link Expressway and Provisional or Interim Initial Toll for Segment 3A-1 requesting TRB to approve and allow the implementation of the following initial toll fees (inclusive of VAT):

Vehicle Class	Provisional or Interim Initial Toll
1	₱22
2	44
3	66

On July 10, 2019, TRB issued an Order requiring CIC to publish in full the contents of the Petition in a newspaper of general circulation with a notice that all interested tollway users may file a petition for review. On July 13, 18, and 22, 2019, CIC completed the publication requirements of TRB.



On August 15, 2019, TRB issued a Resolution (a copy of which was received by CIC on October 10, 2019) approving and allowing the implementation of the following provisional initial toll rate (inclusive of VAT), subject to the review by the Commission on Audit and to the continuing authority of the TRB to review its reasonableness, effective October 24, 2019:

Vehicle Class	Provisional or Interim Initial Toll
1	₱22
2	44
3	66

The authority to collect the above-mentioned provisional initial toll is valid only for a period of six (6) months counted from the start of actual toll collection. Within that period, CIC must submit to TRB an updated investment recovery scheme for the entire Manila-Cavite Expressway Project, including the C-5 Link Expressway.

24. Financial Risk Management Objectives and Policies

The Company's principal financial instruments comprise cash and cash equivalents, receivables, and long-term debt. Other financial assets and liabilities of the Company comprise of restricted cash, financial assets at FVTPL, 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, 2019 and 2018.

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

	2019					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*	₱140,340,760	₱-	₱-	₱-	₱-	₱140,340,760
Restricted cash	524,575,364	-	-	-	-	524,575,364
Receivables Refundable deposits**	226,666,466	12,803,802	5,241,669	5,153,001	-	249,864,938
Sinking fund***	33,123,795	-	-	-	-	33,123,795
Financial assets at FVTPL	184,035,138	-	-	-	-	184,035,138
	656,227,368	-	-	-	-	656,227,368
	₱1,764,968,891	₱12,803,802	₱5,241,669	₱5,153,001	₱-	₱1,788,167,363

*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.



	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**	33,195,626	-	-	-	-	33,195,626
Sinking fund***	182,965,847	-	-	-	-	182,965,847
Financial assets at FVTPL	182,751,543	-	-	-	-	182,751,543
	₱1,522,455,902	₱3,384,985	₱291,711	₱19,123,133	₱-	₱1,545,255,731

*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.

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:

	2019			Total
	ECL Staging			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
Financial assets at amortized cost				
Cash and cash equivalents ^(a)	₱140,340,760	₱-	₱-	₱140,340,760
Restricted cash	524,575,364	-	-	524,575,364
Receivables:				
Neither past due nor impaired	226,666,466	-	-	226,666,466
Past due but not impaired	18,045,471	5,153,001	-	23,198,472
Refundable deposits ^(b)	33,123,795	-	-	33,123,795
Sinking fund ^(c)	184,035,138	-	-	184,035,138
Gross carrying amount	₱1,126,786,994	₱5,153,001	₱-	₱1,131,939,995

^(a) Excluding cash on hand of ₱23,169,156 as at December 31, 2019.

^(b) Included as part of "Prepaid expenses and other current assets" and "Other noncurrent assets: accounts in the statements of financial position"

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



	2018			Total
	ECL Staging			
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	
Financial assets at amortized cost				
Cash and cash equivalents ^(a)	₱360,950,453	₱-	₱-	₱360,950,453
Restricted cash	563,758,668	-	-	563,758,668
Receivables:				
Neither past due nor impaired	198,833,765	-	-	198,833,765
Past due but not impaired	3,384,985	19,414,844	-	22,799,829
Refundable deposits ^(b)	8,415,626	-	-	8,415,626
Sinking fund ^(c)	182,965,847	-	-	182,965,847
Gross carrying amount	₱1,318,309,344	₱19,414,844	₱-	₱1,337,724,188

^(a) Excluding cash on hand of ₱3,056,166 as at December 31, 2018.

^(b) Included as part of "Prepaid expenses and other current assets" and "Other noncurrent assets: accounts in the statements of financial position"

^(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, 2019 and 2018 based on undiscounted payments.

	2019					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*	₱140,340,760	₱-	₱-	₱-	₱-	140,340,760
Restricted cash	-	172,250,434	352,324,930	-	-	524,575,364
Receivables	201,569,235	48,295,703	-	-	-	249,864,938
Refundable deposits	-	-	29,644,784	-	3,749,011	33,393,795
Sinking fund**	-	-	-	-	184,035,138	184,035,138
Financial assets at FVTPL	656,227,368	-	-	-	-	656,227,368
	₱998,137,363	₱220,546,137	₱381,969,714	₱-	₱187,784,149	₱1,788,437,363
Financial Liabilities						
Accrued expenses and other current liabilities***:						
Accounts payable	₱46,910,315	₱-	₱-	₱-	₱-	₱46,910,315
Payable to CHI	163,428,840	-	-	-	-	163,428,840
Accrued expenses	-	332,524,140	-	-	-	332,524,140
Other payables	10,057,027	-	-	-	-	10,057,027
Retention sum and contractors payable	240,200,190	-	-	-	-	240,200,190
Provisions	-	64,936,780	132,721,345	98,080,643	78,697,441	374,436,209
Long-term debt****	-	143,650,000	281,150,000	719,100,000	4,633,200,000	5,777,100,000
	₱460,596,372	₱541,110,920	₱413,871,345	₱817,180,643	₱4,711,897,441	₱6,944,656,721

*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.



	2018					
	On Demand	Less than 3 months	3-12 months	1-2 years	Over 2 years	Total
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	217,650,033	3,983,561	-	-	-	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
	₱761,352,029	₱194,261,233	₱378,181,408	₱-	₱189,292,828	₱1,520,475,731
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.

Capital Management

The Company considers its equity and deposit for future stock subscription amounting to ₱3,863.7 million and ₱3,100.0 million as at December 31, 2019 and 2018, 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.

25. 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, 2019 and 2018:

	2019		2018	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets at FVTPL				
Financial assets at FVTPL	₱656,227,368	₱656,227,368	₱182,751,543	₱182,751,543
Financial liabilities at amortized cost				
Long-term debt	5,713,345,497	6,171,013,239	5,296,808,145	5,040,496,350

Financial assets at FVTPL. The Fair Value as at December 31, 2019 and 2018 is based on the net asset value of the investments.



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 3.2% to 6.1% and 3.1% to 5.7% in 2019 and 2018, respectively.

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 approximate their fair values primarily due to the relatively short-term maturities of these instruments.

The carrying value of refundable deposits approximate its fair value 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, 2019 and 2018 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, 2019 and 2018:

		2019			
	Date of Valuation	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets measured at fair value –					
Financial assets at FVTPL	December 31, 2019	₱–	₱656,227,368	₱–	₱656,227,368
Liabilities for which fair values are disclosed:					
Long-term debt	December 31, 2019	₱–	₱–	₱6,171,013,239	₱6,171,013,239
		2018			
	Date of Valuation	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets measured at fair value –					
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

During the years ended December 31, 2019 and 2018, 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.



26. Supplemental Cash Flow Information

Changes in liabilities arising from financing activities

	January 1, 2019	Cash Flows	Non-cash charges		December 31, 2019
			Amortization of DIC	Capitalized Borrowing Costs	
Long-term debt (see Note 14)*	₱5,296,808,145	₱403,088,423	₱12,120,214	₱1,328,715	₱5,296,808,145
Advances for future stock subscription	759,433,000	-	-	-	759,433,000
Total liabilities from financing activities	₱6,056,241,145	₱403,088,423	₱12,120,214	₱1,328,715	₱6,056,241,145

*Long-term debt is net of cash inflow of ₱902,000,000 and outflows of ₱487,400,000 and ₱11,511,577.

	January 1, 2018	Cash flows	Non-cash charges		December 31, 2018
			Amortization of DIC	Capitalized Borrowing Costs	
Long-term debt (see Note 14)	₱5,364,231,833	(₱203,379,892)	₱135,956,204	-	₱5,296,808,145
Short-term debt*	-	-	-	-	-
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.

Non-cash investing activities

The Company has non-cash investing activities from service concession asset amounting to ₱332.2 million and ₱495.0 million in 2019 and 2018, respectively, pertaining to accruals of construction cost.

27. 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, 2019:

Value Added Tax (VAT)

- a. Net Sales/Receipts and Output VAT declared in the Company's VAT returns for 2019

	Net Sales/Receipts	Output VAT
Vatable Sales	₱1,960,653,592	₱235,278,431

- b. Input VAT

Balance at January 1	₱7,885,778
Current year's domestic purchases/payments for:	
Goods other than capital goods	6,968,558
Domestic purchase of service	165,822,102
Total	180,676,438
Input VAT applied against output VAT	180,676,438
Balance at December 31	₱-



Taxes and Licenses

Taxes and licenses under operating expenses, local and national, include real estate taxes, licenses and permit fees for 2019:

Business permit	₱8,066,074
Licenses	334,424
Others	162,902
Land Transportation	77,246
	<hr/>
	₱8,640,646

Taxes and licenses amounting to ₱8.39 million is presented as “General and administrative expenses” account and the remaining ₱0.25 million is presented as part “Cost of services” account.

Withholding Taxes

Details of withholding tax paid and accrued for the year ended December 31, 2019 are as follows:

Expanded withholding taxes	₱46,289,099
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Tax Assessments

The Company has not received any Final Assessment Notice as at December 31, 2019. Likewise, the Company has no other pending tax case outside the administration of BIR as at December 31, 2019.

