# Cavitex Infrastructure Corp.

Financial Statements
December 31, 2020 and 2019

and

Independent Auditor's Report

Building a better
working world

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

# INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors
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, 2020 and 2019, 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, 2020 and 2019, 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.

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PTR No. 8534222, January 4, 2021, Makati City

March 1, 2021

# CAVITEX INFRASTRUCTURE CORP.
# STATEMENTS OF FINANCIAL POSITION

| | December 31 | |
|---|---|---|
| | **2020** | 2019 |
| **ASSETS** | | |
| **Current Assets** | | |
| Cash and cash equivalents (Notes 5 and 24) | **₱93,665,579** | ₱163,509,916 |
| Restricted cash (Notes 5, 14, and 24) | **654,543,154** | 524,575,364 |
| Receivables (Notes 6, 21, and 24) | **252,132,399** | 249,864,938 |
| Financial assets at fair value through profit or loss (Notes 7, 24, and 25) | **949,770,250** | 656,227,368 |
| Prepaid expenses and other current assets (Note 8) | **183,960,444** | 100,416,946 |
| Total Current Assets | **2,134,071,826** | 1,694,594,532 |
| **Noncurrent Assets** | | |
| Service concession asset (Note 9) | **9,895,051,385** | 9,123,527,279 |
| Property and equipment (Note 10) | **71,277,724** | 95,984,810 |
| Advances to contractors (Note 11) | **693,672,456** | 313,326,439 |
| Other noncurrent assets (Notes 12 and 24) | **246,418,851** | 193,140,076 |
| Total Noncurrent Assets | **10,906,420,416** | 9,725,978,604 |
| | **₱13,040,492,242** | ₱11,420,573,136 |

| | | |
|---|---|---|
| **LIABILITIES AND EQUITY** | | |
| **Current Liabilities** | | |
| Accrued expenses and other current liabilities (Notes 13, 21, and 24) | **₱875,713,181** | ₱734,800,557 |
| Current portion of long-term debt (Notes 14, 24, and 25) | **377,656,628** | 412,023,530 |
| Provisions (Note 15) | **202,737,338** | 132,721,345 |
| Retention sum and contractors payable (Notes 11 and 24) | **284,898,417** | 240,200,190 |
| Income tax payable | **33,887,369** | 70,385,721 |
| Total Current Liabilities | **1,774,892,933** | 1,590,131,343 |
| **Noncurrent Liabilities** | | |
| Long-term debt - net of current portion (Notes 14, 24, and 25) | **6,394,841,776** | 5,301,321,967 |
| Deposit for future stock subscription (Note 21) | **759,433,000** | 759,433,000 |
| Provisions (Note 15) | **185,917,628** | 241,714,864 |
| Deferred tax liabilities - net (Note 22) | **214,130,663** | 167,018,975 |
| Other noncurrent liabilities (Note 16) | **256,700,000** | 256,700,000 |
| Total Noncurrent Liabilities | **7,811,023,067** | 6,726,188,806 |
| Total Liabilities | **9,585,916,000** | 8,316,320,149 |
| **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: | | |
| Appropriated | **980,000,000** | – |
| Unappropriated | **854,701,242** | 1,484,377,987 |
| Total Equity | **3,454,576,242** | 3,104,252,987 |
| | **₱13,040,492,242** | ₱11,420,573,136 |

*See accompanying Notes to Financial Statements.*

## CAVITEX INFRASTRUCTURE CORP.
## STATEMENTS OF COMPREHENSIVE INCOME

| | Years Ended December 31 | |
|---|---|---|
| | **2020** | 2019 |
| **TOLL REVENUES** (Note 23) | **₱1,442,209,985** | ₱1,917,487,646 |
| **COST OF SERVICES** (Note 18) | **(519,164,952)** | (489,312,226) |
| **GROSS PROFIT** | **923,045,033** | 1,428,175,420 |
| **CONSTRUCTION REVENUE** (Note 9) | **751,748,170** | 888,039,155 |
| **CONSTRUCTION COSTS** (Note 9) | **(751,748,170)** | (888,039,155) |
| **GENERAL AND ADMINISTRATIVE EXPENSES** (Notes 19 and 21) | **(187,543,259)** | (166,186,314) |
| **INTEREST EXPENSE** (Note 14) | **(312,585,770)** | (340,543,941) |
| **INTEREST INCOME** (Notes 5 and 12) | **22,725,689** | 44,070,750 |
| **FOREIGN EXCHANGE GAIN (LOSS)** – net | **(16,619)** | 14,917 |
| **OTHER INCOME** – net (Note 20) | **49,867,288** | 95,114,719 |
| **INCOME BEFORE INCOME TAX** | **495,492,362** | 1,060,645,551 |
| **BENEFIT FROM INCOME TAX** (Note 22) | **(145,169,107)** | (296,967,645) |
| **NET INCOME AND TOTAL COMPREHENSIVE INCOME** | **₱350,323,255** | ₱763,677,906 |

*See accompanying Notes to Financial Statements.*

## CAVITEX INFRASTRUCTURE CORP.

## STATEMENTS OF CHANGES IN EQUITY

### FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

| | Capital Stock (Note 17) | Additional Paid-in Capital | Retained Earnings (Note 17) Appropriated | Unappropriated | Total Equity |
|---|---|---|---|---|---|
| As at January 1, 2020 | **₱1,228,375,000** | **₱391,500,000** | **₱–** | **₱1,484,377,987** | **₱3,104,252,987** |
| Net income and total comprehensive income for the year | – | – | – | **350,323,255** | **350,323,255** |
| Appropriation | – | – | **980,000,000** | **(980,000,000)** | – |
| As at December 31, 2020 | **₱1,228,375,000** | **₱391,500,000** | **₱980,000,000** | **₱854,701,242** | **₱3,454,576,242** |
| As at January 1, 2019 | ₱1,228,375,000 | ₱391,500,000 | ₱– | ₱720,700,081 | ₱2,340,575,081 |
| Net income and 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 |

*See accompanying Notes to Financial Statements.*

## CAVITEX INFRASTRUCTURE CORP.
## STATEMENTS OF CASH FLOWS

| | Years Ended December 31 | |
|---|---|---|
| | **2020** | 2019 |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Income before income tax | **₱495,492,362** | ₱1,060,645,551 |
| Adjustments for: | | |
| Interest expense (Note 14) | **312,585,770** | 340,543,941 |
| Depreciation and amortization (Notes 9, 10, 12, 18, and 19) | **158,554,137** | 179,420,180 |
| Interest income (Notes 5 and 12) | **(22,725,689)** | (44,070,750) |
| Gain on sale of investments in UITF (Notes 7 and 20) | **(17,651,737)** | (8,747,108) |
| Reversal of provisions (Note 20) | **(12,872,813)** | (37,761,131) |
| Unrealized loss (gain) on investments in UITF (Notes 7 and 20) | **2,457,118** | (6,475,824) |
| Unrealized foreign exchange (gain) loss | **16,619** | (14,916) |
| Gain on sale of property and equipment | **–** | (28,425) |
| Operating income before changes in working capital | **915,855,767** | 1,483,511,518 |
| Decrease (increase) in: | | |
| Restricted cash | **(129,967,790)** | 39,183,304 |
| Receivables | **(2,267,461)** | (28,231,344) |
| Prepaid expenses and other current assets | **(92,823,979)** | 3,118,977 |
| Increase (decrease) in: | | |
| Accrued expenses and other current liabilities | **(25,683,593)** | (500,162,014) |
| Provisions | **27,091,571** | 21,437,127 |
| Retention sum and contractors payable | **44,698,227** | 75,720,213 |
| Net cash generated from operations | **736,902,742** | 1,094,577,781 |
| Income taxes paid | **(128,624,926)** | (247,957,015) |
| Interest received | **18,180,584** | 35,256,625 |
| Net cash flows from operating activities | **626,458,400** | 881,877,391 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Increase in other noncurrent assets (Note 12) | **(54,687,321)** | (1,069,291) |
| Additions to: | | |
| Investments in UITF (Note 7) | **(2,210,000,000)** | (2,344,850,000) |
| Service concession asset (Notes 9, 13, 14, and 26) | **(597,461,842)** | (589,694,146) |
| Advances to contractors (Note 11) | **(380,346,017)** | (50,374,576) |
| Property and equipment (Note 10) | **(6,900,683)** | (26,099,714) |
| Computer software (Note 12) | **–** | (102,486) |
| Proceeds from: | | |
| Disposal of investments in UITF (Note 7) | **1,931,651,737** | 1,886,597,107 |
| Disposal of property and equipment (Note 10) | **–** | 954,522 |
| Net cash flows used in investing activities | **(1,317,744,126)** | (1,124,638,584) |

(*Forward*)

| | Years Ended December 31 | |
|---|---|---|
| | **2020** | 2019 |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Proceeds from: | | |
| Availment of long-term debt (Notes 14 and 26) | **₱1,500,000,000** | ₱902,000,000 |
| Payments of: | | |
| Long-term debt (Notes 14 and 26) | **(437,500,000)** | (487,400,000) |
| Interest | **(429,791,992)** | (360,838,849) |
| Payment of debt issue cost | **(11,250,000)** | (11,511,577) |
| Net cash flows generated from financing activities | **621,458,008** | 42,249,574 |
| **NET DECREASE IN CASH AND CASH EQUIVALENTS** | **(69,827,718)** | (200,511,619) |
| **EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS** | **(16,619)** | 14,916 |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** (Note 5) | **163,509,916** | 364,006,619 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** (Note 5) | **₱93,665,579** | ₱163,509,916 |

*See accompanying 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.

On June 28, 2017, MPTC, CHI and CIC, amended the Management Period to be for such period from January 2, 2013 and while MPTC holds the CHI Preferred Shares, or until MPTC becomes the 100% direct or indirect shareholder of CIC, whichever comes later.

MPTC, a Philippine corporation, is 99.9% owned by Metro Pacific Investments Corporation (MPIC). MPIC is a publicly listed Philippine corporation and is 43.1% and 41.9% owned by Metro Pacific Holdings, Inc. (MPHI) as at December 31, 2020 and 2019, respectively. As sole holder of the voting Class A Preferred Shares, MPHI's combined voting interest as a result of all its shareholdings is estimated at 56.2% and 55.0% as at December 31, 2020 and 2019, respectively. 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, 2020 and 2019 were authorized for issuance by the Company's Board of Directors (BOD) on March 1, 2021.

Impact of COVID-19 Pandemic.
On March 16, 2020, the Philippine Government declared the entire Luzon area in the Philippines under an "enhanced community quarantine" (ECQ). ECQ is effectively a total lockdown, restricting the movement of the population in response to growing pandemic of coronavirus disease 2019 (COVID-19) in the country. The ECQ shifted to modified enhanced community quarantine (MECQ) until May 31, 2020 and to general community quarantine (GCQ) for NCR starting June 1, 2020. On August 4, 2020, NCR was placed back to a stricter MECQ after an appeal made by medical societies

due to rising COVID-19 cases. On August 19, 2020, NCR was transitioned back to GCQ after the recommendation of the local authorities. As at March 1, 2021, NCR remains under GCQ.

Lockdown restrictions temporarily disrupted the operations of MCTEP because of the measures limiting movement and transportation. Overall, the average daily traffic in 2020 for MCTEP declined compared to the average daily traffic in 2019. Moreover, in light of the pandemic, the Company also adopted measures to ensure continuity of service to motorists while minimizing exposure of its employees.

The Company also ensures that the impact of COVID-19 has been appropriately reflected in the financial statements. The Company has assessed the following impact of COVID-19 on its assets and liabilities.

- The forecast used for impairment testing of service concession assets not yet available for use include the Company’s estimates of the potential future impact from COVID-19 pandemic. Cash flow projections have been adjusted to reflect a range of possible outcomes, weighted by their expected occurrence.
- Collectability of accounts with customers continues to be closely monitored. The Company has not identified a material change in the provision for impairment of trade receivables.
- There were no onerous contracts or additional provisions that were recognized resulting from the direct impact of COVID-19.
- The Company has also considered the increased uncertainty in determining key assumptions within the assessment of future taxable income of the Company upon which recognition of deferred tax assets is assessed, including forecast of revenue and expenses, among others.

The Company continues to monitor the risks and the ongoing impacts from COVID-19 on its business.

## 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) which were 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 (PFRSs).

## 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, 2020. The Company has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective. The standards that have been adopted did not have any significant impact on the Company’s financial statements, unless otherwise indicated.

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

  The amendments provide a new definition of material that states "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."

  The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users.

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

  The amendments to PFRS 3 clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. Furthermore, it clarified that a business can exist without including all the inputs and processes needed to create outputs. These amendments had no impact on the financial statements of the Company but may impact future periods should the Company enter into any business combinations.

- Amendments to PFRS 7, *Financial Instruments: Disclosures* and PFRS 9, *Financial Instruments, Interest Rate Benchmark Reform*

  The amendments to PFRS 9 provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument. These amendments had no impact on the financial statements of the Company as it does not have any interest rate hedge relationships.

- Amendments to PFRS 16, *Leases: COVID-19-Related Rent Concessions*

  The amendments provide relief to lessees from applying the PFRS 16 requirement on lease modifications to rent concessions arising as a direct consequence of the COVID-19 pandemic. A lessee may elect not to assess whether a COVID-19 related rent concession from a lessor is a lease modification if it meets all of the following criteria:

  - The rent concession is a direct consequence of COVID-19;
  - The change in lease payments results in a revised lease consideration that is substantially the same as, or less than, the lease consideration immediately preceding the change;
  - Any reduction in lease payments affects only payments originally due on or before June 30, 2021; and
  - There is no substantive change to other terms and conditions of the lease.

  A lessee that applies this practical expedient will account for any change in lease payments resulting from the COVID-19 related rent concession in the same way it would account for a change that is not a lease modification, i.e., as a variable lease payment.

  The amendment applies to annual reporting periods beginning on or after June 1, 2020. Earlier application is permitted. This amendment has no impact on the Company's financial statements.

- Conceptual Framework for Financial Reporting issued on March 29, 2018

  The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards.

  The revised Conceptual Framework includes some new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts.

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, 2021*

- Amendments to PFRS 9, PFRS 7, PFRS 4 and PFRS 16, *Interest Rate Benchmark Reform – Phase 2*

  The amendments provide the following temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR):

  - Practical expedient for changes in the basis for determining the contractual cash flows as a result of IBOR reform
  - Relief from discontinuing hedging relationships
  - Relief from the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component

  The Company shall also disclose information about:

  - The about the nature and extent of risks to which the entity is exposed arising from financial instruments subject to IBOR reform, and how the entity manages those risks; and
  - Their progress in completing the transition to alternative benchmark rates, and how the entity is managing that transition

  The amendments are effective for annual reporting periods beginning on or after January 1, 2021 and apply retrospectively, however, the Company is not required to restate prior periods.

*Effective beginning on or after January 1, 2022*

- Amendments to PFRS 3, Reference to the Conceptual Framework
  The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements. The amendments added an exception to the recognition principle of PFRS 3, *Business Combinations* to avoid the issue of potential ‘day 2’gains or losses arising for liabilities and contingent liabilities that would be within the scope of PAS 37, *Provisions, Contingent*

*Liabilities and Contingent Assets* or Philippine Interpretation IFRIC 21, *Levies*, if incurred separately.

At the same time, the amendments add a new paragraph to PFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date.

The amendments are effective for annual reporting periods beginning on or after January 1, 2022 and apply prospectively.

- Amendments to PAS 16, *Plant and Equipment: Proceeds before Intended Use*

  The amendments prohibit entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the costs of producing those items, in profit or loss.

  The amendment is effective for annual reporting periods beginning on or after January 1, 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment.

  The amendments are not expected to have a material impact on the Company.

- Amendments to PAS 37, *Onerous Contracts – Costs of Fulfilling a Contract*

  The amendments specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a "directly related cost approach". The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

  The amendments are effective for annual reporting periods beginning on or after January 1, 2022. The Company will apply these amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments.

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

- *Annual Improvements to PFRSs* 2018-2020 Cycle

  - Amendments to PFRS 1, *First-time Adoption of Philippines Financial Reporting Standards, Subsidiary as a first-time adopter*

    The amendment permits a subsidiary that elects to apply paragraph D16(a) of PFRS 1 to measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to PFRS. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of PFRS 1.

The amendment is effective for annual reporting periods beginning on or after January 1, 2022 with earlier adoption permitted. The amendments are not expected to have a material impact on the Company.

- Amendments to PFRS 9, *Financial Instruments*, *Fees in the '10 per cent' test for derecognition of financial liabilities*

  The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

  The amendment is effective for annual reporting periods beginning on or after January 1, 2022 with earlier adoption permitted. The Company will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

- Amendments to PAS 41, *Agriculture, Taxation in fair value measurements*

  The amendment removes the requirement in paragraph 22 of PAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of PAS 41.

  An entity applies the amendment prospectively to fair value measurements on or after the beginning of the first annual reporting period beginning on or after January 1, 2022 with earlier adoption permitted. The amendments are not expected to have a material impact on the Company.

*Effective beginning on or after January 1, 2023*

- Amendments to PAS 1*, Classification of Liabilities as Current or Non-current*

  The amendments clarify paragraphs 69 to 76 of PAS 1, *Presentation of Financial Statements*, to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

  - What is meant by a right to defer settlement
  - That a right to defer must exist at the end of the reporting period
  - That classification is unaffected by the likelihood that an entity will exercise its deferral right
  - That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification

  The amendments are effective for annual reporting periods beginning on or after January 1, 2023 and must be applied retrospectively. The Company is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.

- 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, 2023, with comparative figures required. Early application is permitted.

*Deferred effectivity*

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

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

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

Significant Accounting Policies and Disclosures
The principal accounting and financial reporting policies adopted in preparing the Company's financial statements are as follows:

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 the end of each reporting period.

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 may apply 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 FVOCI, 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. Financial assets with cash flows that are not SPPI are classified and measured at FVTPL, irrespective of the business model.

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, 2020 and 2019, the Company has no financial assets at FVOCI.

*Financial Assets at Amortized Cost (Debt Instruments)*. This category is the most relevant to the Company.

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 twelve (12) months from reporting date. Otherwise, these are classified as noncurrent assets.

As at December 31, 2020 and 2019, 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 are carried in the statement of financial position at fair value with net changes in fair value recognized in profit or loss.

Financial assets are classified as FVTPL if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are accounted for as financial assets at FVTPL unless they are designated as effective hedging instruments as defined by PFRS 9. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at FVTPL, 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.

As at December 31, 2020 and 2019, the Company's financial assets at FVTPL include investments in UITFs.

*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 EIR. 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.

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, 2020 and 2019, 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, 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.

*Construction and Upgrade Services: Revenue and Cost Recognition.* The Company recognizes revenue and costs for construction and upgrade services in accordance with PFRS 15. The Company, as operator, receives non-cash consideration in the form of an intangible asset (a license to charge users of the public service) in exchange for construction and upgrade services. The operator measures the intangible asset initially at cost, being the amount of the contract asset recognized during the construction or upgrade phase in accordance with PFRS 15. The operator recognizes revenue and a contract asset (that represents the right to receive an intangible asset, as 'Service Concession Asset') as it performs the construction performance obligation.

Service concession asset, with on-going construction and upgrade services on concession arrangements under the scope of Philippine Interpretation IFRIC 12, *Service concession arrangements*, is considered as contract asset.

*Operations Revenues.* An operator that recognizes an intangible asset also recognizes revenue for the consideration received from users of the public service during the operation phase.

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

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

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

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

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 |
| Toll facilities | 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, included under other non-current 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.

*Service Concession Assets not yet Available for Use.* Service concession assets not yet available for use are tested for impairment annually. Impairment is determined by comparing the carrying value of the asset with its recoverable value. Where the recoverable value of the service concession assets not yet available for use is less than the carrying value, an impairment is recognized.

Advances to Contractors

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

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 investors which will be applied against future subscription on the Company's shares of stock. Deposit for future stock subscription is stated at cost.

The Company classifies a contract to deliver its own equity instruments (deposit for future stock subscription) under equity as a separate account from the "Capital Stock" account in the statements of financial position when all of the following elements are present as at the end of the year.

- The unissued authorized capital of the entity is insufficient to cover the amount of shares indicated in the contract;
- There is a BOD approval on the proposed increase in authorized capital stock (for which a deposit was received by the corporation);
- There is a stockholders' approval of said increase; and
- The application for the approval of the proposed increase has been filed with the Securities and Exchange Commission (SEC).

Otherwise, deposit for future stock subscription is classified as noncurrent liability in the statements of financial position.

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

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.

*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 are 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 assets are initially recognized for revenue earned from the ongoing construction and upgrade services as receipt of consideration is conditional on the successful completion of the construction and upgrade services and until the service concession asset is ready for its intended use.

*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

*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.

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, except:

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

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

The net amount of VAT recoverable from or payable to the taxation authority is included as part of "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 PFRSs requires the Company to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosures of contingent assets and contingent liabilities. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effects of any change in estimates will be reflected in the financial statements as they become reasonably determinable.

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

Judgments

a. Service concession arrangement

In applying Philippine Interpretation IFRIC 12, the Company determined that the service concession agreements (discussed in Note 23) qualify under the intangible asset model.

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

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

The Company has made a judgment that the Toll Operation Agreement (TOA) for the Manila-Cavite Toll Expressway, the agreement covering the R1 expressway and C5 South Link Expressway Project (C5 Link) concession agreements are within the scope of Philippine Interpretation IFRIC 12 and qualify under the intangible asset model, wherein the service concession assets are recognized as intangible assets in accordance with PAS 38, *Intangible Assets*.

The Company also recognizes construction revenues and costs in accordance with PFRS 15. It measures contract revenue at the fair value of the consideration received or receivable. Given that the Company has subcontracted the construction to outside contractors, the construction revenue recognized is equal to the construction costs. Construction revenue and costs recognized in statements of comprehensive income amounted to ₱751.7 million and ₱888.0 million in 2020 and 2019, respectively (see Note 9).

The Company also recognizes its contractual obligations to restore the toll roads to a specified level of serviceability. The Company recognizes a provision following PAS 37, as the obligation arises which is a consequence of the use of the toll roads and therefore it is proportional to the number of vehicles using the toll roads and increasing in measurable annual increments. Provision for heavy maintenance amounted to ₱256.6 million and ₱241.7 million as at December 31, 2020 and 2019, respectively (see Note 15).

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 and assumptions

a. Amortization of service concession assets

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 2020 and 2019, 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 2020 and 2019 decreased by ₱7.53 million and ₱0.4 million, respectively, as a result of the change in estimate in each year.

Amortization of service concession asset amounted to ₱125.5 million and ₱145.9 million in 2020 and 2019, respectively (see Notes 9 and 18). The carrying value of service concession asset amounted to ₱9,895.1 million and ₱9,123.5 million as at December 31, 2020 and 2019, respectively (see Note 9).

b. 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 2020 and 2019, respectively. The carrying values of receivables amounted to ₱252.1 million and ₱249.9 million as at December 31, 2020 and 2019, respectively (see Note 6).

c. 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 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 2020 and 2019. Allowance for impairment of advances to contractors amounted to ₱55.3 million as at December 31, 2020 and 2019 (see Note 11).

The carrying values of the Company's non-financial assets as at December 31, 2020 and 2019 are as follows:

| | **2020** | 2019 |
|---|---|---|
| Service concession asset* (see Note 9) | **₱7,716,497,608** | ₱7,523,669,147 |
| Advances to contractors (see Note 11) | **693,672,456** | 313,326,439 |
| Property and equipment (see Note 10) | **71,277,724** | 95,984,810 |
| Computer software** (see Note 12) | **1,851,851** | 3,260,400 |
| 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.*

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

For purposes of impairment testing related to service concession asset not yet available for use, the Company determines whether the service concession asset is impaired at least annually. This requires the estimation of the value in use of the cash-generating units to which the service concession asset is allocated. . The value in use calculation is based on a discounted cash flow (DCF) model. The cash flows are derived from the budget for the concession period and do not include restructuring activities that the Company is not yet committed to or significant future investments that will enhance the performance of the assets being tested. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash inflows and the growth rate used for extrapolation purposes. The significant assumptions used in determining the recoverable amounts of these assets, such as revenue growth (which mainly relates to the expected traffic volume and toll rates), gross margins and discount rates that are applied to the cash flow forecasts, are subject to higher level of estimation uncertainty due to the current economic conditions which have been impacted by the coronavirus pandemic. The key assumptions used to determine the recoverable amount are disclosed and further explained in Note 9. There was no impairment recognized in 2020 and 2019. The carrying value of service concession asset not yet available for use amounted to ₱2,178.6 million and ₱1,599.9 million as at December 31, 2020 and 2019, respectively (see Note 9).

e. Recognition of deferred tax assets

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

Deferred tax assets amounted to ₱132.3 million and ₱123.6 million as at December 31, 2020 and 2019, respectively (see Note 22).

f. Provisions

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

The provisions for heavy maintenance 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 ₱388.7 million and ₱374.4 million as at December 31, 2020 and 2019, respectively (see Note 15).

## 5. Cash and Cash Equivalents and Restricted Cash

Cash and Cash Equivalents

This account consists of:

| | **2020** | 2019 |
|---|---|---|
| Cash in banks | **₱62,779,188** | ₱30,340,760 |
| Cash on hand | **925,000** | 23,169,156 |
| Short-term investments | **29,961,391** | 110,000,000 |
| | **₱93,665,579** | ₱163,509,916 |

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 which amounted to ₱654.5 million and ₱524.6 million as at December 31, 2020 and 2019, 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 ₱17.5 million and ₱34.4 million in 2020 and 2019, respectively.

6. **Receivables**

This account consists of:

| | **2020** | 2019 |
|---|---|---|
| Receivables from affiliated companies (see Note 21) | **₱187,538,437** | ₱194,875,279 |
| Receivables from Department of Public Works and Highways (DPWH) | **57,266,176** | 47,169,556 |
| Other receivables | **7,327,786** | 7,820,103 |
| | **₱252,132,399** | ₱249,864,938 |

Receivables from affiliated companies include billings related to toll passages from Easytrip Services Corporation (ESC) and advances to Metro Pacific Tollways South Management Corporation (MPTSMC) and Metro Pacific Tollways South Corporation (MPTSC). 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 Link. 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**

This account pertains to investments in UITF classified as FVTPL. The movement of financial assets at FVTPL is as follows:

| | **2020** | 2019 |
|---|---|---|
| Balance at beginning of year | **₱656,227,368** | ₱182,751,543 |
| Additions | **2,210,000,000** | 2,344,850,000 |
| Disposals* | **(1,931,651,737)** | (1,886,597,107) |
| Change in fair value during the year | **15,194,619** | 15,222,932 |
| Balance at end of the year | **₱949,770,250** | ₱656,227,368 |

**Includes realized gain on sale of investments in UITFs amounting to ₱17,651,737 and ₱8,747,108 as of December 31, 2020 and 2019, 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 per unit (NAVPU) based on the estimated market value of the assets of the fund based on prices supplied by independent sources.

Gain on sale of investments in UITF amounted to ₱17.7 million and ₱8.7 million in 2020 and 2019, respectively. Unrealized gain (loss) on change in fair value of investments in UITF amounted to (₱2.5 million) and ₱6.5 million in 2020 and 2019, respectively (see Note 20).

8. **Prepaid Expenses and Other Current Assets**

This account consists of:

| | 2020 | 2019 |
|---|---|---|
| Prepayments | **₱91,566,120** | ₱66,875,594 |
| Input VAT – net | **53,962,476** | 41,963 |
| Deposits | **27,923,750** | 24,780,000 |
| Security deposit | **4,666,574** | 4,864,784 |
| Advances to suppliers | **2,360,857** | 2,283,295 |
| Inventories | **3,480,667** | 1,571,310 |
| | **₱183,960,444** | ₱100,416,946 |

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 ₱43.7 million and ₱51.6 million as at December 31, 2020 and 2019, respectively pertains to the advance payment to BDO Unibank, Inc. in relation to the Tranche B of the Company's credit facility.

Input VAT pertain to amount of excess input VAT over the output VAT payable during the last quarter of the year.

Deposits pertain to the amount paid by the Company to the Permanent Court of Arbitration 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).

Security deposit 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. In, 2020, CIC voluntarily tendered payment of the judgment award by depositing the balance of the judgment award less the amount covered by its Appeal Bond with the NLRC. The case has been closed and terminated.

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.

## 9. Service Concession Asset

The movements in this account follow:

| | **2020** | | | |
|---|---|---|---|---|
| | **R-1 Expressway** | **R-1 Extension** | **C5 Link*** | **Total** |
| **Cost** | | | | |
| Balances at beginning of year | **₱1,661,137,331** | **₱7,558,987,825** | **₱1,599,858,132** | **₱10,819,983,288** |
| Additions | **309,422,484** | **8,943,796** | **578,695,645** | **897,061,925** |
| Balances at end of year | **1,970,559,815** | **7,567,931,621** | **2,178,553,777** | **11,717,045,213** |
| **Accumulated Amortization** | | | | |
| Balances at beginning of year | **610,955,960** | **1,085,500,049** | **–** | **1,696,456,009** |
| Amortization (see Note 18) | **31,960,573** | **93,577,246** | **–** | **125,537,819** |
| Balances at end of year | **642,916,533** | **1,179,077,295** | **–** | **1,821,993,828** |
| **Net Book Value** | **₱1,327,643,282** | **₱6,388,854,326** | **₱2,178,553,777** | **₱9,895,051,385** |

| | 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, 2020 and 2019. Segment 3A-1 (a portion of C5 Link) commenced operations on October 24, 2019.*

Additions in 2020 pertain to the civil works of R1 Extension and C5 Link based on the actual percentage of completion as at December 31, 2020. It also includes cost for the network transmission project of R1 Enhancement, costs related to the ongoing right of way acquisition for Segment 4, and consultancy fee for the detailed engineering design and parcellary plans of Segment 5. Additions to Segment 2 and 3A-2 include engineering services and design, relocation costs for the commencement of the construction, and costs for tree cutting and earth balling activities. The borrowing cost capitalized amounted to ₱145.4 million in 2020 (see Note 14).

Additions in 2019 pertain to the civil works of R1 Enhancements and C5 Link 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 ₱33.9 million (see Note 14).

As at December 31, 2020, the remaining concession terms for R-1, R-1 Extension, and C5 Link are 13 years, 26 years, and 28 years, respectively (see Note 23).

*Contract Assets*
Service concession assets with ongoing construction and upgrade services amounting to ₱2,512.2 million and ₱1,760.5 million as at December 31, 2020 and 2019, respectively, are considered as contract assets under PFRS 15.

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 26 years for Segment 3A and 28 years for Segments 2 and 3B of the C5 Link Project, which represent a 35 year franchise period including the construction period but not to exceed 2048. The estimated start of operations for Segments 2 and 3B are forecasted to be in 2023.

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 11.1% and 11.8% was used based on the weighted average cost of capital of comparable companies in 2020 and 2019, 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 2% to 5% were applied in 2020 and 2019.

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:

| | 2020 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Transportation Equipment** | **Office Equipment** | **Traffic Management Equipment** | **Toll Facilities** | **Furniture and Fixtures** | **Other Equipment*** | **Construction in Progress** | **Total** |
| **Cost** | | | | | | | | |
| Balances at beginning of year | **₱16,733,189** | **₱30,853,392** | **₱56,070,664** | **₱35,523,333** | **₱4,420,064** | **₱39,830,287** | **₱16,158,602** | **₱199,589,531** |
| Additions | **961,786** | **341,223** | **–** | **–** | **24,656** | **1,535,890** | **4,037,128** | **6,900,683** |
| Disposals | **–** | **(259,894)** | **–** | **–** | **–** | **–** | **–** | **(259,894)** |
| Balances at end of year | **17,694,975** | **30,934,721** | **56,070,664** | **35,523,333** | **4,444,720** | **41,366,177** | **20,195,730** | **206,230,320** |
| **Accumulated Depreciation** | | | | | | | | |
| Balances at beginning of year | **13,956,567** | **13,367,661** | **25,990,153** | **21,824,783** | **3,234,174** | **25,231,383** | **–** | **103,604,721** |
| Depreciation (see Notes 18 and 19) | **1,332,320** | **5,832,060** | **11,214,133** | **6,034,811** | **427,882** | **6,766,563** | **–** | **31,607,769** |
| Disposals | **–** | **(259,894)** | **–** | **–** | **–** | **–** | **–** | **(259,894)** |
| Balances at end of year | **15,288,887** | **18,939,827** | **37,204,286** | **27,859,594** | **3,662,056** | **31,997,946** | **–** | **134,952,596** |
| **Net Book Value** | **₱2,406,088** | **₱11,994,894** | **₱18,866,378** | **₱7,663,739** | **₱782,664** | **₱9,368,231** | **₱20,195,730** | **₱71,277,724** |

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

| | 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) | – | (56,215,730) |
| 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 R-1 toll facilities, tools & engineering equipment and other fixed assets.*

The cost of fully depreciated property and equipment still in use amounted to ₱84.83 million and ₱25.25 million as at December 31, 2020 and 2019, respectively.

Proceeds from the sale of property and equipment amounted to nil and ₱0.95 million in 2020 and 2019, respectively. Gain on the disposal of property and equipment, recognized as part of other income under "Other income-net" account, amounted to nil and ₱0.03 million in 2020 and 2019, respectively (see Note 20).

The Company retired fully depreciated asset amounting to ₱0.26 million and ₱51.22 million for the year ended December 31, 2020 and 2019, respectively.

There were no idle property and equipment as at December 31, 2020 and 2019. 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, 2020 and 2019.

## 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 Extension and C5 Link. These advances are reclassified to service concession asset upon settlement of the progress billing depending on the percentage of completion.

| | **2020** | 2019 |
|---|---|---|
| Advances to contractors: | | |
| R-1 Extension | **₱134,068,952** | ₱215,997,029 |
| C5 Link | **573,940,934** | 152,648,983 |
| Others | **40,982,143** | – |
| | **748,992,029** | 368,646,012 |
| Less: allowance for impairment loss - R1 Extension | **55,319,573** | 55,319,573 |
| | **₱693,672,456** | ₱313,326,439 |

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 Extension.

| | **2020** | 2019 |
|---|---|---|
| Retention sum | **₱196,342,231** | ₱151,644,004 |
| Contractors payable | **88,556,186** | 88,556,186 |
| | **₱284,898,417** | ₱240,200,190 |

12. **Other Noncurrent Assets**

This account consists of:

| | **2020** | 2019 |
|---|---|---|
| Sinking fund (see Note 23) | **₱206,820,010** | ₱184,035,138 |
| Security deposit | **35,381,463** | 3,479,011 |
| Computer software | **1,851,851** | 3,260,400 |
| Other noncurrent assets | **2,365,527** | 2,365,527 |
| | **₱246,418,851** | ₱193,140,076 |

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 ₱5.2 million and ₱9.7 million in 2020 and 2019, respectively.

The movement of computer software follows:

| | **2020** | 2019 |
|---|---|---|
| Cost: | | |
| Balance at beginning of year | **₱16,321,975** | ₱24,134,295 |
| Additions | – | 102,486 |
| Retirement | – | (7,914,806) |
| Balance at end of year | **16,321,975** | 16,321,975 |
| Accumulated amortization: | | |
| Balance at beginning of year | **13,061,575** | 19,422,856 |
| Amortization (see Note 19) | **1,408,549** | 1,553,525 |
| Retirement | – | (7,914,806) |
| Balance at end of year | **14,470,124** | 13,061,575 |
| Net book value | **₱1,851,851** | ₱3,260,400 |

As at December 31, 2020, unamortized life of software ranges from 0.42 years to 3.67 years.

## 13. **Accrued Expenses and Other Current Liabilities**

This account consists of:

| | **2020** | 2019 |
|---|---|---|
| Accounts payable: | | |
| Third parties | **₱94,152,105** | ₱56,665,336 |
| Related parties (see Note 21) | **84,129,860** | 62,082,788 |
| Accrued expenses: | | |
| Third parties: | | |
| Construction costs (see Note 9) | **294,025,607** | 289,049,636 |
| Interest | **116,113,871** | 98,740,660 |
| Outside services | **6,630,080** | 15,655,505 |
| Professional fees | **3,000,000** | 4,181,146 |
| MCTE expenses | **2,729,939** | 1,050,000 |
| Repairs and maintenance | **600,064** | 3,255,780 |
| Others | **2,166,780** | 8,323,002 |
| Related parties (see Note 21): | | |
| Marketing expenses | **16,023,507** | – |
| Outside services | **13,242,666** | 9,136,711 |
| Repairs and maintenance | **9,750,378** | – |
| Management Fee | **5,142,572** | 1,420,492 |
| Reimbursable costs | **351,492** | 451,868 |
| Others | **1,921,939** | – |
| Payable to CHI | **163,428,840** | 163,428,840 |
| Withholding tax payable | **8,231,505** | 6,836,503 |
| Contract liabilities | **3,779,581** | 3,951,591 |
| Deferred output VAT payable | **150,059** | 513,672 |
| Other payables | **50,142,336** | 10,057,027 |
| | **₱875,713,181** | ₱734,800,557 |

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 2020 and 2019 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 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:

| | **2020** | 2019 |
|---|---|---|
| Principal - Loan facility | **₱6,839,600,000** | ₱5,777,100,000 |
| Less unamortized debt issue costs | **67,101,596** | 63,754,503 |
| | **6,772,498,404** | 5,713,345,497 |
| Less current portion of long-term debt – net of unamortized debt issue costs of ₱14,868,372 in 2020 and ₱12,776,470 in 2019 | **377,656,628** | 412,023,530 |
| | **₱6,394,841,776** | ₱5,301,321,967 |

*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 Link.

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.

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.

In March 2020, the Company made a drawdown from Tranche B1, Tranche B2, Tranche B4, and Tranche B5 amounting to ₱254.0 million, ₱126.0 million, ₱970.0 million, and ₱150.0 million, respectively. The proceeds of Tranche B1 and Tranche B2 were used to facilitate the financing of R1 Bridge widening project and C5 Segments 2 and 3A-2. These drawdowns are subject to an interest rate of 6.24%.

The interest rates for Tranche B loans are subject to repricing after 5 years from initial 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 2018 Loan 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. In addition, the Term Loan Facility Agreement, also requires the Company to provide a collateral security which consists of debt service reserve and payment accounts which are included under "Restricted cash" in the statements of financial position (see Note 5).

As at December 31, 2020 and 2019, the Company is in compliant with the loan covenants.

Interest charged to operations amounted to ₱301.9 million and ₱328.4 million for 2020 and 2019, respectively, excluding amortization of debt issue costs of ₱10.7 million and ₱12.1 million in 2020 and 2019, respectively. Interest charged to operations and amortization of debt issue costs are included under "Interest expense" in the statements of comprehensive income

Interest capitalized to service concession asset amounted to ₱145.4 million and ₱33.9 million in 2020 and 2019, respectively, which includes amortization of debt issue cost amounting to ₱5.1 million and ₱1.3 million in 2020 and 2019, respectively (see Note 9).

Repayment of the undiscounted long-term debt outstanding as at December 31, 2020 and 2019 are scheduled as follows:

| | **2020** | 2019 |
|---|---:|---:|
| Within one year | **₱392,525,000** | ₱424,800,000 |
| More than one year but less than five years | **4,931,650,000** | 2,274,600,000 |
| More than five years but less than ten years | **1,515,425,000** | 3,077,700,000 |
| Within one year | **₱6,839,600,000** | ₱5,777,100,000 |

## 15. **Provisions**

Movements in this account are as follows:

| | Heavy Maintenance | Others | Total |
|---|---|---|---|
| At January 1, 2019 | ₱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 |
| Reversals (see Note 20) | – | (37,761,131) | (37,761,131) |
| Payments | – | (11,933,206) | (11,933,206) |
| At December 31, 2019 | **241,714,864** | **132,721,345** | **374,436,209** |
| Additions (see Notes 18 and 19) | **14,852,831** | **13,090,530** | **27,943,361** |
| Payments | **–** | **(851,791)** | **(851,791)** |
| Reversals (see Note 20) | **–** | **(12,872,813)** | **(12,872,813)** |
| At December 31, 2020 | **₱256,567,695** | **₱132,087,271** | **₱388,654,966** |

| | | | |
|---|---|---|---|
| **At December 31, 2020:** | | | |
| **Current** | **₱70,650,067** | **₱132,087,271** | **₱202,737,338** |
| **Noncurrent** | **185,917,628** | **–** | **185,917,628** |
| | **₱256,567,695** | **₱132,087,271** | **₱388,654,966** |
| 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 |

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, the Company reclassified accrued expenses to provisions amounting to ₱18.4 million.

## 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 March 1, 2021, 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, 2020 and 2019 are as follows:

| | 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 |

Retained Earnings
On December 16, 2020, the Company's BOD approved the appropriation of retained earnings amounting to ₱980.0 million for the funding of the Company's C5 Southlink Expressway Project which is expected to be completed in 2023.

18. **Costs of Services**

This account consists of:

| | **2020** | 2019 |
|---|---|---|
| Amortization of service concession asset (see Note 9) | **₱125,537,819** | ₱145,899,169 |
| Toll collector services (see Note 21) | **78,338,688** | 62,281,932 |
| Operating and maintenance expenses | **69,227,646** | 58,377,723 |
| Repairs and maintenance | **38,621,936** | 18,446,854 |
| MCTE expenses | **29,265,269** | 25,276,176 |
| Depreciation (see Note 10) | **27,491,189** | 25,686,567 |
| Communication, light and water | **22,117,337** | 20,399,044 |
| Provision for heavy maintenance (see Note 15) | **14,852,831** | 20,570,333 |
| Transportation and travel | **6,981,444** | 6,234,098 |
| Supplies | **4,246,225** | 2,390,875 |
| Provisions (see Note 15) | – | 800,000 |
| General services: | | |
| Security services | **50,678,162** | 33,638,286 |
| Performance fee (see Note 21) | **39,203,455** | 36,993,519 |
| Other general services | **12,602,951** | 12,285,616 |
| | **₱519,164,952** | ₱489,312,226 |

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:

| | 2020 | 2019 |
|---|---|---|
| Marketing expense (see Note 21) | **₱53,544,462** | ₱10,574,872 |
| Shared service (see Note 21) | **49,842,192** | 60,960,897 |
| Management fee (see Note 21) | **29,635,934** | 29,542,459 |
| Provision (see Note 15) | **13,090,530** | 12,000,000 |
| Taxes and licenses | **9,953,354** | 8,393,176 |
| Stationery and supplies | **7,205,940** | 5,036,638 |
| Depreciation and amortization (see Notes 10 and 12) | **5,525,129** | 7,834,444 |
| Repairs and maintenance | **4,163,265** | 2,039,610 |
| Outside services | **1,235,222** | 458,667 |
| Professional fees | **841,671** | 10,118,132 |
| Entertainment, amusement and recreation | **710,270** | 1,956,982 |
| Salaries and employee benefits | **348,928** | 2,110,340 |
| Transportation and travel | **288,650** | 994,258 |
| Rent | **278,666** | 338,825 |
| Communication, light and water | **113,046** | 876,100 |
| Directors' fees | **30,000** | 40,000 |
| Insurance | **–** | 417,272 |
| Miscellaneous | **10,736,000** | 12,493,642 |
| | **₱187,543,259** | ₱166,186,314 |

Shared services pertains to outsourced employees from 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, contributions, corporate giveaways, outside service-recruitment, bank charges, Company initiatives and other expenses.

## 20. Other Income - net

Source of other income (expenses) follows:

| | 2020 | 2019 |
|---|---|---|
| Gain on sale of investments in UITF (see Note 7) | **₱17,651,737** | ₱8,747,108 |
| Reversals of provisions (see Note 15) | **12,872,813** | 37,761,131 |
| Advertisement fee | **4,054,136** | 15,739,915 |
| Unrealized gain (loss) on investments in UITF (see Note 7) | **(2,457,118)** | 6,475,824 |
| Traffic management fee | **1,707,469** | 2,250,309 |
| Other income (see Note 10) | **16,038,251** | 24,140,432 |
| | **₱49,867,288** | ₱95,114,719 |

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 NAVPU (see Note 7).

Advertisement 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.

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.

## 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 (Note 6) | Accounts Payable (Note 13) | Accrued Expenses (Note 13) | Deposits | Security Deposit (Note 12) | Terms | Conditions |
|---|---|---|---|---|---|---|---|---|---|
| ***Parent Company*** | | | | | | | | | |
| **MPTC** | | | | | | | | | |
| Reimbursable costs | **2020** | **₱22,266,588** | **₱–** | **₱529,804** | **₱–** | **₱–** | **₱–** | On demand, | Unsecured; |
| | 2019 | 375,049 | 91,445 | 396,851 | – | – | – | noninterest-bearing | no impairment |
| Management fees (see Notes 13 and 19) | **2020** | **12,501,036** | **4,002,639** | **–** | **5,142,572** | **–** | **–** | On demand, | Unsecured; |
| | 2019 | 7,279,839 | – | 13,408,389 | – | – | – | noninterest-bearing | No impairment |
| Deposit for future stock subscription | **2020** | **–** | **–** | **–** | **–** | **–** | **–** | On demand, | Unsecured |
| | 2019 | – | – | – | – | 200,000,000 | – | noninterest-bearing | |
| ***Affiliates*** | | | | | | | | | |
| **Metro Pacific Tollways North Corporation (MPTNC)** | | | | | | | | | |
| Management fees (see Notes 13 and 19) | **2020** | **10,553,242** | **4,109,338** | **–** | **–** | **–** | **–** | On demand, | Unsecured; |
| | 2019 | 7,525,726 | – | 1,459,991 | – | – | – | noninterest-bearing | no impairment |
| **MPTSC** | | | | | | | | | |
| Reimbursable costs | **2020** | **271,284** | **–** | **251,049** | **–** | **–** | **–** | On demand, | Unsecured; no |
| | 2019 | – | 251,317 | – | – | – | – | noninterest-bearing | impairment |
| Deposit for future stock subscription | **2020** | **200,000,000** | – | – | – | **759,433,000** | **–** | On demand, | Unsecured |
| | 2019 | – | – | – | – | 559,433,000 | – | noninterest-bearing | |
| **MPTSMC** | | | | | | | | | |
| Service fee (see Note 19) | **2020** | **56,746,252** | – | **2,529,324** | **–** | **–** | **–** | On demand, | Unsecured; |
| | 2019 | 60,960,897 | 48,274,597 | 20,878,247 | – | – | – | noninterest-bearing | no impairment |
| Reimbursable costs | **2020** | **65,863** | **48,340,460** | **–** | **–** | **–** | **–** | On demand, | Unsecured; |
| | 2019 | – | – | – | – | – | – | noninterest-bearing | no impairment |
| Advance rent and Security deposit (see Note 8 and 12) | **2020** | **60,386,784** | – | **–** | **–** | **–** | **31,902,452** | On demand, noninterest-bearing | Unsecured |
| | 2019 | – | – | – | – | – | – | | |
| **MPCALA Holdings Inc.** | | | | | | | | | |
| Reimbursable costs | **2020** | **190,831** | **1,064,534** | **958,717** | – | – | – | | |
| | 2019 | 454,289 | 1,060,484 | 793,832 | – | – | – | On demand, | Unsecured; |
| Advances | **2020** | **–** | **96,086,267** | **–** | **–** | **–** | **–** | noninterest-bearing | no impairment |
| | 2019 | 105,921,699 | 105,921,699 | – | – | – | – | | |
| **NLEX Corporation** | | | | | | | | | |
| Marketing expenses (see Note 19) | **2020** | **–** | **–** | **–** | **–** | **–** | **–** | On demand, | Unsecured; |
| | 2019 | 957,964 | – | – | – | – | – | noninterest-bearing | no impairment |
| Reimbursable costs | **2020** | **106,123** | **88,998** | **172,960** | **351,492** | **–** | **–** | On demand, | Unsecured; |
| | 2019 | 88,998 | 88,998 | – | 451,868 | – | – | noninterest-bearing | no impairment |

*(Forward)*

| Related Party | Year | Amount of Transaction | Receivables (Note 6) | Accounts Payable (Note 13) | Accrued Expenses (Note 13) | Deposits | Security Deposit (Note 12) | Terms | Conditions |
|---|---|---|---|---|---|---|---|---|---|
| **Metro Pacific Tollways Management Services, Inc. (MPTMSI)** | | | | | | | | | |
| Toll collection services (see Note 18) | **2020** | **₱65,965,917** | **₱–** | **₱20,984,858** | **₱973,438** | **₱–** | **₱–** | 30 days, | Unsecured |
| | 2019 | 62,281,932 | – | 16,905,575 | – | – | – | noninterest-bearing | |
| Management fees (see Notes 13 and 19) | **2020** | **29,442,819** | **–** | **6,521,048** | **–** | **–** | **–** | On demand, | Unsecured |
| | 2019 | 14,736,894 | – | 2,858,958 | 1,420,492 | – | – | noninterest-bearing | |
| Reimbursable costs | **2020** | **4,193,218** | **569,812** | **–** | **–** | **–** | **–** | On demand, | Unsecured |
| | 2019 | – | – | – | – | – | – | noninterest-bearing | |
| **ESC** | | | | | | | | | |
| Performance fee (see Note 18) | **2020** | **39,203,455** | **–** | **57,369,650** | **4,880,060** | **–** | **–** | 15 days, | Unsecured, |
| | 2019 | 36,993,519 | – | 5,104,956 | 3,915,771 | – | – | noninterest-bearing | no impairment |
| Marketing expenses (see Note 19) | **2020** | **49,685,429** | **–** | **–** | **16,023,507** | **–** | **–** | On demand, | Unsecured; |
| | 2019 | – | – | – | – | – | – | noninterest-bearing | no impairment |
| Collections of non-cash toll Revenue | **2020** | **692,463,458** | **33,236,014** | **–** | **–** | **–** | **–** | 30 days, | Unsecured |
| | 2019 | 635,469,369 | 39,123,219 | – | – | – | – | noninterest-bearing | |
| Toll collection services | **2020** | **11,935,145** | **–** | **–** | **16,023,507** | **–** | **–** | 30 days, | Unsecured |
| | 2019 | – | – | – | – | – | – | noninterest-bearing | |
| Advertising revenue | **2020** | **100,800** | **–** | **–** | **–** | **–** | **–** | On demand, | Unsecured; |
| | 2019 | – | – | – | – | – | – | noninterest-bearing | no impairment |
| Reimbursable costs | **2020** | **8,423** | **–** | **–** | **–** | **–** | **–** | On demand, | Unsecured; |
| | 2019 | – | – | – | – | – | – | noninterest-bearing | no impairment |
| **Southbend Express Services, Inc. (SESI)** | | | | | | | | | |
| General services | **2020** | **28,877,871** | **–** | **–** | **14,724,895** | **–** | **–** | On demand, | Unsecured, |
| | 2019 | 9,906,950 | – | – | 3,262,600 | – | – | noninterest-bearing | no impairment |
| **Others (PLDT, MERALCO, SMART, AND PEATC)** | | | | | | | | | |
| Communication, light, and water (see Notes 18 and 19) | **2020** | **22,348,258** | **40,375** | **4,834,695** | **4,336,590** | **–** | **–** | On demand, | Unsecured, |
| | 2019 | 21,275,144 | 63,520 | 275,989 | 1,958,340 | – | – | noninterest-bearing | no impairment |
| Relocation costs | **2020** | **29,476,931** | **–** | **–** | **–** | **–** | **–** | On demand, | Unsecured, |
| | 2019 | – | – | – | – | – | – | noninterest-bearing | no impairment |
| Utility facility agreement | **2020** | **449,251** | **–** | **–** | **–** | **–** | **–** | On demand, | Unsecured, |
| | 2019 | – | – | – | – | – | – | noninterest-bearing | no impairment |
| | **2020** | | **₱187,538,437** | **₱94,152,105** | **₱46,432,554** | **₱759,433,000** | **₱31,902,452** | | |
| | 2019 | | ₱194,875,279 | ₱62,082,788 | ₱11,009,071 | ₱759,433,000 | ₱– | | |

Deposit for Future Stock Subscription
The deposit for future stock subscription amounting to ₱759.4 million as at December 31, 2020 and 2019 pertains to cash received from MPTSC and MPTC 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 March 1, 2021, the Company is completing the requirements for its application of increase in authorized capital stock with the SEC.

Management Service Agreements
In relation to the agreements signed and executed on January 1, 2020 between Metro Pacific Tollways Corporation (“MPTC”), Metro Pacific Tollways Management Services, Inc. (“MPTMSI”), and Metro Pacific Tollways North Corporation (“MPTNC”) and the Company, CIC appointed MPTC, MPTMSI, and MPTNC to provide management advisory in the financing facilities of the project and technical services such as consultancy services to other executives directly handling the project construction and other related activities, meet with the project governance committee, together with the construction companies, to provide insights on the design or the structural plan of the project and to determine the optimal allocation of internal and external resources, site-visits to the construction site to monitor progress of the projects meet and discuss with the government officials or other stakeholders on the implementation of the project. 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, in line with the more basic objective of conducting the operations of CIC to achieve profitability, stability, and progressive growth and development, and provision of advice on corporate initiatives (the “Services”).

MPTC, MPTMSI, and MPTNC 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. The parties acknowledge that each is separate and independent from each other. Nothing in the agreement shall be construed to create the relation of principal and agent or employer and employee between the parties.

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, 2020 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 MPTNC, 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, 2020, 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 MPTMSI 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.

Toll collections services under ESC pertain to manpower and shuttling of toll assistants during the transition of the 100% RFID implementation.

Advertisement Fees
In 2019, NLEX Corp. billed the Company for the toll booth wrap-up, plaza banners and advertisements.

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.

Reimbursable Costs
The Company was billed by its related parties for various costs and expense paid on behalf of the Company which include costs related to Company's operations.

Relocation costs
The relocation costs incurred were for the transfer of electric posts related to the right-of-way acquisitions which are included as project costs.

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 2020 and 2019 represents regular corporate income tax. For the year ended December 31, 2020, the Company elected to use the itemized deduction as compared to Optional Standard Deduction (OSD) in 2019, in computing its taxable income. Provision for income tax consists of the following:

| | **2020** | 2019 |
|---|---|---|
| Current | **₱93,512,314** | ₱248,312,408 |
| Deferred | **47,111,688** | 39,841,112 |
| Final | **4,545,105** | 8,814,125 |
| | **₱145,169,107** | ₱296,967,645 |

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

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

| | **2020** | 2019 |
|---|---|---|
| Deferred tax assets: | | |
| Provision for heavy maintenance | **₱76,970,309** | ₱72,514,459 |
| Provisions and accruals | **35,142,508** | 31,596,902 |
| Allowance for impairment loss | **17,281,140** | 17,281,140 |
| Unearned toll revenue | **1,133,874** | 1,185,477 |
| Accrued retirement costs | **1,062,986** | 1,062,986 |
| Unrealized loss on change in fair value of financial assets as FVTPL | **737,136** | – |
| | **132,327,953** | 123,640,964 |
| Deferred tax liabilities: | | |
| Difference in amortization method of concession asset | **346,458,616** | 288,717,191 |
| Unrealized gain on change in fair value of financial assets at FVTPL | – | 1,942,748 |
| | **346,458,616** | 290,659,939 |
| Deferred tax liabilities - net | **₱214,130,663** | ₱167,018,975 |

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

| | **2020** | 2019 |
|---|---|---|
| Statutory income tax | **₱147,523,101** | ₱318,193,665 |
| Tax effects of: | | |
| Interest income subjected to final tax | **(6,817,707)** | (13,221,225) |
| Nontaxable income | **(3,861,844)** | (9,320,656) |
| Final tax on interest income | **4,545,105** | 8,814,125 |
| Nondeductible expense | **3,780,452** | 2,299,926 |
| Benefit of OSD | – | (9,798,190) |
| | **₱145,169,107** | ₱296,967,645 |

Corporate Recovery and Tax Incentive for Enterprise Act (CREATE)

In February 2021, the Bicameral Conference Committee of both the Senate and the Congress have ratified the Bicameral Committee's version of the proposed CREATE Act, which seeks to reduce the corporate income tax rate and rationalize the current fiscal incentives by making them time-bound, targeted and performance-based. Once the approved bill is submitted to the Office of the President for approval, the President can either approve or veto the fully enrolled bill; or approve or veto only certain provisions of the bill. If the bill is approved or the 30-day time period for the Office of the President to veto the bill has lapsed, the bill will then be enacted as a law.

The key changes of the submitted CREATE bill for approval which have an impact on the Company are as follows:

- Effective July 1, 2020, RCIT rate is reduced from 30% to 25% for domestic and resident foreign corporations. For domestic corporations with net taxable income not exceeding ₱5.0 million and with total assets not exceeding ₱100.0 million (excluding land on which the business entity's office, plant and equipment are situated) during the taxable year, the RCIT rate is reduced to 20%.

- MCIT rate is reduced from 2% to 1% of gross income effective July 1, 2020 to June 30, 2023.

- Imposition of improperly accumulated earnings tax (IAET) is repealed.

As at March 1, 2021, the Office of the President has yet to approve or veto the enrolled bill.

## 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").

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

On June 28, 2017, MPTC, CHI and CIC, amended the Management Period to be for such period from January 2, 2013 and while MPTC holds the CHI Preferred Shares, or until MPTC becomes the 100% direct or indirect shareholder of CIC, whichever comes later.

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.

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, C5 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 C5 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 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 |
| C5 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 C5 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 C5 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. On July 10, 2020, the Company entered into a contract with A.M. Oreta & Co., and China Harbour Engineering Company (AMO-CHEC) for the construction of Phase 2 (Segments 2 and 3A-2). Construction officially commenced on July 22, 2020. The C5 Link is expected to be fully operational by the first quarter of 2023.

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 C5 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 ₱3.2 billion and ₱2.7 billion (net of VAT and PRA share) as of December 31, 2020 and 2019, 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.

On December 23, 2020, the Company filed a manifestation with the tribunal stating that it has reached a settlement with the ROP/TRB, and on this basis, is withdrawing its claim in the arbitration and has requested the tribunal to issue a resolution in line with the development.

On December 31, 2020, the tribunal directed PRA and the ROP/TRB to comment on the Company's manifestation by January 14, 2021. The parties were also directed to clarify if they have reached an agreement on the settlement of the costs of arbitration should be dealt with to submit proposals as to how the costs should be disposed of.

On January 14, 2021, the Company wrote the Tribunal requesting that, in light of the Philippine Reclamation Authority's *Comment* dated January 6, 2021 and the Respondent's *Comment* dated January 13, 2021, the Corporation be given an additional 15 days or until January 29, 2021 to make further submissions in the matter of the apportionment of costs for the arbitration.

On February 8, 2021, the Company wrote the Tribunal: (i) reiterating that the parties have agreed on a settlement and that the Corporation is withdrawing its claims; (ii) manifesting that the Corporation has no objection to the submission of the Philippine Reclamation Authority as regards the taking effect of the withdrawal of the Claimants' claims; and (iii) manifesting that the parties have not reached an agreement as to the sharing of costs, but submitted a proposal that the costs should be split and shared 50%-50% by the Claimants and the Respondent.

On February 18, 2021, the Tribunal sent the parties a draft Termination Order and requested them to provide any comments on the draft by February 25, 2021.

As of March 1, 2021, the Company has not yet provided their comments on the draft termination order sent by the Tribunal.

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 March 1, 2021, 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 it 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 C5 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 C5 Link Expressway.

On April 21, 2020, CIC requested TRB for an additional period of 6 months to submit the Updated Investment Recovery Scheme ("UIRS") since the discussions and negotiations between CIC and PRA were temporarily deferred due to COVID-19 and the implementation of Enhance Community Quarantine. This was supplemented by CIC and PRA's filing of their respective Motion for Extension to Submit UIRS on April 23, 2020.

However, on April 24, 2020, the TRB Executive Director issued a letter to CIC stating that the authority granted by TRB for the collection of the provisional initial toll for Segment 3A-1 lapsed on April 24, 2020 and any further collection of toll shall be without any legal basis.

After an exchange of communication and upon compliance with additional TRB requirements, TRB issued an Order allowing CIC to resume toll collection on July 6, 2020 until October 22, 2020. The period was further extended until April 22, 2021.

Memorandum of Agreement between the Company, LMRC, and Maynilad - LRT1 Extension
On March 16, 2020, Maynilad Water Services, Inc. (Maynilad) and Light Rail Manila Corporation (LRMC) entered into a Memorandum of Agreement whereby LRMC undertook to reimburse Maynilad for all expenses associated with the decommissioning, realignment and/or relocation of the pipe for which test pitting works within the MCTEP ROW under the CIC has to be undertaken by Maynilad.

Under the Agreement, LRMC shall pay PRA and CIC, within fifteen (15) calendar days from receipt of CIC's notice of payment, in Philippine Peso the amount of lost revenues attributable to the conduct of the Maynilad Works. For purposes of determining the amount of lost revenues, the parties agree that such revenue losses shall be computed based on the projected traffic volume reduction, multiplied by the toll rate being implemented, during the period of completion. LRMC, PRA, and CIC agree that the projected traffic numbers shall be used, and actual traffic numbers shall be determined based on records of the toll collection system of the MCTEP.

As at March 1, 2021, the decommissioning and relocation activities have yet to commence.

## 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, 2020 and 2019.

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

| | 2020 | | | | | |
|---|---|---|---|---|---|---|
| | | Past Due but not Impaired | | | | |
| | **Current** | **1 to 30 days** | **31 to 60 days** | **Over 61 days** | **Impaired** | **Total** |
| **Financial assets at amortized cost** | | | | | | |
| Cash and cash equivalents* | **₱92,740,579** | **₱–** | **₱–** | **₱–** | **₱–** | **₱92,740,579** |
| Restricted cash | **654,543,154** | – | – | – | – | **654,543,154** |
| Receivables | **251,660,156** | – | – | **472,243** | – | **252,132,399** |
| Refundable deposits** | **67,971,787** | – | – | – | – | **67,971,787** |
| Sinking fund*** | **206,820,010** | – | – | – | – | **206,820,010** |
| **Financial assets at FVTPL** | **949,770,250** | – | – | – | – | **949,770,250** |
| | **₱2,223,505,936** | **₱–** | **₱–** | **₱472,243** | **₱–** | **₱2,223,978,179** |

**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.*

| | 2019 | | | | | |
|---|---|---|---|---|---|---|
| | | Past Due but not Impaired | | | | |
| | Current | 1 to 30 days | 31 to 60 days | Over 61 days | Impaired | Total |
| **Financial assets at amortized cost** | | | | | | |
| Cash and cash equivalents* | ₱140,340,760 | ₱– | ₱– | ₱– | ₱– | ₱140,340,760 |
| Restricted cash | 524,575,364 | – | – | – | – | 524,575,364 |
| Receivables | 226,666,466 | 12,803,802 | 5,241,669 | 5,153,001 | | 249,864,938 |
| Refundable deposits** | 33,123,795 | – | – | – | – | 33,123,795 |
| Sinking fund*** | 184,035,138 | – | – | – | – | 184,035,138 |
| **Financial assets at FVTPL** | 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.*

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 90 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 90 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:

| | 2020 | | | |
|---|---|---|---|---|
| | ECL Staging | | | |
| | **Stage 1** | **Stage 2** | **Stage 3** | |
| | **12-month ECL** | **Lifetime ECL** | **Lifetime ECL** | **Total** |
| **Financial assets at amortized cost** | | | | |
| Cash and cash equivalents[(a)] | **₱92,740,579** | **₱–** | **₱–** | **₱92,740,579** |
| Restricted cash | **654,543,154** | – | – | **654,543,154** |
| Receivables: | | | | |
| Neither past due nor impaired | **251,660,156** | – | – | **251,660,156** |
| Past due but not impaired | – | **472,243** | – | **472,243** |
| Refundable deposits[(b)] | **64,222,597** | – | – | **64,222,597** |
| Sinking fund[(c)] | **206,820,010** | – | – | **206,820,010** |
| **Gross carrying amount** | **₱1,269,986,496** | **₱472,243** | **₱–** | **₱1,270,458,739** |

[(a)] *Excluding cash on hand of ₱925,000 as at December 31, 2020.*
[(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.*

| | 2019 | | | |
|---|---|---|---|---|
| | ECL Staging | | | |
| | Stage 1 | Stage 2 | Stage 3 | |
| | 12-month ECL | Lifetime ECL | Lifetime ECL | Total |
| 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.*

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, 2020 and 2019 based on undiscounted payments.

| | 2020 | | | | | |
|---|---|---|---|---|---|---|
| | **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* | **₱92,740,579** | **₱–** | **₱–** | **₱–** | **₱–** | **₱92,740,579** |
| Restricted cash | **-** | **218,128,872** | **436,414,282** | – | – | **654,543,154** |
| Receivables | **248,475,425** | **591,885** | **585,648** | **1,207,815** | **1,271,626** | **252,132,399** |
| Refundable deposits | – | – | **32,590,324** | – | **31,632,273** | **64,222,597** |
| Sinking fund** | – | – | – | – | **206,820,010** | **206,820,010** |
| **Financial assets at FVTPL** | **949,770,250** | – | – | – | – | **949,770,250** |
| | **₱1,290,986,254** | **₱218,720,757** | **₱469,590,254** | **₱1,207,815** | **₱239,723,909** | **₱2,220,228,989** |

*(Forward)*

| | 2020 | | | | | |
|---|---|---|---|---|---|---|
| | **On Demand** | **Less than 3 months** | **3-12 months** | **1-2 years** | **Over 2 years** | **Total** |
| **Financial Liabilities** | | | | | | |
| Accrued expenses and other current liabilities***: | | | | | | |
| Accounts payable | **₱94,152,105** | **₱84,129,860** | **₱–** | **₱–** | **₱–** | **₱178,281,965** |
| Payable to CHI | **163,428,840** | **–** | **–** | **–** | **–** | **163,428,840** |
| Accrued expenses | **–** | **525,620,812** | **–** | **–** | **–** | **525,620,812** |
| Other payables | **–** | **50,142,336** | **–** | **–** | **–** | **50,142,336** |
| Retention sum and contractors payable | **284,898,417** | **–** | **–** | **–** | **–** | **284,898,417** |
| Long-term debt**** | **–** | **328,598,367** | **496,353,085** | **1,749,685,494** | **6,437,713,994** | **9,012,350,940** |
| | **₱542,479,362** | **₱988,491,375** | **₱496,353,085** | **₱1, 749,685,494** | **₱6,437,713,994** | **₱10,214,723,310** |

**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.*

| | 2019 | | | | | |
|---|---|---|---|---|---|---|
| | 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* | ₱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 | – | 420,707,597 | – | – | – | 332,524,140 |
| Other payables | 10,057,027 | – | – | – | – | 10,057,027 |
| Retention sum and contractors payable | 240,200,190 | – | – | – | – | 240,200,190 |
| Long-term debt**** | – | 238,131,458 | 555,282,186 | 1,375,025,067 | 5,961,478,663 | 7,859,917,374 |
| | ₱460,596,372 | ₱658,839,055 | ₱555,282,186 | ₱1,375,025,067 | ₱5,961,478,663 | ₱8,741,221,343 |

**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 ₱4,214.0 million and ₱3,863.7 million as at December 31, 2020 and 2019, 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, 2020 and 2019:

| | **2020** | | 2019 | |
|---|---|---|---|---|
| | **Carrying Value** | **Fair Value** | Carrying Value | Fair Value |
| **Financial assets at FVTPL** | | | | |
| Financial assets at FVTPL | **₱949,770,250** | **₱949,770,250** | ₱656,227,368 | ₱656,227,368 |
| **Financial liabilities at amortized cost** | | | | |
| Long-term debt | **6,772,498,404** | **7,681,273,033** | 5,713,345,497 | 6,171,013,239 |

*Financial assets at FVTPL.* The fair value as at December 31, 2020 and 2019 is based on the net asset value of the investments as of reporting date.

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 1.1% to 4.6% and 3.2% to 6.1% in 2020 and 2019, respectively.

The management assessed that the carrying values of cash and cash equivalents, restricted cash, receivables, sinking fund, accrued expenses and other current liabilities, and retention sum and contractors payable 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, 2020 and 2019 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, 2020 and 2019:

| | | | **2020** | | |
|---|---|---|---|---|---|
| | **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 31,2020 | **₱–** | **₱949,770,250** | **₱–** | **₱949,770,250** |
| Liabilities for which fair values are disclosed: | | | | | |
| Long-term debt | December 31,2020 | **₱–** | **₱–** | **₱7,681,273,033** | **₱7,681,273,033** |

| | | | 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 |

During the years ended December 31, 2020 and 2019, 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, 2020 | Cash Flows | Non-cash charges<br>Interest expense | Amortization of DIC | Other** | December 31, 2020 |
|---|---|---|---|---|---|---|
| Long-term debt (see Note 14)* | **₱5,713,345,497** | **₱1,051,250,000** | **₱–** | **₱15,797,644** | **(₱7,894,737)** | **₱6,772,498,404** |
| Accrued interest payable | **98,740,660** | **(429,791,992)** | **447,165,203** | – | – | **116,113,871** |
| Deposits for future stock subscription | **759,433,000** | – | – | – | – | **759,433,000** |
| Total liabilities from financing activities | **₱6,571,519,157** | **₱621,458,008** | **₱447,165,203** | **₱15,797,644** | **(₱7,894,737)** | **₱7,648,045,275** |

**Long-term debt is net of cash inflow of ₱1,500,000,000 and outflows of ₱437,500,000 and ₱11,250,000.*
***Pertains to prepaid debt issue costs reclassified related to the drawdowns during the year.*

| | January 1, 2019 | Cash Flows | Non-cash charges<br>Interest expense | Amortization of DIC | Other | December 31, 2019 |
|---|---|---|---|---|---|---|
| Long-term debt (see Note 14)* | ₱5,296,808,145 | ₱403,088,423 | ₱– | ₱13,448,929 | ₱– | ₱5,713,345,497 |
| Accrued interest payable (see Note13) | 89,297,318 | (360,838,849) | 370,282,191 | – | – | 98,740,660 |
| Deposits for future stock subscription (see Note 21) | 759,433,000 | – | – | – | – | 759,433,000 |
| Total liabilities from financing activities | ₱5,386,105,463 | ₱42,249,574 | ₱370,282,191 | ₱13,448,929 | ₱– | ₱7,648,045,275 |

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

Non-cash investing activities
The Company has non-cash investing activities from service concession asset amounting to ₱149.7 million and ₱289.0 million in 2020 and 2019, respectively, pertaining to accruals of construction cost and ₱145.4 million and ₱33.9 million in 2020 and 2019, respectively for capitalized borrowing costs.

## 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, 2020:

Value Added Tax (VAT)

a. Net Sales/Receipts and Output VAT declared in the Company's VAT returns for 2020

| | Net Sales/Receipts | Output VAT |
|---|---|---|
| Vatable Sales | ₱1,453,977,477 | ₱174,477,297 |

b. Input VAT

| | |
|---|---|
| Balance at January 1 | ₱41,963 |
| Current year's domestic purchases/payments for: | |
| Goods other than capital goods | 4,611,253 |
| Domestic purchase of service | 170,232,353 |
| Total | 174,885,569 |
| Input VAT applied against output VAT | (120,923,093) |
| Balance at December 31 | ₱53,962,476 |

Taxes and Licenses

Taxes and licenses under operating expenses, local and national, include real estate taxes, licenses and permit fees for 2020:

| | |
|---|---|
| Business permit | ₱10,007,260 |
| Insurance docs stamp & others | 292,579 |
| Land transportation | 64,008 |
| Others | 205,663 |
| | ₱10,569,510 |

Taxes and licenses amounting to ₱9.95 million is presented as "General and administrative expenses" account and the remaining ₱0.62 million is presented as part "Cost of services" account.

Documentary Stamp Tax

In 2020, the company paid documentary stamp tax pertaining to loan transaction amounting to ₱11,250,000, which was included as part of debt issue costs.

Withholding Taxes

Details of withholding tax paid and accrued for the year ended December 31, 2020 are as follows:

| | |
|---|---|
| Expanded withholding taxes | ₱48,211,117 |
| Withholding taxes on compensation and benefits | 101,215 |
| | ₱48,312,332 |

Tax Assessments

The Company has not received any Final Assessment Notice as at December 31, 2020. Likewise, the Company has no other pending tax case outside the administration of BIR as at December 31, 2020.