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

Consolidated Financial Statements
December 31, 2020 and 2019
and Years Ended December 31, 2020,
2019 and 2018

and

Independent Auditor's Report

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

INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors
NLEX Corporation

Opinion

We have audited the consolidated financial statements of NLEX Corporation (a subsidiary of Metro Pacific Tollways North Corporation) and its subsidiary (the Company), which comprise the consolidated statements of financial position as at December 31, 2020 and 2019, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2020, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2020 and 2019, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2020 in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

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

Key Audit Matters

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

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

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

Under Philippine Accounting Standard (PAS) 36, *Impairment of Assets*, the Company is required to perform annual impairment tests on its goodwill and service concession assets not yet available for use. The annual impairment test is significant to our audit because: (a) the balances of goodwill and service concession assets not yet available for use are material to the consolidated financial statements; and (b) the determination of the recoverable amount of the cash-generating units (CGUs) to which the goodwill is attributed, and as it relates to the service concession assets not yet available for use, involves significant management judgment and assumptions about the future results of business.

The Company's goodwill, mainly arising from its acquisition of Tollways Management Corporation (TMC), amounted to ₱6.2 billion as at December 31, 2020. In addition, the Company has entered into several service concession agreements with the Philippine Government and/or its agencies or instrumentalities and where the Company's related service concession assets not yet available for use amounted to ₱6.5 billion as at December 31, 2020. 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 as impacted by the coronavirus pandemic.

Refer to Note 6 to the consolidated financial statements for the details of goodwill and Notes 2 and 10 to the consolidated financial statements for the details of service concession assets not yet available for use.

Audit response

We obtained an understanding of the Company's impairment testing process and the related controls. We also involved our internal specialist in evaluating the methodologies and the assumptions used, which include the revenue growth, gross margins and discount rates. We compared the revenue growth and gross margins against the historical data of the CGUs and reviewed management's plans to support these assumptions, taking into consideration the impact associated with the coronavirus pandemic. We also compared the Company's key assumptions for revenue growth such as expected traffic volume against historical data and toll rates against the toll rate adjustment provided in the toll operation agreement. We tested the parameters used in the determination of the discount rates against market data. Furthermore, we reviewed the Company's disclosures about those assumptions to which the outcome of the impairment test is most sensitive, specifically those that have the most significant effect in determining the recoverable amount of the service concession assets not yet available for use.

Amortization of service concession assets using the units-of-production method

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

Refer to Notes 4 and 10 to the consolidated financial statements for the related discussions on service concession assets.

Audit response

We obtained an understanding of management's processes and controls in the estimation of traffic volume. We evaluated the competence, capabilities and objectivity of management's specialists who are involved in the estimation of expected traffic volumes considering their qualification, experience and reporting responsibilities. We reviewed the methodology and assumptions used in the estimation of the expected traffic volume. Furthermore, we compared the actual traffic volume during the year against the data generated from the toll collection system and the prior year expected traffic volume. We recalculated the amortization expense of the service concession assets for the year ended December 31, 2020 based on the ratio of the actual traffic volume to the total expected traffic volume of the underlying toll expressways over the remaining concession period.

Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2020, but does not include the consolidated financial statements and our auditor's report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2020 are expected to be made available to us after the date of this auditor's report.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

SYCIP GORRES VELAYO & CO.

Mariecris N. Barbaso

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Partner
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November 27, 2020, valid until November 26, 2023
PTR No. 8534222, January 4, 2021, Makati City

March 9, 2021

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

	December 31	
	2020	2019
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 8, 32 and 33)	**₱2,343,376,064**	₱4,400,431,580
Financial asset at fair value through profit or loss (FVTPL) (Notes 14, 32 and 33)	**2,136,231**	18,066,958
Receivables (Notes 9, 19, 32 and 33)	**1,249,563,122**	641,331,761
Inventories:		
At net realizable value	**67,280,944**	76,772,555
At cost	**25,300,638**	17,553,419
Financial assets at fair value through other comprehensive income (FVOCI) (Notes 15, 32 and 33)	**46,145,000**	68,805,873
Other current assets (Notes 16, 32 and 33)	**286,347,793**	362,493,443
Total Current Assets	**4,020,149,792**	5,585,455,589
Noncurrent Assets		
Service concession assets (Note 10)	**51,440,658,525**	44,517,589,233
Property and equipment (Note 12)	**375,560,670**	462,679,480
Investment properties (Notes 7 and 13)	**–**	341,579,067
Other intangible assets (Note 11)	**54,666,989**	49,819,109
Financial assets at FVOCI (Notes 15, 32 and 33)	**–**	95,241,141
Goodwill (Note 6)	**6,213,799,383**	6,213,799,383
Advances to contractors and other noncurrent assets (Note 31)	**681,618,179**	636,481,253
Total Noncurrent Assets	**58,766,303,746**	52,317,188,666
	₱62,786,453,538	₱57,902,644,255
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and other current liabilities (Notes 17, 19 and 33)	**₱4,442,948,624**	₱3,935,403,666
Income tax payable	**335,982,168**	490,603,990
Dividends payable (Note 22)	**1,900,000,000**	3,100,000,000
Provisions (Note 18)	**428,339,314**	123,095,653
Short-term notes payable (Notes 20 and 33)	**–**	25,000,000
Current portion of long-term debt (Notes 20, 32 and 33)	**5,909,348,835**	351,861,110
Total Current Liabilities	**13,016,618,941**	8,025,964,419
Noncurrent Liabilities		
Long-term debt - net of current portion (Notes 20, 32 and 33)	**25,411,731,147**	26,353,356,366
Service concession fees payable (Notes 21 and 31)	**3,072,102,985**	2,894,320,777
Provisions (Note 18)	**220,991,610**	282,857,102
Long-term incentive plan payable (Note 26)	**305,470,240**	155,492,087
Pension liability (Note 26)	**173,216,549**	95,587,284
Deferred tax liabilities - net (Note 30)	**472,508,052**	551,935,537
Other noncurrent liabilities	**–**	15,421,635
Total Noncurrent Liabilities	**29,656,020,583**	30,348,970,788
Total Liabilities	**42,672,639,524**	38,374,935,207

(Forward)

	December 31	
	2020	2019
Equity		
Capital stock (Note 22)	**₱1,878,600,000**	₱1,878,600,000
Additional paid-in capital (Note 22)	**9,965,880,147**	9,965,880,147
Retained earnings (Note 22)	**8,355,677,562**	7,743,162,158
Other comprehensive loss reserve - net (Note 22)	**(99,377,977)**	(72,967,539)
Other reserve (Note 27)	**13,034,282**	13,034,282
Total Equity	**20,113,814,014**	19,527,709,048
	₱62,786,453,538	₱57,902,644,255

See accompanying Notes to Consolidated Financial Statements.

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

CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31		
	2020	2019	2018
OPERATING REVENUES			
Toll fees (net of discounts amounting to ₱315,769,218 in 2020, ₱215,217,744 in 2019, and ₱167,547,707 in 2018)	**₱10,859,804,809**	₱15,056,203,955	₱13,049,489,300
Sales of magnetic cards	**3,348**	4,018	5,402
Toll revenues	**10,859,808,157**	15,056,207,973	13,049,494,702
Non-toll revenues (Note 23)	**200,343,484**	313,384,257	208,308,727
Total revenues	**11,060,151,641**	15,369,592,230	13,257,803,429
COST OF SERVICES (Note 24)	**(4,628,946,191)**	(5,348,151,361)	(4,748,391,584)
GROSS PROFIT	**6,431,205,450**	10,021,440,869	8,509,411,845
CONSTRUCTION REVENUE (Note 10)	**6,830,966,282**	7,567,267,177	4,221,705,212
CONSTRUCTION COSTS (Note 10)	**(6,830,966,282)**	(7,567,267,177)	(4,221,705,212)
GENERAL AND ADMINISTRATIVE EXPENSES (Note 25)	**(925,044,970)**	(922,548,321)	(898,103,330)
INTEREST EXPENSE AND OTHER FINANCE COSTS (Note 29)	**(1,023,355,587)**	(707,394,685)	(406,592,795)
GAIN ON SALE OF SUBSIDIARY (Note 7)	**167,255,355**	–	–
INTEREST INCOME (Note 28)	**28,949,788**	65,006,692	78,227,411
FOREIGN EXCHANGE LOSS - Net	**(5,577,936)**	(450,040)	(873,681)
OTHER INCOME - Net (Note 12)	**74,525,649**	14,311,123	57,716,455
INCOME BEFORE INCOME TAX	**4,747,957,749**	8,470,365,638	7,339,785,905
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 30)			
Current	**1,224,704,775**	1,800,514,225	1,535,706,116
Deferred	**(57,262,430)**	36,163,667	48,630,259
	1,167,442,345	1,836,677,892	1,584,336,375
NET INCOME	**₱3,580,515,404**	₱6,633,687,746	₱5,755,449,530

See accompanying Notes to Consolidated Financial Statements.

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2020	2019	2018
NET INCOME	**₱3,580,515,404**	₱6,633,687,746	₱5,755,449,530
OTHER COMPREHENSIVE INCOME (LOSS)			
Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:			
Gain (loss) on debt financial assets at fair value through other comprehensive income - net (Notes 15 and 22)	**2,066,790**	97,650,741	(63,960,038)
Income tax effect (Notes 22 and 30)	**(97,029)**	(248,713)	388,883
	1,969,761	97,402,028	(63,571,155)
Other comprehensive loss not to be reclassified to profit or loss in subsequent periods:			
Remeasurement losses on defined benefit retirement plan (Notes 22 and 26)	**(40,543,141)**	(84,061,184)	(7,239,294)
Income tax effect (Notes 22 and 30)	**12,162,942**	19,366,527	2,171,788
	(28,380,199)	(64,694,657)	(5,067,506)
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE YEAR, NET OF TAX	**(26,410,438)**	32,707,371	(68,638,661)
TOTAL COMPREHENSIVE INCOME	**₱3,554,104,966**	₱6,666,395,117	₱5,686,810,869

See accompanying Notes to Consolidated Financial Statements.

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
YEARS ENDED DECEMBER 31, 2020, 2019 AND 2018

	Capital Stock (Note 22)	Additional Paid-in Capital (Note 22)	Retained Earnings (Note 22)	Other Comprehensive Loss Reserve (Note 22)	Other Reserve (Note 27)	Total Equity
At January 1, 2020	**₱1,878,600,000**	**₱9,965,880,147**	**₱7,743,162,158**	**(₱72,967,539)**	**₱13,034,282**	**₱19,527,709,048**
Cash dividends (Note 22)	–	–	**(2,968,000,000)**	–	–	**(2,968,000,000)**
Net income	–	–	**3,580,515,404**	–	–	**3,580,515,404**
Other comprehensive loss (Note 22)	–	–	–	**(26,410,438)**	–	**(26,410,438)**
Total comprehensive income (loss) for the year	–	–	**3,580,515,404**	**(26,410,438)**	–	**3,554,104,966**
At December 31, 2020	**₱1,878,600,000**	**₱9,965,880,147**	**₱8,355,677,562**	**(₱99,377,977)**	**₱13,034,282**	**₱20,113,814,014**
At January 1, 2019	₱1,878,600,000	₱9,965,880,147	₱6,809,474,412	(₱105,674,910)	₱13,034,282	₱18,561,313,931
Cash dividends (Note 22)	–	–	(5,700,000,000)	–	–	(5,700,000,000)
Net income	–	–	6,633,687,746	–	–	6,633,687,746
Other comprehensive income (Note 22)	–	–	–	32,707,371	–	32,707,371
Total comprehensive income for the year	–	–	6,633,687,746	32,707,371	–	6,666,395,117
At December 31, 2019	₱1,878,600,000	₱9,965,880,147	₱7,743,162,158	(₱72,967,539)	₱13,034,282	₱19,527,709,048
At January 1, 2018	₱1,776,000,000	₱3,749,711,168	₱5,154,024,882	(₱37,036,249)	₱13,034,282	₱10,655,734,083
Issuance during the year (Notes 6 and 22)	102,600,000	6,216,168,979	–	–	–	6,318,768,979
Cash dividends (Note 22)	–	–	(4,100,000,000)	–	–	(4,100,000,000)
Net income	–	–	5,755,449,530	–	–	5,755,449,530
Other comprehensive loss (Note 22)	–	–	–	(68,638,661)	–	(68,638,661)
Total comprehensive income (loss) for the year	–	–	5,755,449,530	(68,638,661)	–	5,686,810,869
At December 31, 2018	₱1,878,600,000	₱9,965,880,147	₱6,809,474,412	(₱105,674,910)	₱13,034,282	₱18,561,313,931

See accompanying Notes to Consolidated Financial Statements.

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

	Years Ended December 31		
	2020	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱4,747,957,749**	₱8,470,365,638	₱7,339,785,905
Adjustments to reconcile income before income tax to net cash flows:			
Interest expense and other finance costs (Note 29)	**1,023,355,587**	707,394,685	406,592,795
Amortization of service concession assets (Notes 10 and 24)	**758,828,876**	973,802,211	810,648,908
Movements in:			
Provisions	**250,070,516**	(53,961,465)	(63,003,276)
Pension costs	**37,086,123**	(8,636,587)	(8,848,489)
Gain on the disposal of subsidiary (Note 7)	**(167,255,355)**	–	–
Depreciation of property and equipment and investment properties (Notes 12, 13, 24 and 25)	**133,449,865**	147,347,333	76,067,322
Gain on disposals of property and equipment (Note 12)	**(71,683,095)**	(1,234,089)	(224,338)
Interest income (Note 28)	**(28,949,788)**	(65,006,692)	(78,227,411)
Amortization of other intangible assets (Notes 11, 24 and 25)	**972,099**	2,825,516	5,819,883
Loss (gain) on disposal of financial assets at FVOCI (Note 15)	**(950,880)**	96,451,819	43,713
Unrealized foreign exchange gain - net	**(723,208)**	(557,348)	(804,411)
Unrealized loss (gain) on financial assets at FVTPL (Note 14)	**631,271**	(208,238)	(637,311)
Amortization of discount on bonds (Note 15)	**(31,196)**	(1,604,816)	(146,002)
Working capital changes:			
Decrease (increase) in:			
Receivables	**(553,045,857)**	71,247,083	96,405,085
Inventories	**1,739,855**	(845,592)	19,113,631
Other current assets	**9,150,726**	246,797,223	(19,540,591)
Increase (decrease) in:			
Accounts payable and other current liabilities	**641,904,202**	443,720,258	(1,116,924,381)
Due to related parties	–	(28,352)	(833,430)
Long-term incentive plan payable	**149,978,153**	69,492,087	(129,442,315)
Income tax paid	**(1,379,326,597)**	(1,668,291,416)	(1,506,760,745)
Net cash flows from operating activities	**5,553,159,046**	9,429,069,258	5,829,084,542

(Forward)

	Years Ended December 31		
	2020	2019	2018
CASH FLOWS FROM INVESTING ACTIVITIES			
Increase (decrease) in advances to contractors and other noncurrent assets	**(₱49,898,179)**	(₱205,025,260)	₱82,606,440
Interest received	**33,193,705**	82,158,821	76,943,809
Additions to:			
Service concession assets (Notes 10, 20 and 21)	**(7,195,013,560)**	(7,339,818,269)	(3,806,349,175)
Property and equipment (Note 12)	**(82,790,975)**	(230,518,548)	(175,734,167)
Other intangible assets (Note 11)	**(9,352,479)**	(30,775,781)	(17,374,413)
Investment properties (Note 13)	**(340,845)**	(21,459,127)	(178,270,775)
Financial assets at FVTPL (Note 14)	–	(80,000,000)	(6,410,000,000)
Proceeds from:			
Maturity of financial assets at FVOCI (Note 15)	**70,000,000**	61,230,000	50,000,000
Sale of property and equipment (Note 12)	**83,010,587**	2,418,285	660,287
Redemption of financial assets at FVTPL (Note 14)	**16,250,336**	130,337,533	6,564,876,169
Sale of financial assets at FVOCI (Note 15)	**50,000,000**	818,648,181	99,956,287
Cash acquired from merger (Note 6)	**–**	–	155,809,552
Net cash flows used in investing activities	**(7,084,941,410)**	(6,812,804,165)	(3,556,875,986)
CASH FLOWS FROM FINANCING ACTIVITIES (Note 35)			
Proceeds from availment of:			
Short-term notes payable (Note 20)	**5,155,000,000**	525,000,000	3,800,000,000
Long-term debt (Note 20)	**5,000,000,000**	5,000,000,000	6,000,000,000
Payments of:			
Short-term notes payable (Note 20)	**(5,080,000,000)**	(500,000,000)	(3,800,000,000)
Dividends (Note 22)	**(4,168,000,000)**	(4,700,000,000)	(3,840,000,000)
Interest expense and other finance costs (Notes 17 and 29)	**(1,013,089,746)**	(590,684,972)	(308,145,357)
Long-term debt (Note 20)	**(360,000,000)**	(360,000,000)	(4,317,616,998)
Debt issue costs (Note 20)	**(59,906,614)**	(39,692,087)	(73,475,256)
Net cash flows used in financing activities	**(525,996,360)**	(665,377,059)	(2,539,237,611)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(2,057,778,724)**	1,950,888,034	(267,029,055)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**723,208**	557,348	804,411
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR (Note 8)	**4,400,431,580**	2,448,986,198	2,715,210,842
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 8)	**₱2,343,376,064**	₱4,400,431,580	₱2,448,986,198

See accompanying Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

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

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

NLEX Corp. is 75.1% owned by Metro Pacific Tollways North Corporation (MPTNC) which is a wholly owned subsidiary of Metro Pacific Tollways Corporation (MPTC). MPTC is 99.9% owned by Metro Pacific Investments Corporation (MPIC). MPIC is a publicly listed Philippine corporation and is 43.1% and 41.9% owned by Metro Pacific Holdings, Inc. (MPHI) as at December 31, 2020 and 2019. As sole holder of the voting Class A Preferred Shares, MPHI's combined voting interest as a result of all of its shareholdings is estimated at 56.2% and 55.0% as at December 31, 2020 and 2019. MPHI is a Philippine corporation whose stockholders are Enterprise Investment Holdings, Inc. (EIH) (60.0%), Intalink B.V. (26.7%) and First Pacific International Limited (FPIL) (13.3%). First Pacific Company Limited (FPC), a company incorporated in Bermuda and listed in Hong Kong, through its subsidiaries, Intalink B.V. and FPIL, holds 40.0% equity interest in EIH and an investment financing which under Hong Kong Generally Accepted Accounting Principles, require FPC to account for the results and assets and liabilities of EIH and its subsidiaries as part of FPC group of companies in Hong Kong.

The registered office address of the Parent Company is NLEX Compound, Balintawak, Caloocan City, Metro Manila.

The consolidated financial statements as at December 31, 2020 and 2019 and for each of the three years in the period ended December 31, 2020 were authorized for issuance by the Parent Company's BOD on March 9, 2021, as reviewed and recommended for approval by the Parent Company's Audit Committee.

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

Sale of 100% ownership interest in NVC to MPTC
On December 29, 2020, the Company entered into a Deed of Absolute Sale of Shares with MPTC for the sale of its 100% ownership interest in NVC, representing 2,000,000 common shares, for a total consideration of ₱544.0 million and payable in cash (see Note 7).

Toll Operations

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

The MNEP consists of three phases as follows:

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

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

Segment 8.1, a portion of Phase II, which is a 2.7 km-road designed to link Mindanao Avenue to the NLEX, had officially commenced tollway operation on June 5, 2010. Segment 9, a portion of Phase II, which is a 2.4 km-road connecting NLEX to the McArthur Highway, had officially commenced tollway operation on March 19, 2015. In May 2014, Segment 10, a portion of Phase II, which is a 5.76 km four-lane, elevated expressway that will start from the terminal of Segment 9 in Valenzuela City going to Circumferential Road 3 (C-3 Road) in Caloocan City above the alignment of Philippine National Railway (PNR) tracks. Segment 10 construction was completed on February 28, 2019, and officially opened to the public on March 1, 2019. The remaining portion of Phase II is under pre-construction works while Phase III of the MNEP has not yet been started as at March 9, 2021.

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

NLEX-South Luzon Expressway (SLEX) Connector Road Project (NLEX-SLEX Connector Road). On November 23, 2016, NLEX Corp. was awarded the concession for the design, financing, construction, operation and maintenance of the NLEX-SLEX Connector Road. The NLEX-SLEX Connector Road is an elevated four-lane toll expressway structure with a length of 8 kilometers passing through and above the right of way of the PNR starting from NLEX Segment 10 at C-3 Road Caloocan City and seamlessly connecting to SLEX through Metro Manila Skyway Stage 3 Project in Manila. As at March 9, 2021, the construction of the NLEX-SLEX Connector Road Section 1 has started while the bidding process for Section 2 is on-going.

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 9, 2021, NCR remains under GCQ.

Lockdown restrictions temporarily disrupted the operations of NLEX and SCTEX because of the measures limiting movement and transportation. Overall, the average daily traffic in 2020 for NLEX and SCTEX 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 consolidated financial statements. The Company has assessed the following impact of COVID-19 on its assets and liabilities.

- The forecast used for impairment testing of goodwill and 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. Service Concession Arrangements

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

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

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

The PNCC franchise expired on May 1, 2007. Pursuant to the STOA, the TRB issued the necessary TOC for the NLEX in order to allow the continuation of the Concession. As further discussed in Note 31, NLEX Corp. pays a certain amount to PNCC.

Also, under the STOA, NLEX Corp. shall pay for the Grantor's project overhead expenses based on certain percentages of total construction costs or of periodic maintenance works on the project roads (see Note 24).

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

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

From 2007 to 2010, NLEX Corp. obtained TRB's approval for certain amendments to the STOA for the MNEP which includes (a) the integration of Segment 10 into Phase II - July 2007; (b) amendment of adjustment formula for the Authorized Toll Rate (ATR) by removing the foreign exchange factor - June 2008; (c) adoption of an integrated operations period for Phase I and Segment 8.1 and extension of the concession period until December 31, 2037 - October 2008; (d) modification of alignments of Phase II Segments 9 and 10 - February 2010; and (e) the following approvals in relation to Phase II Segments 9 and 10 project: (i) adoption of the 2008 TRB approved ATR formula ("ATRF") for five (5) years following the completion of Segment 9; (ii) continuation of the implementation of the ATRF for ten (10) years from commercial operation of Segment 10; and (iii) approval of the additional ₱6.00 (exclusive of value-added tax or VAT) adjustment to the Open System toll rate upon completion of Segment 10.

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

On March 20, 2019, pursuant to the approval of 2012 and 2014 Petitions for approval of periodic toll rate adjustment with application for provisional relief , NLEX Corp. implemented the TRB approved toll rate adjustments, authorizing NLEX Corp. to collect a total of ₱10.00 (inclusive of VAT) additional toll fees for the Open System and ₱0.18/km (exclusive of VAT) for the Closed System. Included in the adjustments are the (1) a new add on toll rate of ₱6.00 (inclusive of VAT) applicable to the Open System on the completion of the Harbor Link Segment 10 and (2) the first tranche of the approved periodic adjustments due in 2012 and 2014 amounting to an additional ₱3.10 (exclusive of VAT) in the Open System and ₱0.18/km (exclusive of VAT) in the Closed System.

On November 25, 2020, NLEX Corp. implemented the TRB approved toll rate adjustments to collect ₱3.00 (inclusive of VAT) additional toll fees and additional ₱0.06/km (exclusive of VAT) for the Closed System. Included in the adjustments are the (1) new add on toll rate of ₱2.00/entry (exclusive of VAT) applicable to the Open System following the completion and opening last June 2020 of the NLEX Harbor Link - C3: R-10 Section and (2) the second tranche of the staggered implementation of 2012 and 2014 petitions amounting to ₱1.03 (exclusive of VAT) in the Open System and ₱0.06/km (exclusive of VAT) in the Closed System.

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

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

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

In consideration for the assignment by BCDA to NLEX Corp. of its rights to and interests in SCTEX, NLEX Corp. paid BCDA an upfront cash of ₱3.5 billion (inclusive of VAT) upon effectivity of the BA (the Upfront Payment). NLEX Corp. shall also pay BCDA monthly concession fees amounting to 50% of the Audited Gross Toll Revenues of SCTEX for the relevant month from effective date to October 30, 2043. NLEX Corp. shall gross up the concession fees by the 12% VAT. The Company recorded concession fees of ₱897.8 million, ₱1,299.4 million and ₱1,076.0 million in 2020, 2019 and 2018, respectively, which is included under “Cost of services” account in the consolidated statements of income (see Note 24).

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

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

On June 14, 2019, pursuant to the 2011 Petition for toll rate adjustment for the SCTEX, NLEX Corp. implemented the TRB approved toll rate adjustment for the SCTEX authorizing of an additional ₱0.51/km (exclusive of VAT).

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

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

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

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

Legal title to the NLEX-SLEX Connector Road, including all assets and other improvements constructed therein and all additional and/or enhancement works contributed by NLEX Corp. during the concession period, shall remain with NLEX Corp. until the termination date. At the end of the concession period or upon the termination of the concession agreement, the NLEX-SLEX Connector

Road, including all rights, title and interest in the aforesaid assets, shall be turned over to DPWH or to its successor-in-interest conformably with law, and in all cases in accordance with and subject to the terms and conditions of the Concession Agreement. NLEX Corp. shall be prohibited from transferring, alienating, selling, or otherwise disposing the NLEX-SLEX Connector Road.

Pursuant to the Concession Agreement, NLEX Corp. shall preserve the asset so it can be handed back to DPWH in a manner that complies with the pavement performance standards specified in the concession agreement and that all the building and equipment necessary to operate the expressway remain functional and in good condition that is equivalent to prudent industry practice. NLEX Corp. must also manage the maintenance of the assets so that there is a residual asset life that complies with the residual life standards stated in the concession agreement at the end of the concession period. As at March 9, 2021, the NLEX-SLEX Connector Road Section 1 has started while the bidding process for Section 2 is on-going.

Guidelines for the Establishment, Operation and Maintenance of the Tollway Service Facilities
Pursuant to Section 11 - Government Share on Revenues of the TRB Guidelines for the establishment, operation and maintenance of tollway service facilities, the Company shall share with the ROP thru the TRB, fifty percent (50%) of all fees or charges imposed by the Company on Service Facility Operators, to be remitted or paid directly by the TRB by the latter to the National Treasury under a TRB designated account.

3. Summary of Significant Accounting Policies

Basis of Preparation
The consolidated financial statements have been prepared on a historical cost basis, except for financial assets at FVTPL and financial assets at FVOCI which are measured at fair value. The consolidated financial statements are presented in Philippine peso, which is the Company’s functional and presentation currency. All values are rounded to the nearest peso, except when otherwise indicated.

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

Basis of Consolidation
The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiary as at December 31, 2020 and December 31, 2019 and for each of the three years in the period ended December 31, 2020.

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

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

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

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

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

<u>New Standards, Interpretations and Amendments</u>
The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of new standards effective as at January 1, 2020. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

- 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 clarifies that a business can exist without including all of the inputs and processes needed to create outputs. These amendments may impact future periods should the Company enter into any business combinations.

  These amendments had no impact on the consolidated financial statements but may apply on future business combinations of the Company.

- 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 the 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 consolidated financial statements on the Company.

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

  The amendments 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.

These amendments had no impact on the consolidated financial statements on the Company.

- 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 the standard-setters 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 new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts.

  The revised Conceptual Framework had no impact on the consolidated financial statements on the Company.

- Amendments to PFRS 16, *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 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.

  These amendments had no impact on the consolidated financial statements of the Company. NLEX has short-term leases and leases of low-value assets only. Meanwhile, NVC is a lessor, thus, the amendments are not applicable to NVC.

<u>Current versus Noncurrent Classification of Assets and Liabilities</u>
The Company presents assets and liabilities in the consolidated statement of financial position based on current or noncurrent classification.

An asset is current when it is:

- Expected to be realized or intended to be sold or consumed in the normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realized within twelve months after the reporting period; or

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

All other assets are classified as noncurrent.

A liability is current when:

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

The Company classifies all other liabilities as noncurrent.

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

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

<u>Financial Instruments</u>

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

<u>Recognition, Measurement, Derecognition, and Impairment of Financial Instruments</u>

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

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

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

The Company has no financial liabilities at FVTPL at December 31, 2020 and 2019.

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

- Financial assets at FVTPL

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

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

  As at December 31, 2020 and 2019, the Company has investments in unit investment trust funds (UITF) classified as financial assets at FVTPL (see Notes 14, 32 and 33).

- Financial Assets at Amortized Cost

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

  As at December 31, 2020 and 2019, this category includes cash and cash equivalents, receivables (excluding advances to officers and employees), and refundable deposits (included in "Other current assets" account in the consolidated statement of financial position) (see Notes 8, 9, 16 and 32).

- Financial Assets at FVOCI

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

  As at December 31, 2020 and 2019, this category includes investments in notes of the ROP and fixed rate retail treasury bond and long-term negotiable certificate of deposits (LTNCDs) (see Notes 15, 32 and 33).

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

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

- Financial Liabilities

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

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

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

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

As at December 31, 2020 and 2019, this category includes accounts payable and other current liabilities, dividends payable, short-term notes payable, long-term debt and service concession fees payable (see Notes 17, 20, 21, 22, 32 and 33).

Derecognition of Financial Assets and Financial Liabilities

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Fair Value Measurement
The Company measures financial assets at FVTPL and financial assets at FVOCI at fair value as at December 31, 2020 and 2019.

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

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

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

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

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

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

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

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

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

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

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

▪ Disclosures for valuation methods, significant estimates and assumptions	Notes 4, 13, 14, 15 and 33
▪ Quantitative disclosures of fair value measurement hierarchy	Note 33
▪ Financial instruments (including those carried at amortized cost)	Notes 14, 15 and 33

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

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

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

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

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 a consequence of the use of the toll roads, and therefore proportional to the number of vehicles using the toll roads and increasing in measurable annual increments.

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

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

The amortization will commence once the service concession asset will be available for use and will be based on the expected pattern of consumption of future economic benefits embodied in the service concession asset.

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

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

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

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

Contract Assets. 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 IFRIC 12.

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

Property and Equipment

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

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

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

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

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

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

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

Investment Properties

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

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

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

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

Depreciation commences once the toll service facilities and improvements are available for use and is calculated on a straight-line basis over the estimated useful life of 25 years.

Other Intangible Assets (Software Cost)

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

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

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

Business Combinations and Goodwill

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

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

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

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

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

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

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

Impairment of Nonfinancial Assets
The Company assesses at each reporting period whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

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

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

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

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

Equity
Capital stock is measured at par value for all shares issued. Incremental costs incurred directly attributable to the issuance of new shares are shown in equity as deduction from proceeds, net of tax.

Proceeds and/or fair value of considerations received in excess of par value, if any, are recognized as additional paid-in capital.

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

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

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

Revenue from Contracts with Customers

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

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

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

- Construction revenue and construction costs are recognized and measured in accordance with PFRS 15 for the services NLEX Corp. performs. When the Company provides construction or upgrade services, the consideration received or receivable by the Company is recognized at its fair value. The revenue and cost from these services are recognized based on the percentage of completion measured principally on the basis of estimated completion of a physical proportion of the contract works, and by reference to the actual costs incurred to date over the estimated total cost of the project. Since the Company subcontracted the works to outside contractors, the construction revenue is equal to the construction cost.

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

Contract Balances

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 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. If the revenue recognized which is determined based average period of listing is lower than the amount collected as of date arising from the contract with the customer, a contract liability is recognized for the difference.

Cost and Expenses Recognition

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

Leases

Short-term leases and leases of low-value assets. The Company applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the leases of low-value assets recognition exemption to leases of office 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.

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

Foreign Currency-denominated Transactions and Translations

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

Borrowing Costs

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

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

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

Retirement Costs

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

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

Defined benefit costs comprise the following:

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

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

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

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

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

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

Defined Contribution Plan. The Company has a funded, contributory defined contribution plan covering all of its regular and full-time employees. The Company's obligation for each period is determined by the amounts to be contributed for that period. Consequently, no actuarial assumptions are required to measure the obligation or the expense and there is no possibility of any actuarial gain or loss to the Company. Moreover, the obligations are measured on an undiscounted basis, except where they do not fall due wholly within twelve months after the end of the period in which the employees render the related service.

Employee Leave Entitlements

Employee entitlements to annual leave are recognized as a liability when earned by the employees. The undiscounted liability for leave expected to be settled wholly before twelve months after the end of the annual reporting period is recognized under "Current portion of provisions" account in the consolidated statements of financial position for services rendered by employees up to the end of the reporting period. The liability for entitlements expected to be settled beyond one year after the end of reporting date are recognized under "Provisions - net of current portion" account in the consolidated statements of financial position and measured at the present value of the benefits as at the end of reporting date.

Share-based Payment

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

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

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

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

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

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

After vesting date, the Company shall not reverse the amount recognized for services received from an employee if the vested equity instrument is later forfeited, or in case of share options, the options are not exercised. However, this does not preclude the Company from recognizing a transfer within equity such as a transfer from one component of equity to another.

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

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

Taxes

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

4. Significant Accounting Judgments, Estimates and Assumptions

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

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

Judgments

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

Going Concern. The Company's management has made an assessment of the Company's ability to continue as a going concern and is satisfied that the Company has the resources to continue in business for the foreseeable future. Furthermore, the Company's management is not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on the going concern basis.

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

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

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

The Company also recognizes construction revenues and costs in accordance with PFRS 15 in 2020, 2019 and 2018. It measures contract revenue at the fair value of the consideration received or receivable. Given that NLEX Corp. has subcontracted the construction to outside contractors, the construction revenue recognized is equal to the construction costs. Construction revenue and costs recognized in the consolidated statements of income amounted to ₱6,831.0 million, ₱7,567.3 million, and ₱4,221.7 million for the years ended December 31, 2020, 2019 and 2018, respectively (see Note 10).

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 ₱460.9 million and ₱239.0 million as at December 31, 2020 and 2019, respectively (see Note 18).

Operating Lease Commitments - Company as Lessor. The Company has entered into commercial property lease on its investment property portfolio. The Company has determined, based on an evaluation of the terms and conditions of the arrangement, such as the lease term not constituting a major part of the economic life of the commercial property and the present value of the minimum lease payments not amounting to substantially all of the fair value of the commercial property, that it retains all the significant risks and rewards of ownership of these properties and accounts for the contracts as operating leases (see Notes 13 and 23).

Estimates and Assumptions

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

Allowance for Doubtful Accounts. Allowance for doubtful accounts is maintained at a level considered adequate to provide for potentially uncollectible receivables. The level of allowance is based on the Company's historical credit loss experience and forward-looking factors specific to the debtors and the economic environment that may affect collectability. The Company applies the Simplified Approach for trade receivables and other receivables, designed to identify potential charges to the allowance and is performed on a continuous basis throughout the period. Provision for doubtful accounts amounted to ₱7.9 million, ₱7.6 million and ₱6.3 million for the years ended December 31, 2020, 2019 and 2018, respectively (see Notes 9 and 25).

Receivables (excluding advances to officers and employees) amounted to ₱1,208.4 million and ₱621.1 million as at December 31, 2020 and 2019, respectively. Allowance for doubtful accounts amounted to ₱42.2 million and ₱40.4 million as at December 31, 2020 and 2019, respectively (see Note 9).

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

For the years ended December 31, 2020, 2019, and 2018, the Company reported amortization of service concession assets amounting to ₱758.8 million, ₱973.8 million, and ₱810.6 million, respectively (see Notes 10 and 24). The carrying values of the service concession assets as at December 31, 2020 and 2019 amounted to ₱51,440.7 million and ₱44,517.6 million, respectively (see Note 10).

Determination of Fair Values of Acquiree Assets and Liabilities in a Business Combination. The acquisition method requires use of accounting estimates and judgments to determine the fair values of the acquiree's identifiable assets and liabilities at acquisition date. Management assessed that the fair value of TMC's net assets acquired approximates its carrying amount as at the Effective Merger Date (see Note 6).

Impairment of Goodwill and Service Concession Assets Not Yet Available for Use. Impairment exists when the carrying value of an asset or CGU exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs of disposing of the asset. The value in use calculation is based on a discounted cash flow (DCF) model. The cash flows are derived from the budget for the concession period and do not include restructuring activities that the Company is not yet committed to or significant future investments that will enhance the performance of the assets of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash inflows and the growth rate used for extrapolation purposes. 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. These estimates are most relevant to service concession assets not yet available for use recognized by the Company. The key assumptions used to determine the recoverable amount are disclosed and further explained in Notes 6 and 10.

There was no impairment loss recognized in the consolidated statements of income for the years ended December 31, 2020, 2019 and 2018. The carrying amount of goodwill amounted to ₱6,213.8 million as at December 31, 2020 and 2019 (see Note 6). The carrying values of the Company's service concession assets not yet available for use amounted to ₱6,480.7 million and ₱3,376.8 million as at December 31, 2020 and 2019, respectively (see Note 10).

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

The Company's assessment on the recognition of deferred tax assets on deductible temporary differences is based on the expected future results of operations.

Deferred tax assets amounted to ₱1,164.9 million and ₱1,008.7 million as at December 31, 2020 and 2019, respectively (see Note 30).

Determination of Impairment of Investment Property. The Company assesses at each reporting period whether there is an indication that the investment property may be impaired. If any such indication exists, 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 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 group of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

There was no provision for impairment loss in 2020 and 2019. The carrying amount of the investment properties amounted to nil and ₱341.6 million as at December 31, 2020 and 2019 (see Note 13).

Retirement Costs and Other Employee Benefits. The cost of defined benefit retirement plan and the present value of the defined benefit obligation are determined using actuarial valuations. The actuarial valuations involve making various assumptions about discount rates, future salary increases and mortality rates. Due to the complexity of the valuation, underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each statement of financial position date. Further details about the assumptions used are given in Note 26.

The Company recognized retirement benefit cost in profit or loss amounting to ₱82.9 million, ₱52.1 million and ₱12.7 million in 2020, 2019 and 2018, respectively (see Note 26). The Company recognized remeasurement loss in the other comprehensive income, net of tax, amounting to ₱28.4 million, ₱64.7 million and ₱5.1 million in 2020, 2019 and 2018, respectively (see Notes 26).

Pension liability amounted to ₱173.2 million and ₱95.6 million as at December 31, 2020 and 2019, respectively (see Note 26).

Employee leave entitlements that is expected to be settled beyond one year after the end of the reporting date recognized under "Provisions" account in the consolidated statements of financial position amounted to ₱88.8 million and ₱51.3 million as at December 31, 2020 and 2019, respectively (see Notes 18 and 26).

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

LTIP payable amounted to ₱305.5 million and ₱155.5 million as at December 31, 2020 and 2019, respectively (see Note 26).

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

The provision for the heavy maintenance requires an estimation of the periodic cost, generally estimated to be every seven (7) to nine (9) years or the expected heavy maintenance dates, to restore the assets to a level of serviceability during the concession term and in good condition before the turnover to the Grantor. This is based on the best estimate of management to be the amount expected to be incurred to settle the obligation at every heavy maintenance date discounted using a pre-tax rate that reflects the current market assessment of the time value of money and the risk specific to the liability.

Provisions (current and noncurrent) amounted to ₱649.3 million and ₱406.0 million as at December 31, 2020 and 2019, respectively (see Note 18).

Contingencies. The Company is a party to certain lawsuits or claims arising from the ordinary course of business. However, the Company's management and legal counsel believe that the eventual liabilities under these lawsuits or claims, if any, will not have a material effect on the Company's consolidated financial statements (see Note 34).

5. Operating Segment Information

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

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

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

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

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

The revenues, net income, assets, liabilities, and other information of the Company's operations as at and for the years ended December 31, 2020, 2019 and 2018 are as follows:

	2020	2019	2018
Net toll revenues	**₱10,859,808,157**	₱15,056,207,973	₱13,049,494,702
Other income	**200,343,484**	313,384,257	208,308,727
Total revenues	**11,060,151,641**	15,369,592,230	13,257,803,429
Operating and maintenance costs	**(3,338,917,123)**	(3,948,341,896)	(3,755,002,641)
Operating expenses	**(808,730,533)**	(876,962,762)	(780,845,742)
EBITDA	**6,912,503,985**	10,544,287,572	8,721,955,046
Financing costs	**(994,212,133)**	(640,398,330)	(321,865,975)
Core income before depreciation, amortization and provisions	**5,918,291,852**	9,903,889,242	8,400,089,071
Depreciation, amortization and provisions*	**(2,370,659,477)**	(3,283,351,444)	(2,642,681,376)
Core income	**3,547,632,375**	6,620,537,798	5,757,407,695
Nonrecurring items	**32,883,029**	13,149,948	(1,958,165)
Net income	**₱3,580,515,404**	₱6,633,687,746	₱5,755,449,530
EBITDA margin for the year	**64%**	70%	67%
Core income margin for the year	**32%**	44%	44%
Net income margin for the year	**32%**	44%	44%
Total assets	**₱62,786,453,538**	₱57,902,644,255	₱49,401,062,694
Total liabilities	**42,672,639,524**	38,374,935,207	30,839,748,763
Total equity	**20,113,814,014**	19,527,709,048	18,561,313,931
Other disclosures:			
Capital expenditure (consists of additions to service concession assets, property and equipment, investment properties and other intangible assets)	**₱7,287,497,859**	₱7,622,571,725	₱4,177,728,530

** Includes provision for current and deferred taxes.*

The following table shows the reconciliation of EBITDA to consolidated net income for the years ended December 31, 2020, 2019 and 2018.

	2020	2019	2018
EBITDA	**₱6,912,503,985**	₱10,544,287,572	₱8,721,955,046
Amortization of service concession assets (see Note 24)	**(758,828,876)**	(973,802,211)	(810,648,908)
Interest expense and other finance costs (see Note 29)	**(1,023,355,587)**	(707,394,685)	(406,592,795)
Provision for heavy maintenance (see Note 24)	**(310,938,391)**	(307,482,581)	(153,060,609)
Depreciation of property and equipment and investment properties (see Notes 24 and 25)	**(133,449,865)**	(147,347,333)	(76,067,322)
Interest income (see Note 28)	**28,949,788**	65,006,692	78,227,411
Realized gain (loss) on investments	**1,120,383**	(13,434,486)	(6,798,755)
Amortization of other intangible assets (see Notes 24 and 25)	**(972,099)**	(2,825,516)	(5,819,883)
Unrealized gain on investments	**45,382**	208,238	637,311
Nonrecurring items:			
Provisions	**(1,293,202)**	(4,570,230)	(18,403,694)
Foreign exchange gain - net	**(5,577,936)**	(450,040)	(873,681)
Others	**39,754,167**	18,170,218	17,319,210
Income before income tax	**4,747,957,749**	8,470,365,638	7,339,785,905
Provision for (benefit from) income tax (see Note 30):			
Current	**1,224,704,775**	1,800,514,225	1,535,706,116
Deferred	**(57,262,430)**	36,163,667	48,630,259
	1,167,442,345	1,836,677,892	1,584,336,375
Net income	**₱3,580,515,404**	₱6,633,687,746	₱5,755,449,530

The following table shows the reconciliation of the consolidated core income to the net income for the years ended December 31, 2020, 2019 and 2018.

	2020	2019	2018
Core income for the year	**₱3,547,632,375**	₱6,620,537,798	₱5,757,407,695
Provisions	**(1,293,202)**	(4,570,230)	(18,403,694)
Foreign exchange loss - net	**(5,577,936)**	(450,040)	(873,681)
Other nonrecurring items	**39,754,167**	18,170,218	17,319,210
Net income	**₱3,580,515,404**	₱6,633,687,746	₱5,755,449,530

6. Goodwill arising from merger between NLEX Corp. and TMC

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

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

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

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

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

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

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

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

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

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

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

NLEX Corp. issued 2.70 shares of stock for each stockholder of TMC, equivalent to a total of 1,026,000 common shares of stock. The total value of equity shares issued by NLEX Corp. amounted to ₱6,318.8 million, based on the independent valuation of third party financial advisor engaged by the Company. The fair value of identifiable net assets acquired amounted to ₱105.0 million.

The amount of goodwill resulting from the Merger between NLEX Corp. and TMC amounted to ₱6,213.8 million.

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

The pre-tax discount rates of 11.2% and 15.0% applied to cash flow projections reflects the weighted average cost of capital as at December 31, 2020 and 2019, respectively. In the assessment of the recoverable amounts, the VIUs were calculated based on cash flow projections as per the most recent financial budgets and forecasts, which management believes are reasonable and are management's best estimates of the ranges of economic conditions that will exist over the forecast period. The average forecast period used in the computation is 17 years and 18 years for 2020 and 2019, respectively. The forecasted period is more than 5 years as management can reliably estimate the cash flows for their entire concession period. The cash flows during the projection periods are derived using estimated average growth rates of traffic volume. Assumptions used in 2020 for traffic volume growth is at 2.7% average growth rate of daily vehicle traffic for NLEX open system, and 3.2% and 7.0% average growth rate of daily vehicle traffic for NLEX and SCTEX closed system, respectively. Assumptions used in 2019 for traffic volume growth is at 2.7% average growth rate of daily vehicle traffic for NLEX open system, and 4.4% and 6.2% average growth rate of daily vehicle traffic for NLEX and SCTEX closed system, respectively.

Based on the impairment test, management did not identify an impairment loss for goodwill.

7. **Sale of shares in NVC to MPTC**

On November 12, 2020, the Parent Company entered into a subscription agreement with NVC for the subscription of 1,000,000 common shares to be issued from the capital increase of NVC at a subscription price of ₱200.00 per share or an aggregate subscription price of ₱200.0 million.

On December 29, 2020, the Parent Company entered into a Deed of Assignment of Subscription Rights with MPTC to transfer and assign the subscription of 1,000,000 common shares in NVC. Receivable from MPTC amounting to ₱200.0 million was subsequently collected on January 22, 2021.

On the same date, the Parent Company also entered into a Deed of Absolute Sale of Shares with MPTC for the sale of its 100% ownership interest in NVC, representing 2,000,000 common shares, for a total consideration of ₱544.0 million payable in cash. The consideration was subsequently collected from MPTC on January 15, 2021 (see Note 19).

The following are the carrying amounts of the assets and liabilities of NVC as of December 29, 2020:

Assets	
Cash and cash equivalents	₱18,179,010
Receivables	93,629,000
Inventories	4,537
Other current assets	54,197,424
Property and equipment – net	991,195
Investment properties – net	571,425,374
Intangible assets	3,532,500
Other noncurrent assets	9,257,418
	751,216,458

Liabilities	
Accounts payable and other current liabilities	₱46,047,921
Short-term loans payable	100,000,000
Contract liabilities	2,856,935
Deposit for future stock subscription	200,000,000
Deferred tax liabilities - net	10,002,560
Other noncurrent liabilities	15,564,397
	374,471,813
Carrying amount of net assets	₱376,744,645

The amount of gain resulting from the loss of control of the subsidiary amounted to:

Total consideration	₱544,000,000
Net assets of the former subsidiary	(376,744,645)
	₱167,255,355

8. Cash and Cash Equivalents

This account consists of:

	2020	2019
Cash on hand and in banks	**₱767,249,932**	₱139,114,079
Short-term deposits as cash equivalents	**1,576,126,132**	4,261,317,501
	₱2,343,376,064	₱4,400,431,580

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

Interest earned from cash and cash equivalents amounted to ₱23.9 million, ₱35.6 million and ₱39.3 million for the years ended December 31, 2020, 2019, and 2018, respectively (see Note 28).

9. Receivables

This account consists of:

	2020	2019
Trade receivables:		
Related parties (see Note 19)	**₱143,134,543**	₱251,541,925
Third parties	**98,927,193**	113,350,321
Due from related parties (see Note 19)	**770,361,074**	51,848,786
Advances to DPWH	**133,126,581**	160,741,016
Receivable from motorists	**66,937,030**	52,458,753
Advances to officers and employees (see Note 19)	**41,186,056**	20,257,368
Interest receivables	**8,793,310**	10,406,480
Other receivables (see Note 32)	**29,293,671**	21,099,969
	1,291,759,458	681,704,618
Less allowance for doubtful accounts	**42,196,336**	40,372,857
	₱1,249,563,122	₱641,331,761

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

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

Receivable from motorists pertains to property and accidental damages caused to NLEX Corp.'s properties from day-to-day operations that are collectible within a year.

Advances to officers and employees are normally liquidated within the following month. (see Note 19)

Interest receivables are collectible within three to six months.

The terms and conditions of related party receivables are discussed in Note 19.

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

Movements in the allowance for doubtful accounts as at December 31, 2020 and 2019 are as follows:

	2020		
	Trade Receivables	**Receivable from motorists**	**Total**
Balance at beginning of year	**₱7,901,934**	**₱32,470,923**	**₱40,372,857**
Provision for doubtful accounts (see Note 25)	**4,077,137**	**3,799,143**	**7,876,280**
Write-off	**(6,052,801)**	**–**	**(6,052,801)**
Balance at end of year	**₱5,926,270**	**₱36,270,066**	**₱42,196,336**

	2019		
	Trade Receivables	Receivable from motorists	Total
Balance at beginning of year	₱6,533,005	₱26,230,449	₱32,763,454
Provision for doubtful accounts (see Note 25)	1,368,929	6,240,474	7,609,403
Balance at end of year	₱7,901,934	₱32,470,923	₱40,372,857

10. **Service Concession Assets**

The movements in this account follow:

	MNEP	SCTEX	NLEX-SLEX Connector Road	Total
Cost:				
At January 1, 2019	₱38,262,267,913	₱4,538,737,554	₱2,984,551,462	₱45,785,556,929
Additions	7,846,269,357	168,986,136	392,248,175	8,407,503,668
At December 31, 2019	46,108,537,270	4,707,723,690	3,376,799,637	54,193,060,597
Additions	4,461,358,882	116,643,472	3,038,872,254	7,616,874,608
Reclassification (see Note 12)	–	–	65,023,560	65,023,560
At December 31, 2020	**₱50,569,896,152**	**₱4,824,367,162**	**₱6,480,695,451**	**₱61,874,958,765**
Accumulated amortization:				
At January 1, 2019	₱8,409,199,593	₱292,469,560	₱–	₱8,701,669,153
Amortization (see Note 24)	876,394,339	97,407,872	–	973,802,211
At December 31, 2019	9,285,593,932	389,877,432	–	9,675,471,364
Amortization (see Note 24)	721,846,620	36,982,256	–	758,828,876
At December 31, 2020	**₱10,007,440,552**	**₱426,859,688**	**₱–**	**₱10,434,300,240**
Net book value:				
At December 31, 2020	**₱40,562,455,600**	**₱4,397,507,474**	**₱6,480,695,451**	**₱51,440,658,525**
At December 31, 2019	36,822,943,338	4,317,846,258	3,376,799,637	44,517,589,233

MNEP

The additions for the year ended December 31, 2020 amounting to ₱4,461.4 million pertain primarily to the construction of R-10 Exit Ramp (portion of Phase II) which includes construction for roadway lighting, side and median barriers and drainage construction, and construction costs of bridge retrofitting, new toll plazas, enhancement of existing ones in certain areas of Phase I, and construction of tunnel, new bridges and roadworks development related to the SFEX Capacity Expansion amounting to ₱4,214.1 million and capitalized borrowing costs, net of investment income amounting to ₱247.3 million (see Notes 14, 20, 28 and 29).

The additions for the year ended December 31, 2019 amounting to ₱7,846.3 million pertain primarily to the construction cost of Segment 10 until its completion in February 2019 and ongoing construction of R-10 Exit Ramp (portion of Phase II); and construction costs of bridge retrofitting, new toll plazas and enhancement of existing ones in certain areas of Phase I amounting to ₱7,288.0 million and capitalized borrowing costs, net of investment income amounting to ₱558.3 million (see Notes 14, 20, 28 and 29).

Capitalized construction costs amounted to ₱4,214.1 million and ₱7,288.0 million in 2020 and 2019, respectively. The Company's addition of service concession assets to MNEP which remains unpaid and is included under "Accounts payable and other current liabilities" in the consolidated statements of financial position amounted to ₱239.3 million and ₱837.3 million as at December 31, 2020 and 2019, respectively (see Note 35).

The interest rates used to determine the amount of borrowing costs eligible for capitalization ranges from 5.1% to 6.9% in 2020 and 5.0% to 6.9% 2019.

The concession term for fully operational Phase I and Segments 8.1, 9 and 10 of Phase II of the MNEP is until December 31, 2037. As at December 31, 2020 and 2019, the remaining concession term is 17 years and 18 years, respectively.

SCTEX
As discussed in Note 2, NLEX Corp. took over from BCDA the management, operation and maintenance of the SCTEX on October 27, 2015. The additions as at December 31, 2020 and December 31, 2019 amounting to ₱116.6 million and ₱169.0 million, respectively, pertain mainly to the installation of fixed operating equipment to SCTEX Bamban Toll Plaza Project and SCTEX Toll Plaza Expansion, construction of toll booths and other technical upgrades.

Capitalized construction costs amounted to ₱116.6 million and ₱169.0 million in 2020 and 2019, respectively. The Company's addition of service concession assets to SCTEX which remains unpaid and is included under "Accounts payable and other current liabilities" in the statements of financial position amounted to ₱0.2 million and ₱25.6 million as at December 31, 2020 and 2019, respectively (see Note 35).

The concession term for SCTEX is until October 30, 2043. As at December 31, 2020 and 2019, the remaining concession term is 23 years and 24 years, respectively.

NLEX-SLEX Connector Road
As discussed in Note 2, NLEX Corp. and DPWH signed the Concession Agreement for the NLEX-SLEX Connector Road on November 23, 2016. The additions for the years ended December 31, 2020 and 2019 amounting to ₱3,103.9 million and ₱392.2 million, respectively, pertain to construction costs in 2020 and 2019 amounting to ₱2,435.2 million and ₱110.3 million, respectively, capitalized land amounting to ₱65.0 million and nil in 2020 and 2019, respectively, and borrowing costs capitalized, net of investment income, in 2020 and 2019 amounting to ₱603.7 million and ₱281.9 million, respectively (see Notes 20, 21, 28 and 29).

On May 10, 2019, NLEX Corp. entered into a Deed of Absolute Sale with a third party to buy a parcel of land located in Calamba, Laguna, for a total amount of ₱65.0 million. This acquisition was initially recognized as part of land of the Company under the "Property and equipment" account (see Note 12).

On June 30, 2020, the land was reclassified to "Service concession assets" account. The land was bought for the storage of materials and equipment of Philippine National Railways, where the Company has an existing lease of land for the construction of NLEX-SLEX Connector Road.

The additions to service concession assets related to NLEX-SLEX Connector Road that remain unpaid and included under "Accounts payable and other current liabilities" in the consolidated statements of financial position amounted to ₱56.1 million and ₱731.2 million as at December 31, 2020 and 2019, respectively (see Note 35).

The borrowing rates used to determine the amount of borrowing costs eligible for capitalization ranges from 3.5% to 6.9% and 4.7% to 7.1% in 2020 and 2019, respectively.

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

Contract Assets
Service concession assets with ongoing construction and upgrade services amounting to ₱12,714.4 million and ₱5,558.5 million as at December 31, 2020 and 2019, respectively, are considered as contract assets under PFRS 15.

Impairment Testing of Service Concession Assets Not Yet Available for Use
For the purposes of impairment testing related to an intangible asset (service concession asset) not yet available for use under the requirements of PAS 36, *Impairment of Assets*, the Company has

performed the analysis by comparing the recoverable amount and the carrying amount of the service concession assets as at reporting date.

The total carrying amount of NLEX-SLEX Connector Road which is not yet available for use amounted to ₱6,480.7 million and ₱3,376.8 million as at December 31, 2020 and 2019, respectively.

The recoverable amount of NLEX-SLEX Connector Road have been determined based on a value in use computation using the cash flow projections from most recent financial budgets and forecast of NLEX Corp. For the impairment testing conducted, average traffic volume growth rates used were 1.2% to 2.9% and the pre-tax discount rates applied amounted to 10.0% and 12.3% as at December 31, 2020 and 2019, respectively, which was based on the weighted average cost of capital with estimated premium of 3.0% over cost of equity as at December 31, 2020 and 2019. The average forecast period used in the computation is 36 years and 37 years for 2020 and 2019, respectively, for NLEX-SLEX Connector Road. The forecast period is greater than 5 years as management can reliably estimate the cash flow for the entire duration of the concession period.

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

11. **Other Intangible Assets**

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

	2020	2019
Cost:		
Balance at beginning of year	**₱158,147,982**	₱127,372,201
Additions	**9,352,479**	30,775,781
Derecognition as a result of sale of subsidiary (see Note 7)	**(3,532,500)**	–
Balance at end of year	**163,967,961**	158,147,982
Accumulated Amortization:		
Balance at beginning of year	**108,328,873**	105,503,357
Amortization (see Notes 24 and 25)	**972,099**	2,825,516
Balance at end of year	**109,300,972**	108,328,873
Net book value	**₱54,666,989**	₱49,819,109

12. Property and Equipment

The movements in this account follow:

	Land	Building, Building Improvements and Leasehold Improvements	Transportation Equipment	Office Equipment and Others	Total
Cost:					
At January 1, 2019	₱–	₱140,707,680	₱165,609,858	₱370,302,741	₱676,620,279
Additions	72,197,370	49,148,560	33,786,680	114,422,718	269,555,328
Disposals	–	–	(3,904,407)	(218,805)	(4,123,212)
At January 1, 2020	72,197,370	189,856,240	195,492,131	484,506,654	942,052,395
Additions	–	19,955,037	20,758,791	75,615,132	116,328,960
Disposals (see Note 19)	–	–	(42,613,118)	(2,552,714)	(45,165,832)
Reclassification (see Note 10)	(65,023,560)	–	–	–	(65,023,560)
Derecognition as a result of sale of subsidiary (see Note 7)	–	–	(3,429,578)	(13,140,407)	(16,569,985)
At December 31, 2020	**₱7,173,810**	**₱209,811,277**	**₱170,208,226**	**₱544,428,665**	**₱931,621,978**
Accumulated Depreciation:					
At January 1, 2019	₱–	₱51,777,858	₱76,224,811	₱214,468,841	₱342,471,510
Depreciation (see Notes 24 and 25)	–	11,526,731	39,538,890	88,774,800	139,840,421
Disposals	–	–	(2,720,212)	(218,804)	(2,939,016)
At January 1, 2020	–	63,304,589	113,043,489	303,024,837	479,372,915
Depreciation (see Notes 24 and 25)	–	10,623,180	27,898,940	87,052,795	125,574,915
Disposals (see Note 19)	–	–	(30,881,782)	(2,425,950)	(33,307,732)
Derecognition as a result of sale of subsidiary (see Note 7)	–	–	(2,741,636)	(12,837,154)	(15,578,790)
At December 31, 2020	**₱–**	**₱73,927,769**	**₱107,319,011**	**₱374,814,528**	**₱556,061,308**
Net book value:					
At December 31, 2020	**₱7,173,810**	**₱135,883,508**	**₱62,889,215**	**₱169,614,137**	**₱375,560,670**
At December 31, 2019	72,197,370	126,551,651	82,448,642	181,481,817	462,679,480

Additions to property and equipment on account in 2020 and 2019 amounted to ₱32.5 million and ₱39.0 million (see Note 35).

Disposals to property and equipment during the year pertains to the sale of decommissioned vehicles for employee shuttling and administrative services to Southbend Express Services, Inc. (SESI). Proceeds from the sale of property and equipment amounted to ₱83.0 million, ₱2.4 million, and ₱0.7 million for the years ended December 31, 2020, 2019, and 2018, respectively. Gain on disposal amounted to ₱71.7 million, ₱1.2 million, and ₱0.2 million for the years ended December 31, 2020, 2019, and 2018, respectively.

The gross carrying amounts of fully depreciated property and equipment that are still in use amounted to ₱422.4 million and ₱341.3 million as at December 31, 2020 and 2019, respectively.

As at December 31, 2020 and 2019, there are no items of property and equipment with liens or encumbrances or used as security of any outstanding loan.

13. Investment Properties

Details of this account are as follows:

	Land and Land Improvements	Toll Service Facilities and Improvements	Construction in Progress	Total
Cost:				
At January 1, 2019	₱128,626,436	₱182,130,785	₱14,981,507	₱325,738,728
Additions	–	22,911,096	1,016,972	23,928,068
Reclassification	–	14,981,507	(14,981,507)	–
At December 31, 2019	128,626,436	220,023,388	1,016,972	349,666,796
Additions	220,321,291	357,143	17,042,823	237,721,257
Derecognition as a result of sale of subsidiary (see Note 7)	(348,947,727)	(220,380,531)	(18,059,795)	(587,388,053)
At December 31, 2020	**₱–**	**₱–**	**₱–**	**₱–**
Accumulated depreciation:				
At January 1, 2019	₱–	₱580,817	₱–	₱580,817
Depreciation (see Note 24)	–	7,506,912	–	7,506,912
At December 31, 2019	–	8,087,729	–	8,087,729
Depreciation (see Note 24)	–	7,874,950	–	7,874,950
Derecognition as a result of sale of subsidiary (see Note 7)	–	(15,962,679)	–	(15,962,679)
At December 31, 2020	₱–	₱–	₱–	₱–
Net book value:				
At December 31, 2020	**₱–**	**₱–**	**₱–**	**₱–**
At December 31, 2019	128,626,436	211,935,659	1,016,972	341,579,067

In 2020, NVC purchased parcels of land in Apalit, Pampanga and Canumay, Valenzuela City. These will be utilized for the planned expansion of NLEX Drive and Dine. Additional construction in progress in 2020 pertains to the ongoing construction of NLEX Drive and Dine Phase 2. Due to the sale of the Parent Company's investment in NVC to MPTC, the investment properties of NVC were derecognized at the consolidated financial statements as at December 31, 2020 (see Note 7).

In 2019, additions to the toll service facilities and improvements amounting to ₱22.9 million pertain to the enhancement of NLEX Drive and Dine and other directly attributable costs. Remaining construction in progress pertains to the ongoing construction of common maintenance facilities of NLEX Drive and Dine Phase 1.

The amounts recognized in the consolidated statements of income derived from the investment properties are as follows:

	2020	2019
Rental income derived from investment properties (see Note 23)	**₱42,421,497**	₱53,385,568
Direct operating expenses generating rental income (see Note 24)	**(25,534,385)**	(30,388,640)
Direct operating expenses that did not generate rental income (see Note 24)	**(701,424)**	(181,423)
	₱16,185,688	₱22,815,505

Fair Value of Investment Properties
As at December 31, 2019, the fair value of the investment properties pertaining to NLEX Drive and Dine Phase 1 amounted to ₱468.2 million, which was determined using the income capitalization approach.

The key assumptions used to determine the fair value of the investment properties as at December 31, 2019 are further discussed below.

Investment properties	Valuation technique	Significant unobservable inputs	2019
NLEX Drive and Dine Phase 1	Income capitalization approach	Estimated rental value per square meter per month	₱1,000
		Budgeted direct operating expenses	16,818,103
		Occupancy rate	89%
		Capitalization rate	8.409%

Income capitalization approach is based on the premise that the value of a property is directly related to the income it generates. This approach converts anticipated future gains to present worth by projecting reasonable income and expenses for the subject property.

The determination of the fair value of investment properties as at December 31, 2019 is categorized under Level 3 fair value hierarchy measurement.

Valuations in 2019 is performed by an accredited independent appraiser. The valuation models are in accordance with that recommended by the International Valuation Standards Committee has been applied.

14. **Financial assets at FVTPL**

Details of this account are shown below:

	2020	2019
Fair Value	**₱2,136,231**	₱18,066,958
Principal Amount	**1,921,954**	17,221,414

The movements in this account follow:

	2020	2019
Balance at beginning of year	**₱18,066,958**	₱67,858,720
Additions	–	80,000,000
Sale of UITF	**(15,299,456)**	(130,000,000)
Changes in fair value taken to profit or loss*	**(631,271)**	208,238
Balance at end of year	**₱2,136,231**	₱18,066,958

**Includes gain on sale of investments in UITFs amounting to nil and ₱152,933 that was deducted from borrowing costs capitalized to service concession assets in 2020 and 2019, respectively (see Note 10).*

The fair value is based on the quoted market price of the financial instruments and directly observable inputs that is significant to fair value measurement as at December 31, 2020 and 2019.

15. **Financial Assets at FVOCI**

Details of this account are shown below:

	2020		2019	
Maturity Date	**Fair Value**	**Principal Amount**	Fair Value	Principal Amount
ROP Retail Treasury Bonds				
August 15, 2023	**₱–**	**₱–**	₱49,096,141	₱50,000,000
Fixed Rate Treasury Notes				
August 20, 2020	**–**	**–**	19,645,373	20,000,000
	–	**–**	19,645,373	20,000,000
LTNCD				
PNB - June 12, 2020	**–**	**–**	49,160,500	50,000,000
Metrobank - November 21, 2021	**46,145,000**	**50,000,000**	46,145,000	50,000,000
	46,145,000	**50,000,000**	95,305,500	100,000,000
	₱46,145,000	**₱50,000,000**	₱164,047,014	₱170,000,000

Interest earned from financial assets at FVOCI amounted to ₱4.9 million, ₱28.7 million and ₱38.9 million for the years ended December 31, 2020, 2019, and 2018, respectively (see Note 28).

The movements in this account follow:

	2020	2019
Balance at beginning of the year	**₱164,047,014**	₱1,041,121,457
Maturity of financial assets at FVOCI	**(70,000,000)**	(61,230,000)
Amortization of discount on bonds	**31,196**	1,604,816
Recycling to profit or loss (see Note 22)	**(18,936)**	96,451,819
Sale of financial assets at FVOCI	**(50,000,000)**	(915,100,000)
Changes in fair value during the period (see Note 22)	**2,085,726**	1,198,922
Balance at end of the year	**₱46,145,000**	₱164,047,014

Current	**₱46,145,000**	₱68,805,873
Noncurrent	**–**	95,241,141
	₱46,145,000	₱164,047,014

Gain (loss) on disposal of financial assets at FVOCI in 2020, 2019 and 2018 amounted to ₱950,880, (₱96,451,819) and (₱43,713), respectively

The fair value is based on the quoted market price of the financial instruments and directly observable inputs that is significant to fair value measurement as at December 31, 2020 and 2019.

The movements in the net unrealized loss on fair value change in financial assets at FVOCI as at December 31, 2020 and 2019 under "Other comprehensive loss reserve" account follow:

	2020	2019
Balance at beginning of year	**(₱5,921,790)**	(₱103,572,531)
Changes in fair value during the period (see Note 22)	**2,085,726**	1,198,922
Recycling to profit or loss (see Note 22)	**(18,936)**	96,451,819
Balance at end of year	**(3,855,000)**	(5,921,790)
Tax effects of items taken directly in equity (see Notes 22 and 30)	**–**	97,029
	(₱3,855,000)	(₱5,824,761)

16. **Other Current Assets**

Details of other current assets follow:

	2020	2019
Advances to suppliers (see Note 19)	**₱96,881,376**	₱180,336,657
Prepayments	**93,819,548**	76,748,336
Deferred input VAT - current	**79,662,703**	74,132,160
Creditable withholding tax	**31,364,627**	28,786,778
Input VAT – net	**14,758,174**	31,289,550
Refundable deposits	**–**	3,276,064
Total	**₱316,486,428**	₱394,569,545
Less:		
Allowance for non-recoverability of creditable tax	**(15,380,461)**	(15,380,461)
Allowance for unclaimable input VAT (see Note 25)	**(14,758,174)**	(16,695,641)
	₱286,347,793	₱362,493,443

Prepayments include prepaid insurance covering the service concession assets of the Company, permits and registration fees, and payments for hardware and software maintenance. These are expected to be consumed within the next operating cycle of the Company.

Input VAT represents VAT paid to suppliers that can be claimed as credit against the Company's future output VAT liabilities without prescription.

Creditable withholding tax pertain to the excess tax credits to be claimed against income tax.

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

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

This account consists of:

	2020	2019
Trade payables:		
Third parties	**₱448,617,624**	₱246,747,574
Related parties (see Note 19)	**190,357,687**	87,227,236
Accrued expenses:		
Third parties	**2,751,335,397**	2,738,889,804
Related parties (see Note 19)	**203,471,819**	144,096,549
Retention payable:		
Third parties	**399,402,000**	333,381,000
Related parties (see Note 19)	**36,548,928**	17,325,621
Interest payable	**166,464,487**	187,911,837
Withholding taxes payable	**117,985,985**	119,720,576
Deferred output VAT	**42,832,604**	28,025,802
Output VAT – net	**23,795,813**	9,027,856
Others	**62,136,280**	23,049,811
	₱4,442,948,624	₱3,935,403,666

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

Accrued expenses consist of:

	2020	2019
Construction costs	**₱1,766,567,318**	₱1,269,146,557
Repairs and maintenance (see Note 19)	**225,489,458**	68,063,567
TRB fee	**201,487,995**	182,215,691
Outside services (see Note 19)	**154,872,563**	84,330,750
Advertising and marketing expenses (see Note 19)	**114,503,252**	48,653,372
Operating and maintenance cost	**109,620,987**	72,687,889
Concession fees (see Note 2)	**107,458,162**	150,111,760
PNCC fee	**56,679,028**	742,517,583
Taxes and licenses	**52,582,454**	49,322,248
Professional fees	**43,246,677**	59,366,007
Project insurance	**19,094,295**	9,814,854
Management fees (see Note 19)	**5,366,858**	74,789,831
Toll collection and medical services	–	1,592,845
Others	**97,838,169**	70,373,399
	₱2,954,807,216	₱2,882,986,353

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

Interest payable is settled within three to six months.

The terms and conditions of related party payables are discussed in Note 19.

18. **Provisions**

The movements in this account follow:

	Heavy Maintenance	Others (see Note 25)	Total
At January 1, 2019	₱193,975,390	₱254,366,342	₱448,341,732
Additions (see Notes 24 and 25)	307,482,581	22,689,715	330,172,296
Accretion (see Note 29)	11,572,488	–	11,572,488
Payments	(274,030,649)	(91,161,316)	(365,191,965)
Reversal	–	(18,941,796)	(18,941,796)
At December 31, 2019	238,999,810	166,952,945	405,952,755
Additions (see Notes 24 and 25)	310,938,391	39,869,088	350,807,479
Accretion (see Note 29)	8,872,050	–	8,872,050
Payments	(97,867,248)	(18,434,112)	(116,301,360)
At December 31, 2020	**₱460,943,003**	**₱188,387,921**	**₱649,330,924**
At December 31, 2020:			
Current	**₱324,171,226**	**₱104,168,088**	**₱428,339,314**
Noncurrent	**136,771,777**	**84,219,833**	**220,991,610**
	₱460,943,003	**₱188,387,921**	**₱649,330,924**
At December 31, 2019:			
Current	₱–	₱123,095,653	₱123,095,653
Noncurrent	238,999,810	43,857,292	282,857,102
	₱238,999,810	₱166,952,945	₱405,952,755

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

Other provisions include employee leave entitlements that is expected to be settled beyond one year after the reporting date (see Note 26).

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

19. **Related Party Disclosures**

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

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

Related Party	Relationship		Management Fees (see Note 25)	Operator's Fee (see Note 24)	Outside Services (see Notes 24 and 25)	Repairs and Maintenance (see Notes 24 and 25)	Communication, Light and Water (see Notes 24 and 25)	Advertising and Marketing Expenses (see Notes 24 and 25)	Professional Fees (see Note 25)	Representation and Travel Expenses (see Note 24 and 25)	Fuel & Oil, Transportation, Rental (see Note 24)	Income from Advertising (see Note 23)	Income from Toll Service Facilities (see Note 23)	Income from Utility Facilities (see Note 23)
MPTC	Intermediate Parent Company	**2020**	**₱8,515,610**	**₱–**	**₱250,028**	**₱3,621,184**	**₱1,206,354**	**₱12,574,569**	**₱1,184,014**	**₱2,050**	**₱2,869,924**	**₱–**	**₱–**	**₱–**
		2019	39,846,253	–	135,000	41,158	17,285	76,933,333	–	–	–	–	–	–
		2018	61,187,675	–	–	1,989,268	–	106,581,694	–	8,507	–	–	–	–
MPTNC	Parent Company	**2020**	**26,577,483**	**–**	**–**	**–**	**–**	**–**	**–**	**20,000**	**–**	**–**	**–**	**–**
		2019	40,428,928	–	–	–	–	14,386,665	–	–	–	–	–	–
		2018	35,206,694	–	–	–	–	3,327,346	–	–	–	–	–	–
TMC	Subsidiary of MPTNC	**2020**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
		2019	–	–	–	–	–	–	–	–	–	–	–	–
		2018	–	825,787,622	–	–	–	54,500	–	–	42,228	–	–	–
Easytrip Services Corp. (ESC)	Subsidiary of MPTC	**2020**	**–**	**–**	**98,302,457**	**–**	**–**	**86,128,595**	**–**	**2,786**	**–**	**–**	**–**	**–**
		2019	–	–	93,539,844	–	–	602,546	–	1,786	–	–	–	–
		2018	–	–	78,727,784	–	–	366,150	–	–	–	686,286	–	–
Smart Communications Inc. (Smart)	Associate of FPC	**2020**	**–**	**–**	**–**	**–**	**5,664,467**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
		2019	–	–	–	–	3,371,138	–	–	–	–	–	–	408,259
		2018	–	–	–	–	1,849,532	15,774	–	–	–	1,864,000	–	390,678
PLDT, Inc. (PLDT)	Associate of FPC	**2020**	**–**	**–**	**–**	**–**	**6,611,697**	**–**	**–**	**–**	**–**	**–**	**–**	**2,481,528**
		2019	–	–	–	–	7,167,880	41,520	–	10,272	–	2,050,000	–	2,269,264
		2018	–	–	–	–	3,495,933	1,925	–	–	–	700,000	–	2,172,056
Metro Pacific Tollways Management Services, Inc. (MPTMSI)	Subsidiary of MPTC	**2020**	**24,207,022**	**–**	**–**	**4,225,147**	**74,822**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
		2019	48,808,339	–	–	–	532,611	–	–	–	–	–	–	–
		2018	53,912,048	–	–	–	–	1,301,560	–	–	–	–	–	–
Cavitex Infrastructure Corp. (CIC)	Subsidiary of MPTC	**2020**	**–**	**–**	**–**	**–**	**–**	**159**	**–**	**–**	**236**	**–**	**–**	**–**
		2019	–	–	–	–	–	77	–	–	–	1,450,000	–	–
		2018	–	–	–	–	–	2,387,014	–	–	1,569	–	–	–
MPIC	Parent Company of MPTC	**2020**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
		2019	–	–	–	–	–	18,500	–	–	–	–	–	–
		2018	–	–	–	–	–	–	–	–	288,600	–	–	–
Manila Electric Company (Meralco)	Associate of MPIC	**2020**	**–**	**–**	**–**	**–**	**37,256,605**	**3,202**	**–**	**–**	**–**	**–**	**–**	**–**
		2019	–	–	–	–	48,456,710	–	–	–	–	–	–	360,000
		2018	–	–	–	–	11,794,996	–	–	–	–	–	–	360,000
Maynilad	Subsidiary of MPIC	**2020**	**–**	**–**	**–**	**–**	**7,763,294**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
		2019	–	–	–	–	896,654	–	–	–	–	44,643	–	25,000
		2018	–	–	–	–	370,683	–	–	–	–	–	–	–
Indra Philippines, Inc. (Indra)	Associate of MPIC	**2020**	**–**	**–**	**–**	**35,829,190**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
		2019	–	–	–	30,897,102	–	–	–	–	–	–	–	–
		2018	–	–	–	11,348,,827	–	–	–	–	–	–	48,619	–
Egis Projects Philippines Inc. (EPPI)	Associate of FPC	**2020**	**–**	**–**	**–**	**8,658,561**	**–**	**–**	**11,781,383**	**–**	**–**	**–**	**–**	**–**
		2019	–	–	–	–	–	–	20,565,227	–	–	–	–	–
		2018	–	–	–	–	–	–	19,642,857	–	1,794,844	–	–	–
Citra Metro Manila Tollways Corp.	Associate of FPC	**2020**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
		2019	–	–	–	–	–	–	–	–	–	–	–	–
		2018	–	–	–	88	–	1,002	–	–	12,967	–	–	–
Southbend Express Services, Inc. (SESI)	Subsidiary of MPTC	**2020**	**–**	**–**	**145,951,435**	**–**	**21,780**	**–**	**–**	–	**61,032,049**	**–**		**–**
		2019	–	–	68,731,009	377,372	120,340	–	–	3,700,351	4,561,031	–		–
		2018	–	–	–	–	–	–	–	–	–	–	–	–
MPCALA Holdings Inc. (MHI)	Subsidiary of MPTNC	**2020**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**17,500**	**–**	**–**	**–**
		2019	–	–	–	–	–	–	–	–	–	–	–	–
		2018	–	–	–	–	–	–	–	–	–	–	–	–
Total		**2020**	**₱59,300,115**	**₱–**	**₱244,503,920**	**₱52,334,082**	**₱58,599,019**	**₱98,706,525**	**₱12,965,397**	**₱24,836**	**₱63,919,709**	**₱–**	**₱–**	**₱2,481,528**
		2019	129,083,520	–	162,405,853	31,315,632	60,562,618	91,982,641	20,565,227	3,712,409	4,561,031	3,544,643	–	3,062,523
		2018	150,306,417	825,787,622	78,727,784	13,338,183	17,511,144	114,036,965	19,642,857	8,507	2,140,208	3,250,286	48,619	2,922,734

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

Related Party	Relationship		Advances to Suppliers (see Note 16)	Trade Receivables[2] (see Note 9)	Due from Related Parties[1] (see Note 9)	Due to Affiliate[2] (see Note 17)	Accounts Payable and Other Current Liabilities and Dividends Payable[2] (see Note 17)	Terms	Conditions
MPTC	Intermediate Parent Company	**2020**	**₱–**	**₱–**	**₱746,476,502**	**₱–**	**₱40,384,075**	(1) On demand; noninterest-bearing	Unsecured; no
		2019	–	3,510,043	3,158,736	–	77,445,747	(2) 30-45 days; noninterest-bearing	impairment
MPTNC	Parent Company	**2020**	**–**	**–**	**16,168**	**25,291**	**1,363,621,328**	(1) On demand; noninterest-bearing	Unsecured; no
		2019	–	291,920	78,519	–	2,213,154,450	(2) 30-45 days; noninterest-bearing	impairment
Metro Pacific Tollways South Management Corp.	Subsidiary of MPTSC	**2020**	**–**	**–**	**3,246,201**	**–**	**2,885,764**	On demand; noninterest-bearing	Unsecured; no
		2019	–	633,451	35,859,061	–	3,113,607		impairment
MPCALA Holdings, Inc. (MHI)	Subsidiary of MPTNC	**2020**	**–**	**12,354**	**16,901**	**–**	**–**	On demand; noninterest-bearing	Unsecured; no
		2019	–	–	216,627	–	–		impairment
CIC	Subsidiary of MPTC	**2020**	**–**	**441,741**	**264,582**	**–**	**–**	On demand; noninterest-bearing	Unsecured; no
		2019	–	289,553	597,198	–	–		impairment
ESC	Subsidiary of MPTC	**2020**	**–**	**141,015,102**	**452,566**	**–**	**107,381,986**	(1) On demand; noninterest-bearing	Unsecured; no
		2019	–	239,515,421	185,015	–	20,023,474	(2) 7 days; noninterest-bearing	impairment
Indra	Associate of MPIC	**2020**	**6,097,304**	**–**	**–**	**–**	**44,392,695**	Within one year; noninterest-bearing	Unsecured, no
		2019	1,408,738	–	–	–	29,082,547		impairment
Smart	Associate of FPC	**2020**	**–**	**–**	**–**	**–**	**1,018,411**	30-45 days; noninterest-bearing	Unsecured; no
		2019	–	2,516,048	–	–	372,856		impairment
PLDT	Associate of FPC	**2020**	**–**	**60,940**	**–**	**–**	**834,333**	30-45 days; noninterest-bearing	Unsecured; no
		2019	–	3,257,824	–	–	562,324		impairment
Digitel	Associate of FPC	**2020**	**–**	**–**	**–**	**–**	**–**	30-45 days; noninterest-bearing	Unsecured; no
		2019	–	–	–	–	–		impairment
Meralco	Associate of MPIC	**2020**	**17,686,892**	**42,287**	**–**	**–**	**39,772,591**	Within one year; noninterest-bearing	Unsecured, no
		2019	22,149,806	–	–	–	19,485,188		impairment
Maynilad	Subsidiary of MPIC	**2020**	**24,318,033**	**300,000**	**65,237**	**–**	**145,242**	Within one year; noninterest-bearing	Unsecured, no
		2019	–	86,410	65,237	–	21,487		impairment
MPTMSI	Subsidiary of MPTC	**2020**	**–**	**–**	**11,303,711**	**–**	**7,680,818**	On demand; noninterest-bearing	Unsecured; no
		2019	–	431,753	11,449,666	–	27,879,673		impairment
NVC	Subsidiary of MPTC	**2020**	**–**	**–**	**5,266,975**	**–**	**–**	On demand; noninterest-bearing	Unsecured; no
		2019	–	–	–	–	–		impairment
Cebu Cordova Link Expressway Corporation	Subsidiary of MPTC	**2020**	**–**	**–**	**558,432**	**–**	**–**	On demand; noninterest-bearing	Unsecured; no
		2019	–	997,197	238,727	–	–		impairment
SESI	Subsidiary of MPTC	**2020**	**–**	**1,179,848**	**2,693,799**	**–**	**93,582,725**	On demand; noninterest-bearing	Unsecured; no
		2019	–	12,305	–	–	23,036,853		impairment
EPPI	Associate of FPC	**2020**	**12,802,301**	**82,271**	**–**	**–**	**73,527,715**	On demand; noninterest-bearing	Unsecured; no
		2019	14,329,187	–	–	–	28,698,924		impairment
Egis Investment Partners Philippines, Inc. (EIPPI)	Stockholder	**2020**	**–**	**–**	**–**	**–**	**193,113,063**	On demand; noninterest-bearing	Unsecured
		2019	–	–	–	–	315,079,208		
Banco de Oro Unibank, Inc. (BDO)	Stockholder	**2020**	**–**	**–**	**–**	**–**	**222,283,615**	On demand; noninterest-bearing	Unsecured
		2019	–	–	–	–	362,673,267		
Global Fund Holdings, Inc. (Global Fund)	Stockholder	**2020**	**–**	**–**	**–**	**–**	**74,094,539**	On demand; noninterest-bearing	Unsecured
		2019	–	–	–	–	120,891,089		
Republic of the Philippines	Stockholder	**2020**	**–**	**–**	**–**	**–**	**65,659,534**	On demand; noninterest-bearing	Unsecured
		2019	–	–	–	–	107,128,712		
Total		**2020**	**₱60,904,530**	**₱143,134,543**	**₱770,361,074**	**₱25,291**	**₱2,330,378,434**		
		2019	37,887,731	251,541,925	51,848,786	–	3,348,649,406		

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

Transactions with Parent Companies of NLEX Corp.

MPTC

- On January 1, 2018, NLEX Corp. entered into a management service agreement with MPTC, whereby MPTC provides management and other advisory services through the secondment and outsourcing of MPTC's employees. Consequently, MPTC shall be entitled to a monthly fixed fee in the amount of ₱5.1 million, which is inclusive of the standard administrative fee of 10% but is exclusive of VAT. The agreement shall remain in effect for a period of twelve (12) months and may be renewed or extended upon mutual agreement by NLEX Corp. and MPTC. On January 1, 2020 and 2019, the agreement was renewed for another 12 months which amended the fixed monthly fee to ₱1.4 million and ₱2.1 million (inclusive of 10% administrative fee but exclusive of VAT), respectively.

- In 2019 and 2018, MPTC billed NLEX Corp. for its share in the compensation, bonuses and other benefits of the NLEX Road Warriors Philippine Basketball Association team. On January 16, 2020, NLEX Corp pays directly the compensation of the NLEX Road Warriors Philippine Basketball Association team.

- On December 29, 2020, NLEX Corp entered into a Deed of Sale agreement with MPTC for the sale of its NVC shares for a total consideration of ₱544.0 million. A subscription agreement has been entered also with MPTC to transfer and assign its rights for the increase in the authorized capital stock of NVC with a total consideration of ₱200.0 million (see Note 7).

MPTNC

- On January 1, 2018, NLEX Corp. entered into a management service agreement with MPTNC, whereby MPTNC provides management and other advisory services through the secondment and outsourcing of MPTNC's employees. Consequently, MPTNC shall be entitled to a monthly fixed fee in the amount of ₱2.9 million, which is inclusive of the standard administrative fee of 10% but is exclusive of VAT. The agreement shall remain in effect for a period of twelve (12) months and may be renewed or extended upon mutual agreement by NLEX Corp. and MPTNC. In 2020 and 2019, the agreement was renewed which amended the fixed monthly fee to ₱4.4 million and ₱6.7 million (inclusive of 10% administrative fee but exclusive of VAT), respectively, for a period of twelve (12) months.

- Total unpaid dividends to MPTNC amounted to ₱1,344.8 million and ₱2,194.2 million as at December 31, 2020 and 2019, respectively. The dividends were subsequently paid on January 22, 2021.

Transactions with Other Related Parties

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

NLEX

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

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

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

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

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

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

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

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

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

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

<u>SCTEX</u>

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

<u>Other Transaction</u>

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

MPTMSI

- On January 1, 2018, NLEX Corp. entered into a management service agreement with MPTMSI, whereby MPTMSI provides management and other advisory services through the secondment and outsourcing of MPTMSI's employees. Consequently, MPTMSI shall be entitled to a monthly fixed fee in the amount of ₱4.5 million, which is inclusive of the standard administrative fee of 10% but is exclusive of VAT. The agreement shall remain in effect for a period of twelve (12) months and may be renewed or extended upon mutual agreement by NLEX Corp. and MPTMSI. In 2020 and 2019, the agreement was renewed which amended the fixed monthly fee to ₱4.0 million and ₱5.3 million (inclusive of 10% administrative fee but exclusive of VAT), respectively. The agreement shall remain in effect for twelve (12) months.

ESC

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

₱3.0 and ₱4.0 per transactions for Class 2 and Class 3, respectively, which are also to be maintained and escalated every year for labor index and CPI.

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

- In 2020 and 2019, ESC billed NLEX Corp. for various outside services for RFID performance fees, beep cards and advertising and marketing expenses.

Indra

- In 2020 and 2019, Indra billed NLEX Corp. for various repairs and maintenance services rendered to ETC facilities installed along NLEX.

EPPI

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

MPTSMC

- In 2020 and 2019, the Company paid various costs and expenses in behalf of MPTSMC.

MPCALA

- In 2020 and 2019, the Company paid various costs and expenses such as fuel and oil and transportation in behalf of MPCALA.

CIC

- In 2020, NLEX Corp. billed Cavitex Infrastructure Corp. for the fuel and oil and transportation expenses and other various expenses. In 2019, NLEX Corp. billed Cavitex Infrastructure Corp. for the toll booth wrap up, plaza banners and boom advertisements for the total amount of ₱1.5 million.

SESI

- Previously, before the merger of TMC and NLEX, TMC requires a service provider to perform the necessary preventive/routine maintenance activities for the facilities and equipment within the sheltered facilities of NLEX & SCTEX. In relation to the merger of TMC and NLEX, it is understood that the novation will not alter all the rights and obligations of the parties to the current service agreement. On a letter dated December 27, 2018, NLEX Corp. formally confirmed the extension of service engagement for the Janitorial Maintenance Services and General Outsourced Support Services of SESI for one (1) year effective January 1, 2019. This was renewed for another year effective January 1, 2020. SESI shall provide qualified personnel, labor, supply of equipment and cleaning materials necessary to ensure the complete and efficient performance of Janitorial Maintenance Services.

- In February 2020, NLEX Corp. sold its vehicles for employee shuttling and administrative services to SESI. Proceeds from the sale of property and equipment amounted to ₱83.0 million and a gain on disposal amounted to ₱71.7 million (see Notes 12 and 30).

- In 2020 and 2019, SESI billed NLEX Corp. for various expenses such as repairs and maintenance, communication, utilities, and fuel and oil.

PLDT, Smart and Digitel

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

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

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

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

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

- In 2020 and 2019, PLDT and Smart billed the Company for its communication expenses.

Meralco

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

- In 2020 and 2019, the Company was billed by Meralco for its electric consumption in its head office; in Segment 9, portion of Phase II of MNEP, and for its drainage system in Balintawak and Valenzuela.

Maynilad

- In 2020 and 2019, the Company was billed by Maynilad for its water consumption in its head office.

Other Transactions

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

	2020	2019	2018
Short-term employee benefits	**₱151,039,195**	₱168,490,106	₱102,170,076
Retirement expense (see Note 26)	**82,906,207**	52,110,683	12,661,013
LTIP expense (see Note 26)	**149,978,153**	69,492,087	27,573,136
	₱383,923,555	₱290,092,876	₱142,404,225

- NLEX Corp. acts as a surety or co-obligor with certain NLEX Corp. officers for the payment of valid corporate expenses through the use of corporate credit cards at specified approved amounts ranging from ₱0.04 million to ₱0.4 million both in 2020 and 2019.

- The Company paid directors fees amounting to ₱2.3 million, ₱1.0 million and ₱0.9 million for the years ended December 31, 2020, 2019 and 2018, respectively, recorded under "General and administrative expenses" account in the consolidated statements of income (see Note 25).

- Advances to officers and employees has an outstanding balance of ₱41.2 million and ₱20.3 million as at December 31, 2020 and 2019, respectively (see Note 9).

- The Company sold its investment in corporate notes of Meralco and PLDT amounting to ₱400.0 million in 2019.

Review and Approval of Related Party Transactions
The review and approval of related party transactions shall be subject to the review process to determine whether a related party transaction is on arm's length terms and is in the best interest of the Company and its shareholders as a whole. Related party transactions shall be reviewed and approved by the appropriate level of management depending on the approval threshold set by the Company.

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

Short-term Notes Payable
Movement in the short-term notes payable as at December 31, 2020 and 2019 are as follows:

	2020	2019
Balance at beginning of year	**₱25,000,000**	₱–
Availments	**5,155,000,000**	525,000,000
Payments	**(5,080,000,000)**	(500,000,000)
Derecognition as a result of sale of subsidiary (see Note 7)	**(100,000,000)**	–
Balance at end of year	**₱–**	₱25,000,000

NLEX Corp.
On March 23, 2020, NLEX Corporation availed 90-day and 180-day short-term loans from Rizal Commercial Banking Corporation (RCBC) in two tranches amounting to ₱2.012 billion and ₱2.0 billion, respectively, both with an annual interest rate of 5.0% and a maturity date of June 22, 2020. These were also renewed in 2020 with maturity dates of September 23, 2020 and September 21, 2020, respectively. The proceeds were used to bridge finance the Company's capital expenditures.

The ₱2.0 billion short-term loan was paid on September 16, 2020 while the remaining loan was partially refinanced by a 60-day short-term facility ₱1.0 billion from Philippine National Bank (PNB) with an annual interest rate of 3.5% and a maturity date of November 17, 2020. As at December 31, 2020, all short-term loans were paid by NLEX Corp.

On March 28, 2019, NLEX Corp. availed a 180-day short-term loan from PNB amounting to ₱500.0 million with an annual interest rate of 6.25%. The proceeds were used to bridge finance the Company's capital expenditures that are intended to be permanently financed by term loans. The loan facility matured and was paid on September 24, 2019.

On April 18, 2018, NLEX Corp. availed 90-day short-term loans from BDO Unibank Inc. (BDO) and Metropolitan Bank & Trust Co. (MBTC) amounting to ₱1.4 billion each with an annual interest rate of 3.50%. The proceeds were used to finance the payment of the ₱4.0 billion Series A Notes which matured and was settled on July 17, 2018.

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

NVC
In March 2020, NVC availed 90-day short-term loans from MBTC and RCBC amounting to ₱25.0 million and ₱43.0 million with annual interest rates of 4.35% and 4.60% and maturity date of June 15, 2020. The short-term loan from MBTC was renewed with an interest rate of 3.65% and a maturity date of March 15, 2021.

NVC also availed another 90-day short-term loans from MBTC totaling to ₱25.0 million and RCBC amounting to ₱50.0 million with an annual interest rates of 3.50% and 3.75% to be used for its working capital requirements. These loans will mature on March 18, 2021 and February 11, 2021.

On November 20, 2019, NVC availed a 90-day short term loan from MBTC amounting to ₱25.0 million with an annual interest rate of 4.6% and a maturity date of February 18, 2020. The proceeds will be used for its working capital requirements. The loan was renewed and settled on November 16, 2020.

Due to the sale of the Parent Company's investment in NVC to MPTC, the loans of NVC were derecognized at consolidated financial statements as of December 31, 2020 (see Note 7).

Interest expense from the short-term loans of NLEX Corp. and NVC for the year ended December 31, 2020 and 2019, which are presented as part of "Interest expense and other finance costs" in the consolidated statements of income amounted to ₱26.0 million, ₱15.7 million, and ₱16.8 million in 2020, 2019, and 2018, respectively (see Note 29).

Long-term Debt
Movement in long-term debt as at December 31, 2020 and 2019 are as follows:

	2020	2019
Balance at beginning of year	**₱26,870,000,000**	₱22,230,000,000
Availments	**5,000,000,000**	5,000,000,000
Payments	**(360,000,000)**	(360,000,000)
Balance at end of year	**31,510,000,000**	26,870,000,000
Less: current portion of long-term debt	**5,935,000,000**	360,000,000
	₱25,575,000,000	₱26,510,000,000

Long-term debt, net of unamortized debt issue costs, consists of:

	2020	2019
Peso-denominated Notes, Loans and Bonds:		
Series A Notes	**₱910,000,000**	₱920,000,000
Corporate Notes	**5,000,000,000**	–
Term Loan Facilities	**12,600,000,000**	12,950,000,000
Fixed-rate Bonds	**13,000,000,000**	13,000,000,000
	31,510,000,000	26,870,000,000
Less unamortized debt issue costs	**188,920,018**	164,782,524
	31,321,079,982	26,705,217,476
Less current portion of long-term debt - net of unamortized debt issue costs of ₱25,651,165 and ₱8,138,890 as at December 31, 2020 and 2019, respectively	**5,909,348,835**	351,861,110
	₱25,411,731,147	₱26,353,356,366

The unamortized debt issue costs incurred in connection with the availment of long-term debt amounting to ₱188.9 million and ₱164.8 million as at December 31, 2020 and 2019, respectively, were deducted against the long-term debt. The movements in debt issue costs are as follows:

	2020	2019
Balance at beginning of year	**₱164,782,524**	₱152,575,537
Debt issue costs incurred during the year	**59,906,614**	39,692,087
Amortization during the year* (see Notes 10 and 29)	**(35,769,120)**	(27,485,100)
Balance at end of year	**₱188,920,018**	₱164,782,524

**Includes amortization of debt issue costs capitalized to service concession assets amounting to ₱13,467,940 and ₱12,269,189 on December 31, 2020 and 2019, respectively.*

Series A Notes
On April 15, 2011, NLEX Corp. entered into a Corporate Notes Facility Agreement with various local financial institutions for fixed-rate unsecured notes amounting to ₱6.2 billion, with tenors ranging over 5 years, 7 years and 10 years ("Series A Notes"). Weighted average fixed interest rate on the Series A Notes is 7.70% per annum. Debt issue costs incurred in the availment of the Series A Notes amounted to ₱141.9 million in 2011.

On April 19, 2018, the Company paid ₱5.2 billion of Series A Notes with tenor of 7 years. Starting 2011, the Company paid ₱10.0 million every 15th day of March for the 10-year Series A Notes. As at December 31, 2020, the outstanding fixed-rate unsecured notes amounting to ₱910.0 million will mature on April 19, 2021.

<u>2020 Corporate Notes Facility</u>
On November 4, 2020, NLEX Corp. entered into a Corporate Notes Facility Agreement with various financial institutions for an unsecured note amounting to ₱20.0 billion (₱11.0 billion for Tranche A Facility and ₱9.0 billion for Tranche B Facility), with tenors ranging from 7 years (Tranche A) and 10 years (Tranche B). The noteholders for Tranche A are China Banking Corporation (CBC), Development Bank of the Philippines, KEB Hana Bank Manila Branch, Land Bank of the Philippines (LBP), and The Insular Life Assurance Company, Ltd. while the noteholders for Tranche B are CBC, LBP, Sun Life of Canada (Philippines) Inc., and United Coconut Planters Bank. The initial drawdown was made on November 11, 2020 amounting to ₱5.0 billion, of which, ₱2.75 billion refers to Tranche A while ₱2.25 billion refers to Tranche B.

The applicable interest rate for the initial drawdown for Tranche A (7-year tranche) was 4.040% from Issue Date until the day immediately prior to second (2nd) anniversary of the Initial Issue Date while for Tranche B (10-year tranche) was 4.293% from Issue Date until the day immediately prior to fifth (5th) anniversary of the Initial Issue Date. Remaining drawdowns are scheduled within 2021. The proceeds will be primarily used to finance the NLEX Connector Road Project and other capital expenditures.

<u>Term Loan Facilities</u>
BDO Unibank Inc. On September 19, 2019, NLEX Corp. entered into a term loan facility agreement with BDO Unibank Inc. for a 10-year fixed-rate loan amounting to ₱5.0 billion. The proceeds of the loan will be used to partially finance the Company's capital expenditure projects. On September 23, 2019, the Company made an initial drawdown of ₱1.0 billion with an annual interest rate of 5.21%. On December 27, 2019, the Company made its second and final drawdown amounting to ₱4.0 billion with an annual interest rate of 4.73%.

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

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

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

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

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

On October 24, 2017, NLEX Corp. made its second and final drawdown amounting to ₱2.0 billion. The Company paid ₱4.2 million in commitment fees for not being able to draw in accordance with the drawdown schedule. Total debt issue costs incurred on the second drawdown, including the commitment fees, amounted to ₱14.2 million. The Company paid ₱250.0 million on December 15, 2019 and December 14, 2020.

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

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

On July 24, 2017, the Company opted not to extend the availability period of the undrawn amount of the term loan facility. On August 9, 2017, Unionbank, billed NLEX Corp. for the commitment fee of ₱12.1 million which is equivalent to 0.25% per annum of the undrawn amount, computed from January 29, 2016 up to July 24, 2017. The Company paid ₱100.0 million on February 3, 2019 and 2020.

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

<u>Fixed-rate Bonds</u>
On March 31, 2014, NLEX Corp. issued ₱4.4 billion principal amounts of fixed-rate bonds with terms of seven years at 5.07% per annum and ₱2.6 billion principal amounts of bonds with terms of 10 years at 5.50% per annum, for public distribution and sale in the Philippines. Interest payments are payable quarterly in arrears on March 31, June 30, September 30 and December 31 starting on June 30, 2014. Total debt issue costs amounted to ₱76.0 million.

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

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

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

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

Compliance with Loan Covenants
As at December 31, 2020 and 2019, NLEX Corp. is compliant with the required financial ratios and other loan covenants (see Note 32). NLEX Corp.'s long-term debt is unsecured as at December 31, 2020 and 2019.

21. Service Concession Fees Payable

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

	Amount
At January 1, 2019	₱2,701,448,632
Accretion (see Note 10)	192,872,145
At January 1, 2020	2,894,320,777
Accretion (see Note 10)	177,782,208
At December 31, 2020	**₱3,072,102,985**

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

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

The undiscounted estimated future periodic payments, excluding the effect of the CPI, is ₱8,510.4 million as of December 31, 2020 and 2019.

22. Equity

Capital Stock
Details of common shares of the Parent Company as at December 31, 2020 and 2019 follow:

	Number of Shares
Authorized - ₱100 par value	40,000,000
Issued and outstanding	18,786,000

In relation to the merger with TMC in 2018, the Company issued 2.70 common shares of stocks for each stockholder of TMC, equivalent to a total of 1,026,000 common shares of stocks.

The total value of the equity shares issued on the Effective Merger Date amounted to ₱6,318.8 million, resulting to an increase in additional paid-in capital as follows:

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

Cash dividends
The following cash dividends were declared in 2020, 2019 and 2018:

Declaration Date	Record Date	Payment Date	Cash Dividend per Share	Total
December 16, 2020	**December 28, 2020**	**January 22 2021**	**₱101.14**	**₱1,900,000,000**
July 29, 2020	**August 8, 2020**	**September 4, 2020**	**56.85**	**1,068,000,000**
December 18, 2019	December 28, 2019	January 27, 2020	165.02	3,100,000,000
July 30, 2019	August 14, 2019	September 13, 2019	111.79	2,100,000,000
February 15, 2019	February 26, 2019	March 28, 2019	26.60	500,000,000
December 18, 2018	December 28, 2018	January 25, 2019	111.78	2,100,000,000
July 19, 2018	July 30, 2018	August 16, 2018	112.61	2,000,000,000

Unpaid dividends of ₱1,900.0 million and ₱3,100.0 million as at December 31, 2020 and 2019, respectively, were subsequently paid in January of the following year.

Other Comprehensive Loss Reserve

	Financial Assets at FVOCI (see Note 15)	**Income Tax Related to Financial Assets at FVOCI** (see Notes 15 and 30)	**Re-measurement of Defined Benefit Plan** (see Note 26)	**Income Tax Related to Defined Benefit Plan** (see Note 30)	**Total**
Balance at January 1, 2020	**(₱5,921,790)**	**₱97,029**	**(₱87,558,499)**	**₱20,415,721**	**(₱72,967,539)**
Changes in fair value	**2,085,726**	**(102,710)**	**–**	**–**	**1,983,016**
Recycling to profit or loss	**(18,936)**	**5,681**	**–**	**–**	**(13,255)**
Remeasurement loss	**–**	**–**	**(40,543,141)**	**12,162,942**	**(28,380,199)**
Balance at December 31, 2020	**(₱3,855,000)**	**₱–**	**(₱128,101,640)**	**₱32,578,663**	**(₱99,377,977)**

	Financial Assets at FVOCI (see Note 15)	Income Tax Related to Financial Assets at FVOCI (see Notes 15 and 30)	Re-measurement of Defined Benefit Plan (see Note 26)	Income Tax Related to Defined Benefit Plan (see Note 30)	Total
Balance at January 1, 2019	(₱103,572,531)	₱345,742	(₱3,497,315)	₱1,049,194	(₱105,674,910)
Changes in fair value	1,198,922	(248,713)	–	–	950,209
Recycling to profit or loss	96,451,819	–	–	–	96,451,819
Remeasurement loss	–	–	(84,061,184)	19,366,527	(64,694,657)
Balance at December 31, 2019	(₱5,921,790)	₱97,029	(₱87,558,499)	₱20,415,721	(₱72,967,539)

	Financial Assets at FVOCI (see Note 15)	Income Tax Related to Financial Assets at FVOCI (see Note 15 and 30)	AFS Financial Assets (see Notes 14 and 15)	Income Tax Related to AFS Financial Assets (see Notes 14, 15 and 30)	Re-measurement of Defined Benefit Plan (see Note 26)	Income Tax Related to Defined Benefit Plan (see Note 30)	Total
Balance at January 1, 2018	₱–	₱–	(₱39,612,493)	(₱43,141)	₱3,741,979	(₱1,122,594)	(₱37,036,249)
Reclassification due to adoption of PFRS 9	(39,083,932)	(43,141)	39,083,932	43,141	–	–	–
Changes in fair value	(63,475,190)	388,883	–	–	–	–	(63,086,307)
Recycling to profit or loss	(1,013,409)	–	528,561	–	–	–	(484,848)
Remeasurement gain	–	–	–	–	(7,239,294)	2,171,788	(5,067,506)
Balance at December 31, 2018	(₱103,572,531)	₱345,742	₱–	₱–	(₱3,497,315)	₱1,049,194	(₱105,674,910)

23. Non-toll Revenues

Details of non-toll revenues follow:

	2020	2019	2018
Income from advertising (see Note 19)	**₱72,811,387**	₱134,830,214	₱123,193,147
Service revenue	**43,332,271**	36,087,053	19,481,006
Income from TSF	**38,122,217**	66,329,765	47,083,187
Rental income	**42,421,497**	53,385,568	13,120,770
Income from utility facilities (see Note 19)	**3,656,112**	22,751,657	5,430,617
	₱200,343,484	₱313,384,257	₱208,308,727

24. Cost of Services

This account consists of:

	2020	2019	2018
Concession fees (see Note 2)	**₱897,756,312**	₱1,299,401,377	₱1,076,031,647
Amortization of service concession assets (see Note 10)	**758,828,876**	973,802,211	810,648,908
Salaries and employee benefits (see Note 26)	**654,525,167**	635,768,576	69,148,173
PNCC fee (see Note 31)	**533,686,925**	732,735,422	640,780,400
Outside services (see Note 19)	**460,697,521**	361,424,252	309,440,398
Repairs and maintenance (see Note 19)	**317,847,754**	396,361,985	391,172,574
Provision for heavy maintenance (see Note 18)	**310,938,391**	307,482,581	153,060,609
Insurance	**121,321,963**	91,035,804	79,555,712
Advertising and promotions (see Note 19)	**102,272,875**	18,979,746	13,597,410
Light and water (see Note 19)	**91,426,340**	114,101,535	22,984,008
Depreciation of property and equipment and investment properties (see Notes 12 and 13)	**96,132,281**	99,205,517	30,112,006
Fuel and oil (see Note 19)	**48,943,995**	70,379,067	15,537,452
TRB fee	**21,464,545**	86,773,872	162,266,926
Toll collection and medical services	**18,261,426**	22,112,278	22,450,044
Provisions (see Note 18)	**16,227,568**	–	–
Professional fees	**10,704,129**	36,670,993	45,071,595
Amortization of other intangible assets (see Note 11)	**610,449**	269,598	144,885
Operator's fee (see Note 19)	–	–	825,787,622
Others (see Note 19)	**167,299,674**	101,646,547	80,601,215
	₱4,628,946,191	₱5,348,151,361	₱4,748,391,584

25. General and Administrative Expenses

This account consists of:

	2020	2019	2018
Salaries and employee benefits (see Note 26)	**₱435,244,365**	₱279,556,430	₱197,175,921
Taxes and licenses	**119,569,566**	88,922,933	82,496,390
Professional fees (see Note 19)	**95,241,808**	47,613,302	32,474,295
Management fees (see Note 19)	**59,300,115**	129,083,520	150,306,417
Advertising and marketing expenses (see Note 19)	**44,228,083**	174,252,344	199,535,600
Depreciation of property and equipment (see Notes 12 and 13)	**37,317,584**	48,141,816	45,955,316
Outside services (see Note 19)	**32,813,447**	38,330,187	21,229,233
Provisions (see Note 18)	**23,641,520**	22,689,715	39,416,013
Representation and travel (see Note 19)	**19,596,958**	34,470,281	26,232,961
Repairs and maintenance (see Note 19)	**13,059,197**	4,173,672	10,766,645
Office supplies	**10,561,105**	11,181,304	13,108,635
Provision for doubtful accounts (see Note 9)	**7,876,280**	7,609,403	6,324,289
Decline in value of inventories	**5,508,533**	223,201	16,615,395
Training and development costs	**3,706,168**	15,675,678	16,494,501
Communication, light and water (see Note 19)	**3,498,998**	4,715,705	4,407,308
Directors' fees (see Note 19)	**2,300,000**	1,004,000	920,000
Rentals	**1,910,514**	2,286,688	2,894,112
Amortization of other intangible assets (see Note 11)	**361,650**	2,555,918	5,674,998
Provision for unclaimable input VAT (see Note 16)	**–**	2,423,895	14,271,746
Miscellaneous	**9,309,079**	7,638,329	11,803,555
	₱925,044,970	₱922,548,321	₱898,103,330

26. Personnel Cost and Employee Benefits

This account consists of:

	2020	2019	2018
Salaries expense	**₱617,730,739**	₱627,799,140	₱181,254,596
LTIP	**149,978,153**	69,492,087	27,573,136
Retirement expense	**82,906,207**	52,110,683	12,661,013
Other employee benefits	**239,154,433**	165,923,096	44,835,349
	₱1,089,769,532	₱915,325,006	₱266,324,094

(Forward)

	2020	2019	2018
Cost of services (see Note 24)	**₱654,525,167**	₱635,768,576	₱69,148,173
General and administrative expenses (see Note 25)	**435,244,365**	279,556,430	197,175,921
	₱1,089,769,532	₱915,325,006	₱266,324,094

LTIP

On April 27, 2012, the MPTC's BOD approved the implementation of LTIP of the MPTC Group which became effective on January 1, 2012. The MPTC Group's LTIP is a cash plan that is intended to provide meaningful and contingent financial incentive compensation for eligible executives and officers of the MPTC Group, who are consistent performers and contributors to the achievement of the long-term financial targets, strategic plans and objective, as well as the functional strategy and goals of the MPTC Group. Likewise, the MPTC Group LTIP is intended to attract and retain talented employees to ensure the sustained growth and success of the MPTC Group. The payment under the 2012 to 2014 LTIP was intended to be made at the end of the 2012 to 2014 Performance Cycle (without interim payments) and contingent upon the achievement of an approved target core income of the MPTC Group by the end of the 2012 to 2014 Performance Cycle.

In 2015, MPTC's management implemented the 2015-2017 LTIP of MPTC Group effective January 1, 2015. Subsequently on April 21, 2016, MPTC's BOD and its Compensation and Remuneration Committee approved the implementation of MPTC Group LTIP effective January 1, 2015. In 2018, MPTC's management implemented the 2018-2020 LTIP of MPTC Group effective January 1, 2018 while waiting for the BOD to formally approve the 2018-2020 LTIP. As of December 31, 2019, total LTIP accrual amounted to ₱155.5 million mainly representing incentives covering performance years 2018 and 2019.

As at December 31, 2020, MPTC's management intended for the LTIP cycle 2018-2020 to be extended up to 2021. Hence, payout which was originally expected in 2021 is now expected to be made in 2022. The LTIP cycle 2018-2021 is pending approval of MPTC's compensation committee.

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

The total cost of the LTIP recognized by the Company for the years ended December 31, 2020, 2019 and 2018 included in "Salaries and employee benefits" account under "General and administrative expenses" in the consolidated statements of income amounted to ₱150.0 million, ₱69.5 million and ₱27.6 million, respectively. Total long-term incentive plan payable amounted to ₱305.5 million and ₱155.5 million as at December 31, 2020 and December 31, 2019, respectively.

Retirement Costs

Defined Benefit Plan. NLEX Corp. has a funded noncontributory defined benefit retirement plan covering all of its regular and permanent employees. The plan provides for a lump sum benefit payment upon retirement. Contributions and costs are determined in accordance with the actuarial study made for the plan. The most recent actuarial valuation of plan assets and the present value of the defined benefit obligation was carried out as at December 31, 2020 by a certified actuary.

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

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

Changes in pension liability in 2020 are as follows:

	Present Value of Defined Benefit Obligation	**Fair Value of Plan Assets**	**Pension Liability**
At January 1, 2020	**(₱467,236,425)**	**₱371,649,141**	**(₱95,587,284)**
Net benefit income (cost) in consolidated statement of income:			
Current service cost	**(46,708,418)**	**–**	**(46,708,418)**
Past service cost	**(31,035,304)**	**–**	**(31,035,304)**
Net interest	**(24,201,653)**	**19,039,168**	**(5,162,485)**
	(101,945,375)	**19,039,168**	**(82,906,207)**
Benefits paid	**6,700,815**	**(6,700,815)**	**–**
Remeasurement gain (loss) in other comprehensive income (see Note 22):			
Return on plan assets (excluding amount included in net interest)	**–**	**3,489,050**	**3,489,050**
Actuarial changes arising from changes in financial assumptions	**(61,344,464)**	**–**	**(61,344,464)**
Actuarial changes due to experience adjustment	**2,697,483**	**–**	**2,697,483**
Actuarial changes arising from changes in demographic assumptions	**14,614,790**	**–**	**14,614,790**
	(44,032,191)	**3,489,050**	**(40,543,141)**
Contribution	**–**	**45,820,083**	**45,820,083**
At December 31, 2020	**(₱606,513,176)**	**₱433,296,627**	**(₱173,216,549)**

Changes in pension liability in 2019 are as follows:

	Present Value of Defined Benefit Obligation	Fair Value of Plan Assets	Pension Liability
At January 1, 2019	(₱303,569,422)	₱283,406,735	(₱20,162,687)
Net benefit income (cost) in consolidated statement of income:			
Current service cost	(37,871,629)	–	(37,871,629)
Past service cost	(9,822,360)	–	(9,822,360)
Net interest	(26,092,567)	22,459,382	(3,633,185)
	(73,786,556)	22,459,382	(51,327,174)

(Forward)

	Present Value of Defined Benefit Obligation	Fair Value of Plan Assets	Pension Liability
Benefits paid	₱18,945,515	(₱18,945,515)	₱–
Remeasurement gain (loss) in other comprehensive income (see Note 22):			
Return on plan assets (excluding amount included in net interest)	–	24,764,778	24,764,778
Actuarial changes arising from changes in financial assumptions	(116,532,318)	–	(116,532,318)
Actuarial changes due to experience adjustment	4,292,950	–	4,292,950
Actuarial changes arising from changes in demographic assumptions	3,413,406	–	3,413,406
	(108,825,962)	24,764,778	(84,061,184)
Contribution	–	59,963,761	59,963,761
At December 31, 2019	(₱467,236,425)	₱371,649,141	(₱95,587,284)

Changes in pension liability in 2018 are as follows:

	Present Value of Defined Benefit Obligation	Fair Value of Plan Assets	Pension Asset (Liability)
At January 1, 2018	(₱148,879,918)	₱154,450,608	₱5,570,690
Net benefit income (cost) in consolidated statement of income:			
Current service cost	(13,179,458)	–	(13,179,458)
Net interest	(8,238,904)	8,757,349	518,445
	(21,418,362)	8,757,349	(12,661,013)
Benefits paid	12,531,725	(12,531,725)	–
Remeasurement gain (loss) in other comprehensive income (see Note 22):			
Return on plan assets (excluding amount included in net interest)	–	(8,958,916)	(8,958,916)
Actuarial changes arising from changes in financial assumptions	9,872,252	–	9,872,252
Actuarial changes due to experience adjustment	(8,152,630)	–	(8,152,630)
	1,719,622	(8,958,916)	(7,239,294)
Contributions	–	17,936,547	17,936,547
Transfer of obligation to affiliates	3,572,955	–	3,572,955
Retirement obligation assumed from merger	(151,095,444)	123,752,872	(27,342,572)
At December 31, 2018	(₱303,569,422)	₱283,406,735	(₱20,162,687)

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

The actual return (loss) on plan assets amounted to ₱22.5 million, ₱47.2 million and (₱0.2 million) in 2020, 2019 and 2018, respectively.

NLEX Corp. expects to contribute ₱56.9 million in 2021.

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

	2020		2019	
	Amount	**Percentage**	Amount	Percentage
Investments in:				
Government securities	**₱333,725,063**	**77.02%**	₱260,462,348	70.01%
Debt securities	**50,912,354**	**11.75%**	52,827,645	14.20%
Equity securities	**42,939,696**	**9.91%**	43,388,735	11.66%
UITFs	**1,516,538**	**0.35%**	4,531,982	1.22%
Cash and cash equivalents	**1,429,879**	**0.33%**	6,393,890	1.83%
Receivables and others	**2,773,097**	**0.64%**	3,579,541	0.96%
Loans/notes receivables	**–**	**0%**	465,000	0.12%
	₱433,296,627	**100.00%**	₱371,649,141	100.00%

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

The plan assets consist of the following:

- Investments in government securities consist primarily of fixed-rate treasury notes and retail treasury bonds that bear interest ranging from 1.25% to 8.63% per annum and have maturities from 2021 to 2027.

- Investments in debt instruments consist of quoted, unsecured, long-term corporate bonds and subordinated notes in holding firms, banks, real estate, telecommunications, and infrastructure companies, which bear interest ranging from 2.47% to 8.01% per annum and have maturities from 2021 to 2026.

- Investment in equity securities consist of non-voting perpetual preferred shares in holding firms, infrastructure companies, banks, telecommunications, real estate, casinos and gaming, retail, and mining industries. Loss on change in the fair value of the equity securities amounted to ₱5.87 million and ₱22,600 in 2020 and 2019.

- As at December 31, 2020 and 2019, cash and cash equivalents include regular savings, time deposits and special savings deposit, which bear interest of ranging 0.01% to 0.90% per annum, respectively.

- Other financial assets held by the plan are primarily accrued interest income from cash and cash equivalents, investments in UITFs, investments in debt securities, and loans receivable.

The latest actuarial valuation of the Company is as at December 31, 2020.

The principal assumptions used to determine accrued retirement costs as at December 31, 2020 and 2019 are as follows:

	2020	2019
Discount rate	**3.94%**	4.89%
Salary increase rate	**7.00%**	7.00%

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as at December 31, 2020 and 2019, assuming if all other assumptions were held constant:

			Amount
Discount rate			
2020	**(Actual + 1.00%)**	**4.94%**	**(₱542,513,411)**
	(Actual - 1.00%)	**2.94%**	**682,926,656**
2019	(Actual + 1.00%)	5.89%	(₱431,120,688)
	(Actual - 1.00%)	3.89%	509,058,014
Salary increase rate			
2020	**(Actual + 1.00%)**	**8.00%**	**₱682,750,158**
	(Actual - 1.00%)	**6.00%**	**(541,290,328)**
2019	(Actual + 1.00%)	8.00%	₱509,979,957
	(Actual - 1.00%)	6.00%	(429,580,302)

The management performed an Asset-Liability Matching Study (ALM) annually. The overall investment policy and strategy of NLEX Corp.'s defined benefit plan is guided by the objective of achieving an investment return which, together with contributions, ensures that there will be sufficient assets to pay pension benefits as they fall due while also mitigating the various risk of the plans. NLEX Corp.'s current strategic investment strategy consists of 99.67% of debt instruments and 0.33% cash.

The average duration of the defined benefit obligation as at December 31, 2020 and 2019 is 21 years and 16 years, respectively.

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

	December 31, 2020	December 31, 2019
Less than 1 year	**₱52,527,805**	₱83,219,392
More than 1 year to 5 years	**122,132,093**	168,041,743
More than 5 years to 10 years	**314,294,250**	190,555,496
More than 10 years to 15 years	**329,182,758**	384,700,859
More than 15 years to 20 years	**546,910,737**	403,408,282
More than 20 years	**1,601,354,904**	686,019,465

Defined Contribution Plan. The Company also has a funded, contributory defined contribution plan covering all of its regular and full-time employees. The plan provides for retirement benefit payment equal to the accumulated fund in the hands of the trustee. The Company made contributions to the plan amounting to ₱2.1 million and nil for the period ended December 31, 2020 and 2019, respectively.

Employee leave entitlements

This pertain to the accumulated sick leave entitlement benefits to employees of the Company.

Changes in accrued leaves payable are as follows:

	2020	2019
At January 1	**(₱51,294,780)**	(₱18,047,943)
Net benefit cost in consolidated statements of income (see Note 24 and 25):		
Current service cost	**(30,113,104)**	(6,411,607)
Net interest	**(2,421,114)**	(1,294,038)
Remeasurement (gain) loss	**(6,041,668)**	595,068
	(38,575,886)	(7,110,577)
Benefits paid	**1,043,995**	528,845
Net released obligation due to employee transfers	**–**	(26,665,105)
At December 31	**(₱88,826,671)**	(₱51,294,780)

The principal actuarial assumptions used in determining the liabilities for accumulated sick leave entitlement benefits of the Company as at December 31, 2020 and 2019 are as follows:

	2020	2019
Discount rate	**3.73%**	4.72%
Salary increase rate	**7.00%**	7.00%

The latest actuarial valuation study of the accumulated sick leave entitlement of the Company were made as at December 31, 2020.

The accumulated sick leave entitlement benefits are recorded in the "Provisions" account in the consolidated statements of financial position as at December 31, 2020 and 2019.

Other Employee Benefits
Other employee benefits pertain to contributions to government agencies such as Social Security System, Pag-IBIG and Philippine Health Insurance Corporation, insurance, and allowance for rice, uniforms and recreational activities.

27. Share-based Payment Plan

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

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

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

On October 14, 2013, MPIC has granted options in respect of 120,000,000 common shares of MPIC to its directors and senior management officers of MPIC and to selected management committee members of MPTC Group (includes the Company). Of the total shares granted, 14,000,000 common shares were allocated to MPTC Group. The stock options will expire on October 15, 2018. With respect to the stock options granted to MPIC subsidiaries, said stock options will vest as follows: 50% on October 14, 2014 and 50% on October 14, 2015. Given the market conditions, the exercise price may be out of the money and there was certain black-out period which prohibits the executives or directors from exercising the option. Hence, the exercise period was extended by the MPIC's Compensation Committee to October 14, 2019.

A summary of the Company's stock option activity received from MPIC and related information for the years ended December 31, 2019 follows:

	2013 Grant	
	Number of Shares	**Exercise Price**
Outstanding at January 1, 2019	4,000,000	₱4.60
Exercised in 2019	–	4.60
Expired in 2019	(4,000,000)	4.60
Outstanding at December 31, 2019	–	–

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

As at December 31, 2019, all of the share options expired.

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

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

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

The carrying value of the ESOP, recognized under "Other reserve" in the consolidated statements of financial position and the consolidated statements of changes in equity, amounted to ₱13.0 million as of December 31, 2020, 2019 and 2018.

28. Interest Income

Sources of interest income follow:

	2020	2019	2018
Cash and cash equivalents (see Note 8)	**₱23,928,700**	₱35,628,691	₱39,322,583
Investments in bonds and LTNCD (see Note 15)	**4,865,224**	28,662,806	38,904,828
Others	**155,864**	715,195	–
	₱28,949,788	₱65,006,692	₱78,227,411

Interest income earned for borrowings temporarily invested pending their expenditure that was deducted from borrowing costs incurred amounted to ₱27.1 million, ₱11.8 million and ₱60.3 million in 2020, 2019 and 2018, respectively (see Note 10).

29. Interest Expense and Other Finance Costs

Sources of interest expense and other finance costs follow:

	2020	2019	2018
Interest expense on:			
Loans (see Notes 20 and 35)	**₱985,968,291**	₱674,073,540	₱374,618,715
Provision for heavy maintenance (see Note 18)	**8,872,050**	11,572,488	17,486,761
Amortization of deferred lease income	**539,961**	403,695	88,513
Finance costs:			
Amortization of debt issue costs (see Note 20)	**22,301,180**	15,215,911	10,792,716
Lenders' fees	**5,363,778**	4,848,216	3,450,910
Bank charges	**310,327**	1,280,835	155,180
	₱1,023,355,587	₱707,394,685	₱406,592,795

Interest expense and other finance costs capitalized as service concession assets amounted to ₱700.3 million, ₱659.3 million and ₱870.6 million in 2020, 2019 and 2018, respectively (see Note 10).

30. **Income Taxes**

The provision for (benefit from) income tax for the years ended December 31, 2020, 2019 and 2018 are as follows:

	2020	2019	2018
Current:			
Regular corporate income tax	**₱1,219,056,276**	₱1,787,695,680	₱1,520,174,917
Final tax on interest income from banks	**5,648,499**	12,818,545	15,531,199
	1,224,704,775	1,800,514,225	1,535,706,116
Deferred	**(57,262,430)**	36,163,667	48,630,259
	₱1,167,442,345	₱1,836,677,892	₱1,584,336,375

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

	2020	2019
Deferred tax assets:		
Service concession fees payable	**₱921,630,895**	₱868,296,233
Provision for heavy maintenance	**138,282,901**	71,127,692
Pension liability	**51,964,965**	28,676,185
Accrued expenses and provisions	**26,648,001**	11,787,669
Allowance for doubtful accounts	**14,474,741**	12,111,857
Unamortized past service cost	**11,933,733**	14,070,452
Deferred lease income	–	2,533,219
Fair value changes on financial assets at FVOCI (see Notes 15 and 22)	–	97,029
Unearned rental income	–	2,673
	1,164,935,236	1,008,703,009
Deferred tax liabilities:		
Present value of concession fees capitalized as service concession assets	**(921,630,895)**	(868,296,233)
Difference in amortization of service concession assets	**(700,441,848)**	(665,790,402)
Unamortized realized foreign exchange losses capitalized	**(15,139,968)**	(16,030,554)
Unrealized foreign exchange gain	**(216,962)**	(167,205)
Fair value changes on investments in UITF	**(13,615)**	(118,585)
Accrued rental income	–	(7,615,694)
Present value of rental deposits	–	(2,619,873)
	(1,637,443,288)	(1,560,638,546)
Deferred tax liabilities – net	**(₱472,508,052)**	(₱551,935,537)

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

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

	2020	2019	2018
Income before income tax	**₱4,747,957,749**	₱8,470,365,638	₱7,339,785,905
Income tax computed at statutory tax rate of 30%	**₱1,424,387,325**	₱2,541,109,691	₱2,201,935,772
Add (deduct) the tax effects of:			
Optional standard deduction	**(228,500,746)**	(703,443,876)	(604,747,273)
Interest income already subjected to final tax	**(8,627,456)**	(19,287,448)	(23,468,223)
Nondeductible expenses (nontaxable income) and others	**(54,865,277)**	5,480,980	(4,915,100)
Capital gains tax	**29,400,000**	–	–
Final tax on interest income	**5,648,499**	12,818,545	15,531,199
Provision for income tax	**₱1,167,442,345**	₱1,836,677,892	₱1,584,336,375

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

The Company opted to avail of the OSD for the taxable years 2020, 2019 and 2018.

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

	2020	2019	2018
Balance at beginning of year	**₱551,935,537**	₱534,889,684	₱505,726,589
Provision for (benefit from) deferred income tax during the year recognized in the consolidated statements of income	**(57,262,430)**	36,163,667	48,630,259
Income tax effect during the year recognized in the consolidated statements of comprehensive income (see Note 22)	**(12,065,913)**	(19,117,814)	(2,560,671)
Derecognition of deferred tax liability as a result of sale of subsidiary (see Note 7)	**(10,099,142)**	–	–
Deferred tax asset acquired through merger (see Note 6)	**–**	–	(16,906,493)
Balance at end of year	**₱472,508,052**	₱551,935,537	₱534,889,684

31. **Significant Contracts and Commitments**

PNCC Fee

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

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

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

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

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

The Company recorded PNCC fee amounting to ₱533.7 million, ₱732.7 million and ₱640.8 million for the years ended December 31, 2020, 2019 and 2018, respectively (see Note 24).

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

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

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

Construction of the 5.65 kilometer fully-elevated segment was completed on February 28, 2019, and officially opened to the public on March 1, 2019.

As at December 31, 2019, the balance of the escrow account was already released and used to pay the gain share of Leighton Contractors Asia Limited.

NLEX Harbor Link Segment C3-R10 and Port Extension
On June 15, 2020, NLEX Corp opened the Harbor Link C3-R10 Section to public. The extension will boost the government's traffic decongestion efforts in Metro Manila, especially in the CAMANAVA area.

On October 19, 2020, the recommendation of the Department of Public Works and Highways (DPWH) to Toll Regulatory Board (TRB) to implement the proposed Harbor Link Port Extension to Anda Circle Project of NLEX Corp has been approved. This project will be within the scope of the existing NLEX concession. NLEX Corp has been advised to proceed on the preparation, completion and submission of requirements, documents and processes that are necessary on the implementation of the project. As at December 31, 2020, NLEX Corp is still waiting for the approval of the project's investment scheme by TRB.

NLEX Widening Project
On February 22, 2016, NLEX Corp. signed a construction contract with First Balfour, Inc. and Haidee Construction and Development Corporation / 4B Construction Corporation for the NLEX lane widening covering the construction of an additional lane on each direction in Segment 2, portion of Phase 1 of MNEP (from Sta. Rita to San Fernando), and the expansion of the carriageway in Segment 3, portion of Phase 1 of MNEP (from Dau to Sta. Ines) from one by two to two by two lanes. It also covers the lane configuration of Candaba Viaduct from 2 to 3 lanes. The total project cost including civil works, independent design checking services, detailed engineering design and financing cost amounted to ₱2.6 billion, exclusive of VAT, for both Segment 2 and Segment 3. On December 2, 2016, the Segment 3 of the NLEX widening project has started commercial operations. Segment 2 of the NLEX widening project was completed and opened for public use in May 2017.

As part of Phase 2 of the NLEX Widening Project, the Company has also finalized the construction contract for the NLEX Segment 7 ("SFEX") Capacity Expansion Project with Sta. Clara International Corporation on May 3, 2019. The SFEX Capacity Expansion Project is estimated to cost around ₱1.6 billion, inclusive of VAT, and will be sourced through internally generated cash and term loans. The SFEX Capacity Expansion Project was opened temporarily to serve motorists coming in and out of the Subic Bay Freeport Zone during the holiday season on December 28, 2020 until January 15, 2021. As at December 31, 2020, the advances to contractor after the application of the advances to billing from contractor recorded under "Advances to contractors and other noncurrent assets" in the consolidated statement of financial position amounted to ₱156.0 million.

Construction of NLEX-SLEX Connector Road
On November 5, 2019, NLEX Corp. awarded an ₱8.0 billion contract to DM Consunji Inc. (DMCI) for the construction of the first section of the Connector Road.

The contract covers the main civil works for the Caloocan-España section. The NLEX Connector Road will continue the NLEX southward from NLEX Harbor Link Segment 10 of the New Caloocan Interchange. The project will utilize portions of the existing right of way of the Philippine National Railways (PNR).

As at March 9, 2021, the construction of the NLEX-SLEX Connector Road Section 1 has started while the bidding process for Section 2 is ongoing.

Toll Collection Interoperability Agreement
On September 15, 2017, NLEX Corp., together with San Miguel Holdings Corporation, Private Infra Development Corporation, Citra Metro Manila Tollways Corporation, Skyway O&M Corporation, Citra Central Expressway Corporation, Vertex Tollways Development Incorporation, South Luzon Tollways Corporation, Manila Toll Expressway Systems Incorporated, Star Infrastructure

Development Corporation, Star Tollway Corporation, MPTC, CIC, MHI, BCDA, Ayala Corporation, MCX Tollway, Inc., Department of Transportation, DPWH, and Land Transportation Office, has signed the MOA for Toll Collection Interoperability with TRB; whereby the concessionaires or facility operators agreed to timely, smoothly, and fairly implement the interoperability of the electronic toll collection systems and cash payment systems of the covered expressways and of future toll expressways, consistent with and subject to the concessionaires and operators' respective concession agreements, toll operations agreements, and supplemental toll operations agreement, as applicable.

The agreement will be implemented in two phases and to be operationalized within twelve (12) months from signing of the MOA. The first phase covers electronic collection interoperability, while the second phase covers cash collection interoperability. As at March 9, 2021, the implementation is still in the works.

Traffic Management Memorandum of Agreement

On January 18, 2006, NLEX Corp, DPWH and the City of Valenzuela entered into a memorandum of agreement to develop a traffic engineering management plan in coordination and cooperation with other government agencies and local government units and to address traffic build-up and congestion within the Valenzuela interchange. Under the MOA, DPWH shall improve pavements and construct road widening while NLEX Corp and Valenzuela City shall implement measures such as improvement of pedestrian barriers, crossing markings and road signs, deployment of traffic enforcers, clearing of sidewalks.

On July 9, 2019, NLEX Corp renewed its agreement with City Government of San Fernando, Pampanga. Under the agreement, both parties shall adopt and execute the agreed traffic management plan to address the traffic situation within the territorial jurisdiction of San Fernando, Pampanga

On June 29, 2020, NLEX Corp renewed its memorandum of agreement with City Government of Meycauayan to address the traffic situation within the territorial jurisdiction of Meycauayan City.

On November 23, 2020, the officials of NLEX Corp and City of Angeles Pampanga entered into a memorandum of agreement to address the traffic situation within the Angeles Interchange. Under the MOA, both parties shall implement measures around the traffic management zone which include the deployment of traffic personnel, improvement of service time at the toll plaza, clearing of sidewalks, and prohibition of illegal parking, loading/unloading and jaywalking affecting the NLEX traffic flow.

32. Financial Risk Management Objectives and Policies

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

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

Interest Rate Risk
Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is not significantly exposed to interest rate risk since the Company's interest-bearing financial instruments, particularly its short-term notes payable and long-term debt, bear fixed interest rates as at December 31, 2020 and 2019.

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

		December 31, 2020				
	Interest Rate	**Within the Year ('000)**	**1–2 Years ('000)**	**3–4 Years ('000)**	**More than 5 Years ('000)**	**Total ('000)**
Financial Assets at Amortized Cost						
Cash and cash equivalents[a]	0.10%–3.75%	**₱2,342,450**	**₱–**	**₱–**	**₱–**	**₱2,342,450**
Financial Assets at FVOCI						
Financial assets at FVOCI	4.25%	**50,000**	**–**	**–**	**–**	**50,000**
		₱2,392,450	**₱–**	**₱–**	**₱–**	**₱2,392,450**
Financial Liabilities at Amortized Cost						
Fixed-rate loans:						
Series A-10	7.70%	**₱910,000**	**₱–**	**₱–**	**₱–**	**₱910,000**
Term-loan facility	4.73%–5.80%	**600,000**	**2,200,000**	**3,950,000**	**5,850,000**	**12,600,000**
Corporate Notes	4.04%-4.293%	**25,000**	**592,000**	**1,134,000**	**3,249,000**	**5,000,000**
Fixed-rate bonds	5.07%–6.90%	**4,400,000**	**–**	**6,600,000**	**2,000,000**	**13,000,000**
		₱5,935,000	**₱2,792,000**	**₱11,684,000**	**₱11,099,000**	**₱31,510,000**

[a] *Excluding cash on hand of ₱0.9 million.*

		December 31, 2019				
	Interest Rate	Within the Year ('000)	1–2 Years ('000)	3–4 Years ('000)	More than 5 Years ('000)	Total ('000)
Financial Assets at Amortized Cost						
Cash and cash equivalents[a]	0.10%–3.50%	₱4,235,915	₱–	₱–	₱–	₱4,235,915
Financial Assets at FVOCI						
Financial assets at FVOCI	2.13%–5.75%	70,000	50,000	50,000	–	170,000
		₱4,305,915	₱50,000	₱50,000	₱–	₱4,405,915
Financial Liabilities at Amortized Cost						
Fixed-rate loans:						
Series A-10	7.70%	₱10,000	₱910,000	₱–	₱–	₱920,000
Term-loan facility	5.00%–5.80%	350,000	1,200,000	3,450,000	7,950,000	12,950,000
Fixed-rate bonds	5.07%–6.90%	–	4,400,000	–	8,600,000	13,000,000
		₱360,000	₱6,510,000	₱3,450,000	₱16,550,000	₱26,870,000

[a] *Excluding cash on hand ₱164.5 million.*

The other financial instruments of the Company that are not included in the above table are noninterest-bearing and are therefore not subject to cash flow interest rate risk.

Interest on financial instruments classified as fixed rate is fixed until the maturity of the instrument, except for certain term loan facilities which will be repriced after five (5) years from their initial drawdown dates. Should the interest rate on the repricing date be significantly higher than the current fixed rate, the Company has an option to repay or refinance the loan.

The table below demonstrates the sensitivity of income to changes in interest rates with all other variables held constant. The management expects that interest rates will move by ±50 basis points within the next reporting period.

There is no other impact on the Company's equity other than those already affecting the consolidated statements of income:

	Increase/Decrease in Basis Points	Effect on Income Before Income Tax
2020	**+50**	**(₱70,000,000)**
	-50	**70,000,000**
2019	+50	(₱46,250,000)
	-50	46,250,000

Credit Risk

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

Receivables arose mainly from ESC when Easytrip tag-motorists ply in NLEX and those non-toll revenues in the form of advertising services particularly from Smart. ESC, Smart and TMC are considered as low-risk counterparties as these are well-established companies. Moreover, the Company has payment obligations to TMC which far exceed the aggregate amounts of receivables. Receivables also arose from motorists who cause accidental damage to NLEX property from day-to-day operations. Property damage claims are initially processed by TMC and are eventually turned over to NLEX Corp. The Company also has advances to DPWH, a Philippine government entity, which is covered by a Reimbursement Agreement.

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

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

The table below shows the maximum exposure to credit risk for the Company's financial assets, without taking account of any collateral, credit enhancements and other credit risk mitigation techniques.

	2020	2019
Financial Assets at Amortized Cost		
Cash and cash equivalents[(a)]	**₱2,342,450,499**	₱4,235,915,122
Receivables[(b)]	**1,208,377,066**	621,074,393
Refundable deposits[(c)]	**–**	3,682,967
Financial Assets at FVOCI		
Financial assets at FVOCI	**46,145,000**	164,047,014
Total credit risk exposure	**₱3,596,972,565**	₱5,024,719,496

[(a)] *Excluding cash on hand.*
[(b)] *Excluding advances to officers and employees*
[(c)] *Included in "Other noncurrent assets" account in the consolidated statements of financial positions.*

Cash and cash equivalents and financial assets at FVOCI are placed with reputable local and international banks and companies and Philippine Government which meet the standards of the Company's BOD.

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

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

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

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

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

	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)]	**₱2,342,450,499**	**₱–**	**₱–**	**₱2,342,450,499**
Receivables:				
Trade receivables	**236,135,466**		**₱5,926,270**	**242,061,736**
Advances to DPWH	**133,126,581**	–	–	**133,126,581**
Interest receivables	**8,793,310**	–	–	**8,793,310**
Due from related parties	**770,361,074**	–	–	**770,361,074**
Receivable from motorist:				
Neither past due nor impaired				
High grade	**30,666,964**	–	–	**30,666,964**
Past due and impaired	–	–	**36,270,066**	**36,270,066**
Other receivables	**29,293,671**	–	–	**29,293,671**
Financial Assets at FVOCI				
Financial assets at FVOCI	**46,145,000**	–	–	**46,145,000**
Gross Carrying Amount	**₱3,596,972,565**	**₱–**	**₱42,196,336**	**₱3,639,168,901**

[(a)] *Excluding cash on hand of ₱925,565 as at December 31, 2020.*

	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]	₱4,235,915,122	₱–	₱–	₱4,235,915,122
Receivables:				
Trade receivables	356,990,312	–	7,901,934	364,892,246
Advances to DPWH	160,741,016	–	–	160,741,016
Interest receivables	10,406,480	–	–	10,406,480
Due from related parties	51,848,786	–	–	51,848,786
Receivable from motorist:				
Neither past due nor impaired				
High grade	14,504,918	–	–	14,504,918
Past due and impaired	–	–	32,470,923	32,470,923
Other receivables	21,099,969	–	–	21,099,969
Refundable deposits[b]	3,682,967	–	–	3,682,967
Financial Assets at FVOCI				
Financial assets at FVOCI	164,047,014	–	–	164,047,014
Gross Carrying Amount	₱5,019,236,584	₱–	₱40,372,857	₱5,059,609,441

[a] *Excluding cash on hand of ₱164,516,458 as at December 31, 2019.*
[b] *Included in "Other noncurrent assets" account in the consolidated statement of financial position.*

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

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

Foreign Currency Risk
Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. As at December 31, 2020 and 2019, the Company is not significantly exposed to foreign currency risk. The minimal exposure to foreign currency risk relates to the Company's foreign currency denominated cash and cash equivalents and accounts payables as at December 31, 2020 and 2019.

Liquidity Risk
Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. The Company is not exposed to significant liquidity risk because of the nature of its operations which provides daily inflows of cash from toll collections. The Company is able to build up sufficient cash from operating revenues prior to the maturity of its payment obligations. The Company arranged additional short-term lines to boost its ability to meet short-term liquidity needs. The Company has short-term credit lines amounting to ₱16,500.0 million and ₱9,005.0 million as at December 31, 2020 and 2019, respectively, and cash and cash equivalents amounting to ₱2,343.4 million and ₱4,400.4 million as at December 31, 2020 and 2019, respectively, that are allocated to meet the Company's short-term liquidity needs.

The tables below summarize the maturity profile of the Company's financial assets and financial liabilities as at December 31, 2020 and 2019 based on undiscounted payments:

	December 31, 2020				
	Within the Year	**1–2 Years**	**3–4 Years**	**More than 5 Years**	**Total**
Financial Assets at Amortized Cost					
Cash and cash equivalents	**₱2,343,376,064**	**₱–**	**₱–**	**₱–**	**₱2,343,376,064**
Receivables[a]	**1,208,377,006**	**–**	**–**	**–**	**1,208,377,006**
Financial Assets at FVTPL					
Investments in UITFs	**2,136,231**	**–**	**–**	**–**	**2,136,231**
Financial Assets at FVOCI					
Investments in bonds and treasury notes[b]	**46,145,000**	**–**	**–**	**–**	**46,145,000**
	₱3,600,034,301	**₱–**	**₱–**	**₱–**	**₱3,600,034,301**
Financial Liabilities at Amortized Cost					
Accounts payable and other current liabilities [c]	**₱4,603,911,159**	**₱–**	**₱–**	**₱–**	**₱4,603,911,159**
Dividends payable	**1,900,000,000**	–	–	–	**1,900,000,000**
Long-term debt [d]	**7,429,697,116**	**5,519,272,481**	**13,657,210,224**	**12,700,773,521**	**39,306,953,342**
Service concession fees payable[e]	**–**	**243,154,581**	**486,309,163**	**7,780,946,605**	**8,510,410,349**
	₱13,933,608,275	**₱5,762,427,062**	**₱14,143,519,387**	**₱20,481,720,126**	**₱54,321,274,850**

[a] *Excluding advances to officers and employees.*
[b] *Including interest to be received.*
[c] *Excluding statutory liabilities, unearned revenues and unearned rental income.*
[d] *Including interest to be paid.*
[e] *Pertain to undiscounted balances*

	December 31, 2019				
	Within the Year	1–2 Years	3–4 Years	More than 5 Years	Total
Financial Assets at Amortized Cost					
Cash and cash equivalents	₱4,400,431,580	₱–	₱–	₱–	₱4,400,431,580
Receivables[a]	621,074,393				621,074,393
Refundable deposits	3,682,967	–	–	–	3,682,967
Financial Assets at FVTPL					
Investments in UITFs	18,066,958	–	–	–	18,066,958
Financial Assets at FVOCI					
Investments in bonds and treasury notes[b]	76,577,604	55,439,236	51,643,056		183,659,896
	₱5,119,833,502	₱55,439,236	₱51,643,056	₱–	₱5,226,915,794
Financial Liabilities at Amortized Cost					
Accounts payable and other current liabilities [c]	₱3,898,350,008	₱–	₱–	₱–	₱3,898,350,008
Short-term loans payable	25,000,000	–	–	–	25,000,000
Dividends payable	3,100,000,000	–	–	–	3,100,000,000
Long-term debt [d]	1,805,447,279	11,798,034,804	12,373,304,426	9,458,991,889	35,435,778,398
Service concession fees payable[e]	–	486,309,163	486,309,163	7,537,792,023	8,510,410,349
Rental deposits [f]	–	–	–	9,246,915	9,246,915
	₱8,828,797,287	₱12,284,343,967	₱12,859,613,589	₱17,006,030,827	₱50,978,785,670

[a] *Excluding advances to officers and employees.*
[b] *Including interest to be received.*
[c] *Excluding statutory liabilities, unearned revenues and unearned rental income.*
[d] *Including interest to be paid.*
[e] *Pertain to undiscounted balances*
[e] *Included in "Other noncurrent liabilities" account in the consolidated statement of financial position.*

Capital Management

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

The Company's DSCR stood at 1.72 times and 5.60 times for December 31, 2020 and 2019, respectively, indicating that the Company generates enough income to manage payments for a new loan and still make a profit. Long-term debt to equity ratio stood at 1.56 times and 1.37 times for December 31, 2020 and 2019, respectively, indicating that the Company has the capacity to incur additional long-term debt to build up its capital.

	2020	2019
Long-term debt	**₱31,321,079,982**	₱26,705,217,475
Total equity	**20,113,814,014**	19,527,709,048
Total capital	**₱51,434,893,996**	₱46,232,926,523
Debt to equity ratio	**1.56 times**	1.37 times

The Company continuously evaluates whether its capital structure can support its business strategy. No changes were made in the objectives, policies or processes for managing capital during the year ended December 31, 2020 and 2019.

33. Financial Assets and Financial Liabilities

Fair Values

A comparison of carrying and fair values of all the Company's financial instruments, other than those with carrying amounts that are reasonable approximate of fair values, by category as at December 31, 2020 and 2019 follows:

	December 31, 2020		December 31, 2019	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Financial Assets				
Financial assets at FVTPL:				
Investments in UITFs	**₱2,136,231**	**₱2,136,231**	₱18,066,958	₱18,066,958
Financial assets at FVOCI:				
Investment in treasury bonds and notes	**–**	**–**	68,741,514	68,741,514
Investment in LTNCD	**46,145,000**	**46,145,000**	93,305,500	93,305,500
	₱48,281,231	**₱48,281,231**	₱180,113,972	₱180,113,972
Financial Liabilities				
Other financial liabilities:				
Long-term debt	**₱31,321,079,982**	**₱32,261,272,305**	₱26,705,217,476	₱26,795,142,703
Service concession fees payable	**3,072,102,985**	**3,491,752,552**	2,894,320,777	3,101,116,267
Rental deposits	**–**	**–**	6,977,571	9,246,915
	₱34,393,182,967	**₱35,753,024,857**	₱29,606,515,824	₱29,905,505,885

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

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

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

Investments in Treasury Bonds and Notes and LTNCD
The fair value of investment in treasury bonds and notes and LTNCD is based on the quoted market price of the financial instruments as at December 31, 2020 and 2019. When the market prices are not readily available, the Company uses adjusted quoted market prices of comparable investments or applied discounted cash flow methodologies.

Long-term Debt
For fixed peso-denominated notes and loans, except the fixed-rate bonds where the fair value is based on its quoted market price as at December 31, 2020 and 2019, estimated fair value is based on the discounted value of future cash flows using the prevailing peso interest rates. In 2020 and 2019, the prevailing peso interest rates ranged from 1.73% to 4.36% and 4.1% to 5.91%, respectively.

Service Concession Fee Payable
The estimated fair value of the service concession fees payable is based on the discounted value of future cash flows using the prevailing peso interest rates. In 2020 and 2019, the prevailing peso interest rates ranged from 3.11% to 5.45% and 5.2% to 6.7%, respectively.

Rental Deposits
The estimated fair value of the rental deposits is based on the discounted value of future cash flow using the prevailing peso interest rates. The prevailing peso interest rate used ranges from 3.8% to 7.1% in 2019, respectively.

Fair Value Hierarchy
As at December 31, 2020 and 2019, the Company held the following financial instruments measured at fair value:

	2020	**Level 1**	**Level 2**	**Level 3**
Assets Measured at Fair Value				
Financial assets at FVTPL:				
Investments in UITFs	**₱2,136,231**	**₱–**	**₱2,136,231**	**₱–**
Financial assets at FVOCI:				
Investment in LTNCD	**46,145,000**	**46,145,000**	**–**	**–**
	₱48,281,231	**₱46,145,000**	**₱2,136,231**	**₱–**
Liabilities for which Fair Values are Disclosed				
Other financial liabilities:				
Long-term debt				
Fixed-rate bonds	**₱12,458,001,400**	**₱12,458,001,400**	**₱–**	**₱–**
Peso-denominated notes and loans	**19,803,270,905**	**–**	**19,803,270,905**	**–**
Service concession fees payable	**3,491,752,552**	**–**	**–**	**3,491,752,552**
	₱35,753,024,857	**₱12,458,001,400**	**₱19,803,270,905**	**₱3,491,752,552**

	2019	Level 1	Level 2	Level 3
Assets Measured at Fair Value				
Financial assets at FVTPL:				
Investments in UITFs	₱18,066,958	₱–	₱18,066,958	₱–
Financial assets at FVOCI:				
Investment in treasury bonds and notes	68,741,514	19,645,373	49,096,141	–
Investment in LTNCD	93,305,500	93,305,500	–	–
	₱180,113,972	₱112,950,873	₱67,163,099	₱–
Liabilities for which Fair Values are Disclosed				
Other financial liabilities:				
Long-term debt				
Fixed-rate bonds	₱12,458,001,400	₱12,458,001,400	₱–	₱–
Peso-denominated notes and loans	14,337,141,303	–	14,337,141,303	–
Service concession fees payable	3,101,116,267	–	–	3,101,116,267
Rental deposits	9,246,915	–	–	9,246,915
	₱29,905,505,885	₱12,458,001,400	₱14,337,141,303	₱3,110,363,182

34. Contingencies and Others

a. VAT

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

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

- A Final Assessment Notice was received from the BIR dated November 15, 2009 assessing NLEX Corp. deficiency VAT plus penalties amounting to ₱584.6 million for taxable year 2007.

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

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

On April 3, 2014, the BIR accepted and approved NLEX Corp.'s application for abatement and issued a Certificate of Approval for the cancellation of the basic output tax, interest and compromise penalty amounting to ₱1,010.5 million and ₱584.6 million for taxable years 2006 and 2007, respectively. As at March 9, 2021, the VAT assessments for taxable years 2008 and 2009 remain pending with the BIR and there were no abatements made for these assessments.

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

b. RPT

In July 2008 and April 2013, NLEX Corp. filed Petitions for Review under Section 226 of the Local Government Code with the Local Board of Assessment Appeals (LBAA) of the Province of Bulacan seeking to declare as null and void tax declarations issued by the Provincial Assessor of the Province of Bulacan. The said tax declarations were issued in the name of NLEX Corp. as owner/administrator/beneficial user of the NLEX and categorized the NLEX as a commercial property subject to RPT. NLEX Corp. argues that NLEX is property of the public dominion and exempt from RPT. The cases are pending as at March 9, 2021.

In September 2013, NLEX Corp. received notices of realty tax delinquencies for the years 2006 to 2012 and 2013 issued by the Provincial Treasurer of Bulacan stating that if NLEX Corp. fails to pay or remit the alleged delinquent taxes, the remedies provided for under the law for the collection of delinquent taxes shall be applied to enforce collection. In September 27, 2013, the Bureau of Local Government Finance of the Department of Finance (DOF-BLGF) wrote a letter to the Province of Bulacan advising it to hold in abeyance any further course of action pertaining to the alleged real property tax delinquency. In October 2013, the Provincial Treasurer of Bulacan has respected the directive from the DOF-BLGF to hold the enforcement of any collection remedies in abeyance. In January 2017, the Provincial Treasurer of Bulacan issued a notice of realty tax delinquencies for the years 2006 to 2017 stating that it could apply the remedies provided under the law for the collection of delinquent taxes. The matter is pending as at March 9, 2021.

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

c. Toll Rate Adjustments

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

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

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

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

On September 30, 2020, NLEX Corp as petitioner-applicant, filed a Petition for Approval of Periodic Toll Rate Adjustment with the TRB praying for the adjustment of the toll rate for the NLEX effective January 1, 2021 (2020 Petition).

On October 27, 2015, NLEX Corp was granted the right and obligation to manage, operate, and maintain the SCTEX under the terms of the Business Agreement between NLEX Corp. and BCDA. Under the agreements covering the SCTEX, toll rate adjustment petitions shall be filed with the TRB yearly. Prior to October 27, 2015, the BCDA filed petitions for toll rate adjustment effective in 2012, 2013, and 2015. Thereafter, on September 29, 2016 and September 30, 2020, NLEX Corp, as petitioner-applicant, filed a petition for toll rate adjustment effective January 1, 2017 and January 1, 2021, respectively.

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

On June 6, 2020, NLEX Corp. as petitioner-applicant, filed an Amended Petition for Implementation of Approved Adjustment to Authorized Toll Rates with Application for Provisional Relief with the TRB praying for the adjustment of the toll rate for the substantially completed Segment 10: C3-R10 Section (C3-R10 Add-on Toll Rate Petition).

On February 18, 2020, NLEX Corp. as petitioner-applicant, filed a Petition for Implementation of Approved Adjustment to Authorized Toll Rates with Application for Provisional Relief with the TRB praying for the adjustment of the toll rate for the substantially completed expansion of NLEX Segment 7 and San Fernando Interchange (NLEX Lane Widening Phase 2 Add-on Toll Rate Petition).

<u>2012 and 2014 Petitions</u>
On February 15, 2019, NLEX Corp received a Consolidated Resolution dated October 2018 issued by the TRB which approved and allowed NLEX Corp. to implement the toll rate adjustment indicated therein on a staggered basis in 2018, 2020, 2021, and 2023. On March 20, 2019, the TRB issued a Notice to Start Collection of the first tranche effective March 21, 2019. On September 30, 2020, NLEX Corp filed with the TRB a Manifestation of Compliance stating the completion of publication of the toll fee matrix with the second tranche and praying for the issuance of a Notice to Start Collection. On October 9, 2020, the TRB issued a Notice to Start Collection of the second tranche effective immediately.

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

(1) year collection of add-on rate. In full and complete compliance with the instructions of the TRB, NLEX Corp. (a) submitted the original of the Surety Bond issued by the Prudential Guarantee and Insurance Inc. in favor of the Republic of the Philippines, acting by and through the TRB, and (b) caused the publication of the Integrated Toll Fee Matrix in a newspaper of general circulation once a week for three (3) consecutive weeks in March 2019. On March 20, 2019, the TRB issued a Notice to Start Collection effective March 21, 2019. In March 2020, NLEX Corp posted an extension of the Surety Bond for six (6) months and was further extended for another six (6) months in September 2020.

2016 and 2018 Petitions
NLEX Corp has yet to receive regulatory approval for these petitions.

C3-R10 Add-on Toll Rate Petition
On August 5, 2020, the TRB issued a Resolution which provisionally approved and allowed NLEX Corp to implement the add-on toll for the Open System subject of the Petition. On November 20, 2020, the TRB issued a Notice to Start Collection effective November 23, 2020. The Company has implemented the toll adjustment starting November 25, 2020.

SCTEX Petition
On June 14, 2019, NLEX Corp. implemented the Petition for Periodic Toll Rate Adjustment effective 2012 in the SCTEX. Apart from this Petition, all the remaining petitions for toll rate adjustments for SCTEX remain pending with the TRB.

d. Arbitration

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

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

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

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

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

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

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

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

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

On June 24 to 27, 2019, the arbitration hearings were held in Singapore. In August 2019, NLEX Corp and the ROP/TRB submitted their respective Post-Hearing Briefs. From December 2019 to April 2020, the parties sought from the Arbitral Tribunal a suspension of the proceedings until May 10, 2020 for the parties to explore the possibility of an amicable settlement, which the Arbitral Tribunal granted. On May 11, 2020, the Arbitral Tribunal noted that the parties had not yet reached a settlement and confirmed that it would henceforth resume its deliberations towards issuing an award. On August 15, 2020, the Arbitral Tribunal informed the parties that it is in the process of finalizing its deliberations, is currently exchanging notes on the draft award, and would do its utmost to issue the award in the following months. The arbitration is still pending as at March 9, 2021.

The amount of compensation for TRB's inaction on lawful toll rate adjustments, covering the toll rate petitions of the NLEX (2012, 2014, 2016 and 2018 petitions), and the SCTEX is approximately at ₱15.1 billion and ₱13.0 billion (net of VAT and government share) as at December 31, 2020 and 2019, respectively.

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

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

NLEX Corp filed its comment praying that the Petition be denied. The BCDA, through the Office of the Government Corporate Counsel, and the Executive Secretary, through the OSG, also filed their respective Comment praying that the Petition be denied due course and dismissed for lack of merit. In November and December 2015, the petitioner filed a Manifestation and Motion to Resolve Prayer for TRO and/ or Writ of Preliminary Injunction. On July 4, 2016, the Supreme Court issued a Resolution noting the Manifestations of the petitioner. In February 2020, the Supreme Court issued a Notice that petitioner's counsel had failed to pay the P1,000 fine due to his failure to comply with a show cause resolution for non-filing of a consolidated reply to the separate comments of the Executive Secretary and BCDA. In July 2020, the Supreme Court issued another Notice for the petitioner's counsel to pay an increased fine of P2,000 and to comply with the resolution to file a consolidated reply to the separate comments of the Executive Secretary and BCDA. On October 28, 2020, NLEX Corp's counsel received from BCDA's counsel a Motion for Leave to File Manifestation with Motion for Submission for Resolution dated October 1, 2020. The case is pending as at March 9, 2021.

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

g. Legal Assistance for NLEX Corporation in its Dispute Against the City of Valenzuela

On December 3, 2020, the City of Valenzuela sent a letter to the Corporation which constituted the former's formal complaint and demand against NLEX Corp. for unusual heavy traffic in the Valenzuela City after the implementation of the cashless and contactless toll collection program pursuant to the Department of Transportation Department order No. 2020-012. The dispute led to the issuance of suspension orders, through several city ordinances and Executive Orders, which led to the raising of toll barriers and cessation of operations at NLEX toll booths in Valenzuela City on December 7, 2020 until further notice.

Given the substantial loss in revenue and the reputational and operational damage caused by the raising of toll barriers, the Corporation sought the assistance of the its legal counsel to explore remedies for the restoration of normal operations at NLEX toll booth in Valenzuela City and to explore actions against the City of Valenzuela, if necessary. Eventually, on December 16, 2020, NLEX Corp. and the City of Valenzuela reached an agreement for the lifting of the suspension order against the corporation before any action was filed before the courts. On the same date, the operations in NLEX toll booths in Valenzuela City have returned to its normal operations.

35. Supplemental Cash Flow Information

Changes in Liabilities Arising from Financing Activities

In 2020 and 2019, movement in the Company's liabilities arising from financing activities follow:

	January 1, 2020	Cash Flows	Non-cash Changes: Amortization of DIC	Interest Accretion	Other	December 31, 2020
Short-term notes payable (see Note 20)	**₱25,000,000**	**₱75,000,000***	**₱–**	**₱–**	**(₱100,000,000)**	**₱–**
Current portion of long-term debt (see Note 20)	**351,861,110**	**(360,000,000)**	**8,138,890**	**–**	**5,909,348,835**	**5,909,348,835**
Long-term debt-net of current portion (see Note 20)	**26,353,356,366**	**4,940,093,386****	**27,630,230**	**–**	**(5,909,348,835)**	**25,411,731,147**
Interest payable (see Note 17)	**187,911,837**	**(1,013,089,746)**	**–**	**–**	**991,642,396**	**166,464,487**
Dividends payable (see Note 22)	**3,100,000,000**	**(4,168,000,000)**	**–**	**–**	**2,968,000,000**	**1,900,000,000**
Service concession fees payable (see Note 21)	**2,894,320,777**	**–**	**–**	**177,782,208**	**–**	**3,072,102,985**
Total liabilities from financing activities	**₱32,912,450,090**	**(₱525,996,360)**	**₱35,769,120**	**₱177,782,208**	**₱3,859,642,396**	**₱36,459,647,454**

**Proceeds from availment and payment of short-term notes payable amounted to ₱5,155.0 million and ₱5,080.0 million, respectively.*
***Proceeds from long-term debt of ₱5,000.0 million net of debt issue costs of ₱59.9 million.*

	January 1, 2019	Cash Flows	Non-cash Changes: Amortization of DIC	Interest Accretion	Other	December 31, 2019
Short-term notes payable (see Note 20)	₱–	₱25,000,000*	₱–	₱–	₱–	₱25,000,000
Current portion of long-term debt (see Note 20)	352,011,497	(360,000,000)	4,347,815	–	355,501,798	351,861,110
Long-term debt-net of current portion (see Note 20)	21,725,412,966	4,960,307,913**	23,137,285	–	(355,501,798)	26,353,356,366
Interest payable (see Note 17)	98,394,217	(590,684,972)	–	–	680,202,592	187,911,837
Dividends payable (see Note 22)	2,100,000,000	(4,700,000,000)	–	–	5,700,000,000	3,100,000,000
Service concession fees payable (see Note 21)	2,701,448,632	–	–	192,872,145	–	2,894,320,777
Total liabilities from financing activities	₱26,977,267,312	(₱665,377,059)	₱27,485,100	₱192,872,145	₱6,380,202,592	₱32,912,450,090

**Proceeds from availment of short-term notes payable of ₱525.0 million is net of payment of ₱500.0 million.*
***Proceeds from long-term debt of ₱5,000.0 million net of debt issue costs of ₱39.7 million.*

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

Non-cash Investing Activities

The following table shows the Company's significant non-cash investing activities and corresponding transaction amounts for the years ended December 31, 2020 and 2019:

	2020	2019
Sale of investment in a subsidiary (see Note 7)	**(₱544,000,000)**	₱–
Additions to service concession asset on account (see Note 10)	**295,634,460**	862,881,598
Additions to investment properties on account (see Note 13)*	**237,380,412**	2,468,940
Additions to service concession asset and service concession fees payable pertaining to accretion of service concession fees payable (see Notes 10 and 21)	**177,782,208**	192,872,145

	2020	2019
Additions to property and equipment on account (see Note 12)	**₱32,546,790**	₱39,036,780
Additions to service concession asset pertaining to capitalized borrowing costs (see Note 20)	**13,467,940**	12,269,189
Sale of property and equipment (see Note 12)	**(530,608)**	–

**This is derecognized from the consolidated payables as of December 31, 2020 due to the sale of the Parent Company's investment in NVC to MPTC (see Note 7)*

36. Event after the Reporting Period

Out-of-Home (OOH) Advertising Agreement with NVC

On February 1, 2021, NLEX Corp. has appointed NVC as exclusive partner for the OOH advertising within its expressways. NLEX Corp. grants NVC the limited and exclusive right to use portions of the NLEX and SCTEX rights-of-way for OOH advertising contracts, including the installation, construction and maintenance of OOH structures. For this purpose, NLEX Corp. assigns its rights and obligations under the existing advertising contracts to NVC effective February 1, 2021 for a fixed monthly fee of ₱1.3 million per month and variable fee of 15% of advertising revenue in excess of ₱110.0 million over a calendar year. The agreement will be effective for an initial period of three (3) years, which can be renewed subject to the terms and conditions mutually agreed by the Parties, unless otherwise terminated by either party upon ninety (90) days prior written notice.

37. Standards Issued but Not Yet Effective

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

Effective beginning on or after January 1, 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.

The Company is currently assessing the impact of adopting these amendments.

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-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.

  The Company is currently assessing the impact of adopting these amendments.

- 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 these amendments.

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

  - 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 of the amendments and whether the 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.

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

Deferred effectivity

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

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

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