

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES
REGULATION CODE AND SRC RULE 17(2)(b) THEREUNDER

1. For the quarterly period ended: June 30, 2018
2. Commission Identification Number: A1997-01451
3. BIR Tax Identification No: 004-984-946-000
4. Exact name of issuer as specified in its charter
NLEX CORPORATION
5. Province, country or other jurisdiction of incorporation or organization
METRO MANILA, PHILIPPINES
6. Industry Classification Code: (SEC Use Only)
7. Address of issuer's principal office Postal Code
NLEX COMPOUND, BALINTAWAK, CALOOCAN CITY, METRO MANILA 1400
8. Issuer's telephone number, including area code
+632-580-8900
9. Former name, former address and former fiscal year, if changed since last report
MANILA NORTH TOLLWAYS CORPORATION
10. Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 4 and 8 of the RSA

Title of each Class	Number of shares of common stock outstanding and amount of debt outstanding
<u>Fixed Rate Bonds Due 2021</u>	<u>Php4,400,000,000.00</u>
<u>Fixed Rate Bonds Due 2024</u>	<u>Php2,600,000,000.00</u>
<u>Series A Bonds Due 2025</u>	<u>Php4,000,000,000.00</u>
<u>Series B Bonds Due 2028</u>	<u>Php2,000,000,000.00</u>

11. Are any or all of the securities listed on a Stock Exchange?

Yes [] No [x]

If yes, state the name of such Stock Exchange and the class/es of securities listed therein:

N/A

12. Indicate by check mark whether the registrant:

(a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Sections 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding twelve (12) months (or for such shorter period the registrant was required to file such reports)

Yes [x] No []

(b) has been subject to such filing requirements for the past ninety (90) days.

Yes [x] No []

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PART I--FINANCIAL INFORMATION

Item 1. Financial Statements

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

Interim Condensed Consolidated Financial Statements (unaudited)
June 30, 2018 and 2017

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

INTERIM CONDENSED CONSOLIDATED BALANCE SHEETS

	Unaudited June 30, 2018	Audited December 31, 2017
ASSETS		
Current Assets		
Cash and cash equivalents (Note 4)	₱824,153,800	₱2,715,210,842
Investments in unit investment trust funds (Notes 11 and 26)	92,570,162	217,749,970
Receivables (Notes 5 and 15)	632,921,789	715,039,256
Inventories - at cost	104,887,245	112,594,013
Investments in bonds and treasury notes (Notes 12 and 26)	-	49,825,000
Other current assets (Note 10)	823,127,911	908,356,502
Total Current Assets	2,477,660,907	4,718,775,583
Noncurrent Assets		
Service concession assets (Note 6)	34,878,823,785	33,672,831,472
Property and equipment (Note 7)	232,842,875	180,556,890
Investment Properties (Note 8)	129,079,764	128,980,520
Other intangible assets (Note 9)	8,079,985	10,314,314
Investments in bonds and treasury notes (Notes 12 and 26)	1,073,524,357	1,204,581,932
Pension asset	6,015,475	5,570,690
Advances to contractors and other noncurrent assets (Note 25)	338,994,451	224,409,324
Total Noncurrent Assets	36,667,360,692	35,427,245,142
	₱39,145,021,599	₱40,146,020,725
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and other current liabilities (Notes 13 and 15)	₱2,494,940,282	₱3,272,383,362
Short-term notes payable (Note 16)	2,700,000,000	-
Income tax payable	420,856,241	329,435,810
Provisions (Note 14)	282,418,361	272,861,598
Current portion of long-term debt (Notes 16 and 26)	352,126,671	4,304,208,838
Long-term incentive plan	-	193,442,315
Dividends payable	-	1,840,000,000
Total Current Liabilities	6,250,341,555	10,212,331,923
Noncurrent Liabilities		
Long-term debt - net of current portion (Notes 16 and 26)	16,035,615,565	16,136,387,307
Service concession fees payable (Note 17)	2,610,699,073	2,521,429,127
Long-term incentive plan payable	68,426,864	-
Provisions (Note 14)	170,123,019	114,161,673
Deferred tax liabilities - net	531,182,022	505,726,589
Other noncurrent liabilities (Note 26)	1,293,618	250,023
Total Noncurrent Liabilities	19,417,340,161	19,277,954,719
Total Liabilities	25,667,681,716	29,490,286,642

(Forward)

	Unaudited June 30, 2018	Audited December 31, 2017
Equity		
Capital stock (Note 18)	₱1,776,000,000	₱1,776,000,000
Additional paid-in capital	3,749,711,168	3,749,711,168
Retained earnings	8,006,969,843	5,154,024,882
Other comprehensive loss reserve (Note 18)	(68,375,410)	(37,036,249)
Other reserve (Note 22)	13,034,282	13,034,282
Total Equity	13,477,339,883	10,655,734,083
	₱39,145,021,599	₱40,146,020,725

See accompanying notes to Unaudited Interim Condensed Consolidated Financial Statements and Management Discussion and Analysis.

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

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

	Six months ended June 30		Three months ended June 30	
	2018	2017	2018	2017
OPERATING REVENUES				
Toll fees - net of discount	₱6,578,464,913	₱5,721,942,826	₱3,391,720,460	₱2,978,965,666
Sales of magnetic cards	2,455	3,705	446	2,723
Toll revenues	6,578,467,368	5,721,946,531	3,391,720,906	2,978,968,389
Non-toll revenues (Note 19)	100,216,125	82,883,313	56,805,742	35,223,318
	6,678,683,493	5,804,829,844	3,448,526,648	3,014,191,707
COST OF SERVICES (Note 20)	(2,279,507,985)	(2,221,795,365)	(1,160,893,264)	(1,135,009,774)
GROSS PROFIT	4,399,175,508	3,583,034,479	2,287,633,384	1,879,181,933
CONSTRUCTION REVENUE				
(Note 6)	1,619,687,420	2,033,817,545	972,759,613	1,134,981,217
CONSTRUCTION COSTS				
(Note 6)	(1,619,687,420)	(2,033,817,545)	(972,759,613)	(1,134,981,217)
GENERAL AND ADMINISTRATIVE EXPENSES (Note 21)				
	(494,405,047)	(406,729,365)	(228,533,096)	(174,284,322)
INTEREST EXPENSE AND OTHER FINANCE COSTS (Note 24)				
	(236,063,996)	(221,221,381)	(96,486,429)	(116,987,829)
INTEREST INCOME (Note 23)				
	31,379,366	25,054,570	15,978,218	13,353,552
FOREIGN EXCHANGE GAIN (LOSS) – Net				
	(151,837)	1,685,612	2,109,313	1,260,458
OTHER INCOME				
	2,922,298	3,316,019	2,667,325	1,511,728
INCOME (LOSS) BEFORE INCOME TAX				
	3,702,856,292	2,985,139,934	1,983,368,715	1,604,035,520
PROVISION FOR INCOME TAX				
Current	824,190,750	661,973,698	426,186,923	348,119,871
Deferred	25,720,581	(25,119,879)	(6,566,364)	(20,179,613)
	849,911,331	636,853,819	419,620,559	327,940,258
NET INCOME	₱2,852,944,961	₱2,348,286,115	₱1,563,748,156	₱1,276,095,262

See accompanying notes to Unaudited Interim Condensed Consolidated Financial Statements and Management Discussion and Analysis.

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

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

	Six months ended June 30		Three months ended June 30	
	2018	2017	2018	2017
NET INCOME	₱2,852,944,961	₱2,348,286,115	₱1,563,748,156	₱1,276,095,262
OTHER COMPREHENSIVE INCOME (LOSS)				
<i>Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:</i>				
Loss on financial assets at fair value through other comprehensive income (Notes 12 and 26)	(31,604,309)	-	-	-
Gain (loss) on available-for-sale financial assets (Notes 11, 12 and 26)	-	829,048	(4,759,896)	848,912
Income tax effect	265,148	(437,300)	13,772	(576,584)
	(31,339,161)	391,748	(4,746,124)	272,328
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX	(31,339,161)	391,748	(4,746,124)	272,328
TOTAL COMPREHENSIVE INCOME	₱2,821,605,800	₱2,348,677,863	₱1,559,002,032	₱1,276,367,590

See accompanying notes to Unaudited Interim Condensed Consolidated Financial Statements and Management Discussion and Analysis.

NLEX CORPORATION
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AND A SUBSIDIARY

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (UNAUDITED)

	Capital Stock	Additional Paid-in Capital	Retained Earnings	Other Comprehensive Income Reserve	Other Reserve	Total Equity
At January 1, 2018	₱1,776,000,000	₱3,749,711,168	₱5,154,024,882	(₱37,036,249)	₱13,034,282	₱10,655,734,083
Net Income	–	–	2,852,944,961	–	–	2,852,944,961
Other comprehensive loss (Note 18)	–	–	–	(31,339,161)	–	(31,339,161)
Total comprehensive income for the year	–	–	2,852,944,961	(31,339,161)	–	2,821,605,800
At June 30, 2018	₱1,776,000,000	₱3,749,711,168	₱8,006,969,843	(₱68,375,410)	₱13,034,282	₱13,477,339,883
At January 1, 2017	₱1,776,000,000	₱3,749,711,168	₱4,109,784,668	(₱36,912,383)	₱13,034,282	₱9,611,617,735
Net Income	–	–	2,348,286,115	–	–	2,348,286,115
Other comprehensive income (Note 18)	–	–	–	391,748	–	391,748
Total comprehensive income for the year	–	–	2,348,286,115	391,748	–	2,348,677,863
At June 30, 2017	₱1,776,000,000	₱3,749,711,168	₱6,458,070,783	(₱36,520,635)	₱13,034,282	₱11,960,295,598

See accompanying notes to Unaudited Interim Condensed Consolidated Financial Statements and Management Discussion and Analysis.

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

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Six Months Ended June 30	
	2018	2017
OPERATING ACTIVITIES		
Income before income tax	₱3,702,856,292	₱2,985,139,934
Adjustments to reconcile income before income tax to net cash flows:		
Amortization of service concession assets (Notes 6 and 20)	413,695,107	357,668,753
Interest expense and other finance costs (Note 24)	236,063,996	222,123,481
Movements in:		
Provisions	45,072,427	51,265,339
Pension asset	(444,785)	3,088,097
Long-term incentive plan expense	32,000,000	32,000,000
Interest income (Note 23)	(31,379,366)	(25,054,570)
Depreciation of property and equipment (Notes 7, 20 and 21)	29,044,807	24,510,808
Amortization of other intangible assets (Note 9, 20 and 21)	2,997,176	5,969,053
Unrealized foreign exchange gain - net	(1,027,539)	(601,713)
Unrealized gain on investments in UITFs (Note 11)	(348,753)	-
Loss (gain) on disposals of property and equipment (Note 7)	266,963	(56,935)
Gain on disposal of investments in bonds and treasury notes (Note 12)	(43,713)	(193,873)
Working capital changes:		
Decrease (increase) in:		
Receivables	78,593,089	5,696,411
Inventories	7,706,768	(1,979,046)
Other current assets	98,770,945	(151,640,214)
Decrease in:		
Accounts payable and other current liabilities	(786,226,266)	(585,358,800)
Long-term incentive plan payable	(157,015,451)	-
Income tax paid	(732,770,319)	(619,454,022)
Net cash flows from operating activities	2,937,811,378	2,303,122,703
INVESTING ACTIVITIES		
Interest received	34,903,744	23,667,705
Decrease (increase) in other noncurrent assets	(114,778,300)	882,013,450
Additions to:		
Investments in bonds and treasury notes (Note 12)	-	(150,000,000)
Investments in UITFs (Note 11)	(3,625,000,000)	(2,780,000,001)
Service concession assets (Note 6)	(1,526,666,383)	(1,928,874,842)
Property and equipment (Note 7)	(81,722,100)	(41,290,064)
Investment properties (Note 8)	(99,244)	(4,131,280)
Other intangible assets (Note 9)	(762,847)	(2,286,334)
Proceeds from:		
Sale of investments in UITFs (Note 11)	3,753,191,820	2,178,576,240
Sale of investments in bonds and treasury notes (Note 12)	100,043,713	-
Maturity of investments in bonds and treasury notes (Note 12)	50,000,000	-
Sale of property and equipment	124,345	761,548
Net cash flows used in investing activities	(1,410,765,252)	(1,821,563,578)

(Forward)

	Six Months Ended June 30	
	2018	2017
FINANCING ACTIVITIES		
Proceeds from loans	₱2,700,000,000	₱–
Payments of:		
Dividends	(1,840,000,000)	–
Interest	(211,513,709)	(201,222,509)
Long-term debt	(4,067,616,998)	(152,102,309)
Net cash flows used in financing activities	(3,419,130,707)	(353,324,818)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,892,084,581)	128,234,307
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	1,027,539	601,713
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	2,715,210,842	389,912,852
CASH AND CASH EQUIVALENTS AT END OF PERIOD (Note 4)	₱824,153,800	₱518,748,872

See accompanying notes to Unaudited Interim Condensed Consolidated Financial Statements and Management Discussion and Analysis.

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

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

General

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

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

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

On October 19, 2016, the Parent Company’s BOD approved the proposed merger between NLEX Corp. and Tollways Management Corporation (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.

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 (the “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 Republic of the Philippines (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 and authorized the signing and delivery of the updated Plan of Merger with TMC 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. As at June 30 2018, NLEX Corp. and TMC have yet to resubmit the Plan and Articles of Merger to the SEC.

Metro Pacific Tollways North Corporation (MPTNC), the parent company of NLEX Corp., 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 42.0% owned by Metro Pacific Holdings, Inc. (MPHI). As sole holder of the voting Class A Preferred Shares, MPHI’s combined voting interest as a result of all of its shareholdings is estimated at 55.0%. 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.

Toll Operations

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

The MNEP consists of three phases as follows:

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

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

Segment 8.1, a portion of Phase II, which is a 2.7 km-road designed to link Mindanao Avenue to the NLEX, had officially commenced tollway operation on June 5, 2010. Segment 9, a portion of Phase II, which is a 2.4 km-road connecting NLEX to the McArthur Highway, had officially commenced tollway operation on March 19, 2015. In May 2014, Segment 10, a portion of Phase II, which is a 5.76 km four-lane, elevated expressway that will start from the terminal of Segment 9 in Valenzuela City going to Circumferential Road 3 (C-3 Road) in Caloocan City above the alignment of Philippine National Railway (PNR) tracks, had commenced construction and is expected to be substantially completed by the fourth quarter of 2018. The estimated cost of construction of Segment 10 is ₱10.5 billion. The remaining portion of Phase II is under pre-construction works while Phase III of the MNEP has not yet been started as at the date of this report.

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-km 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 km 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 of the date of this report, the NLEX-SLEX Connector Road is still on its pre-construction phase.

2. Basis of Preparation and Changes to the Company's Accounting Policies

Basis of Preparation

The interim condensed consolidated financial statements have been prepared on a historical cost basis, except for investments in unit investment trust funds (UITFs) and investments in bonds and treasury notes which are measured at fair value. The interim condensed financial statements are presented in Philippine peso, which is the Company's functional and presentation currency.

The interim condensed financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Company's annual financial statements as at and for the year ended December 31, 2017.

Changes in Accounting Policies and Disclosures

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

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

- PFRS 15, *Revenue from Contracts with Customers*

PFRS 15 supersedes Philippine Accounting Standard (PAS) 11 *Construction Contracts*, PAS 18 *Revenue* and related interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under PFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires entities to provide disclosures about the significant judgements made in determining the timing of satisfaction of performance obligations. The standard also specifies that an entity should estimate the amount of variable consideration to which it will be entitled.

The Company adopted PFRS 15 using the modified retrospective method of adoption and applies to contracts not yet completed at the date of initial application. The effect of adopting PFRS 15 is as follows:

- a. *Toll Revenue*

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

- b. *Discounts*

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

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

- PFRS 9, *Financial Instruments*

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

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

- a. Comparative information for prior periods are not restated. The classification and measurement requirements previously applied in accordance with PAS 39 and disclosures required in PFRS 7 are retained for the comparative periods.
- b. The accounting policies for both the current period and the comparative periods, one applying PFRS 9 and one applying PAS 39 are disclosed in the notes to the consolidated financial statements.
- c. The difference between the previous carrying amount and the carrying amount at the beginning of the annual reporting period that includes the date of initial application are recognized in the opening retained earnings or other component of equity, as appropriate.
- d. As comparative information is not restated, the Company is not required to provide a third statement of financial information at the beginning of the earliest comparative period in accordance with PAS 1, *Presentation of Financial Statements*.

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

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

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

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

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

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

The Company has debt investments at FVOCI and amortized cost. Assets that are held both for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognized in profit or

loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in other gains (losses). Interest income from these financial assets is included in interest income using the effective interest rate method.

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

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

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

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

	Original Measurement Category under PAS 39	New Measurement Category under PFRS 9	Original Carrying Amount under PAS 39	New Carrying Amount under PAS 39
Financial assets:				
Cash and cash equivalents	Loans and receivables	Financial assets at amortized cost	₱2,715,210,842	₱2,715,210,842
Receivables (excluding advances to officers and employees)	Loans and receivables	Financial assets at amortized cost	704,398,236	704,398,236
Investments in UITF	AFS investments	Financial assets at FVTPL	217,749,970	217,749,970
Investments in bonds and treasury notes (current and noncurrent)	AFS investments	Financial assets at FVOCI	1,254,406,932	1,254,406,932
Refundable deposits	Loans and receivables	Financial assets at amortized cost	3,694,561	3,694,561
Restricted cash	Loans and receivables	Financial assets at amortized cost	321,000,000	321,000,000
			₱5,216,460,541	₱5,216,460,541
Financial liabilities:				
Accounts payable and other current liabilities	Financial liabilities at amortized cost	Financial liabilities at amortized cost	₱3,132,209,043	₱3,132,209,043
Long-term debt (current and noncurrent)	Financial liabilities at amortized cost	Financial liabilities at amortized cost	20,440,596,145	20,440,596,145
Service concession fees payable	Financial liabilities at amortized cost	Financial liabilities at amortized cost	2,521,429,127	2,521,429,127
Rental deposits	Financial liabilities at amortized cost	Financial liabilities at amortized cost	130,601	130,601
			₱26,094,364,916	₱26,094,364,916

- *Reclassification to FVTPL.* UITFs are ready-made investments that allow the pooling of funds from different investors with similar investment objectives. These UITFs are managed by professional fund managers and may be invested in various financial instruments such as money market securities, bonds and equities, which are normally available to large investors only. A UITF uses the mark-to-market method in valuing the fund's securities. It is a valuation method which calculates the Net Asset Value (NAV) based on the estimated fair market value of the assets of the fund based on prices supplied by independent sources. They do not meet the PFRS 9 criteria for classification at amortized cost or FVOCI, because their cash flows do not represent solely payments of principal and interest. Hence, these financial assets were reclassified from available-for-sale (AFS) financial assets under PAS 39 to financial assets at FVTPL under PFRS 9. As at January 1, 2018, the accumulated unrealized gain on AFS investments under PAS 39 that will be reclassified to beginning balance of retained earnings as at January 1, 2018 is not material to the consolidated financial statements.
- *AFS debt investments classified as FVOCI.* Quoted debt instruments were reclassified from AFS to FVOCI, as the group's business model is achieved both by collecting contractual cash flows and selling of these assets. The contractual cash flows of these investments are solely principal and interest.

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

Impairment. PFRS 9 requires that the Company record an allowance for expected credit losses (ECL) for all loans and other debt instruments not held at FVTPL. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

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

- *Amendments to PFRS 2, Share-based Payment, Classification and Measurement of Share-based Payment Transactions*

The amendments to PFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled. These amendments are not relevant to the Company.

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

The amendments address concerns arising from implementing the new financial instruments standard, PFRS 9, before implementing PFRS 17, *Insurance Contracts*, which replaces PFRS 4. The

amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying PFRS 9 and an overlay approach. These amendments are not relevant to the Company.

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

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

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

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

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

These amendments do not have material impact on the Company's consolidated interim financial statements since there was no transfer into or out of investment property made as at June 30, 2018 and December 31, 2017.

- *Philippine Interpretation International Financial Reporting Interpretations Committee (IFRIC) 22, Foreign Currency Transactions and Advance Consideration*

The interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. Entities may apply the amendments on a fully retrospective basis. Alternatively, an entity may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognized on or after the beginning of the reporting period in which the entity first applies the interpretation or the beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

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

3. Seasonality of Operations

Based on historical traffic in the NLEX, the month of January is slightly below the normal average due to the end of the Christmas holidays. From February to May, traffic is above the normal average due to the summer holiday, which is traditionally a peak season for travel. The months of June to August remain to have the lowest seasonal factors due to the rainy season. Traffic is expected to improve from September until November, while the month of December has the highest seasonal factor due to the Christmas holidays.

4. Cash and Cash Equivalents

Cash and cash equivalents consist of:

	June 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Cash on hand and in banks	P104,398,153	P181,262,438
Short-term deposits	719,755,647	2,533,948,404
	P824,153,800	P2,715,210,842

For purposes of the interim statements of cash flows for the six months ended June 30, 2018 and 2017, cash and cash equivalents as at June 30 comprise of the following:

	2018 (Unaudited)	2017
Cash on hand and in banks	P104,398,153	P98,656,712
Short-term deposits	719,755,647	420,092,160
	P824,153,800	P518,748,872

5. Receivables

This account consists of:

	June 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Trade receivables	P390,736,866	P473,574,377
Advances to Department of Public Works and Highways (DPWH)	179,563,952	179,535,742
Advances to officers and employees	12,260,222	10,641,020
Interest receivables	16,478,809	20,003,187
Due from related parties	5,490,427	5,982,581
Other receivables	57,760,035	51,741,514
	662,290,311	741,478,421
Less allowance for doubtful accounts	29,368,522	26,439,165
	P632,921,789	P715,039,256

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

The advances to DPWH are noninterest-bearing and are collectible within a year.

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

Interest receivables are collectible within three months to six months.

Other receivables are noninterest-bearing and are collectible within a year. As at June 30, 2018 and December 31, 2017, other receivables include those receivables from motorists who caused accidental damage to NLEX property from day-to-day operations amounting to P46.1 million and P43.6 million respectively.

Movement in the allowance for individually assessed impaired receivables for the six months ended June 30, 2018 is as follows:

	Trade Receivables	Other Receivables	Total
Balance at beginning of period	P3,204,597	P23,234,568	P26,439,165
Provision for doubtful accounts (see Note 21)	524,621	2,404,736	2,929,357
Balance at end of period	P3,729,578	P25,639,304	P29,368,522

6. Service Concession Assets

The movements in this account follow:

	MNEP	SCTEX	NLEX-SLEX Connector Road	Total
Cost:				
At January 1, 2017	₱31,736,465,603	₱3,556,060,212	₱2,507,847,423	₱37,800,373,238
Additions	2,765,345,336	783,222,842	214,910,301	3,763,478,479
At December 31, 2017	34,501,810,939	4,339,283,054	2,722,757,724	41,563,851,717
Additions	1,367,135,781	130,126,754	122,424,885	1,619,687,420
At June 30, 2018	₱35,868,946,720	₱4,469,409,808	₱2,845,182,609	₱43,183,539,137
Accumulated amortization:				
At January 1, 2017	₱7,041,964,761	₱86,260,885	₱-	₱7,128,225,646
Amortization	654,699,389	108,095,210	-	762,794,599
At December 31, 2017	7,696,664,150	194,356,095	-	7,891,020,245
Amortization (see Note 20)	362,563,814	51,131,293	-	413,695,107
At June 30, 2018	₱8,059,227,964	₱245,487,388	₱-	₱8,304,715,352
Net book value				
At June 30, 2018	₱27,809,718,756	₱4,223,922,420	₱2,845,182,609	₱34,878,823,785
At December 31, 2017	26,805,146,789	4,144,926,959	2,722,757,724	33,672,831,472

MNEP

Additions in MNEP during the first half of the year pertain mostly to lane widening project in Segment 2, portion of Phase I; civil works construction on Segment 10; additional costs capitalized for the Radio Frequency Identification System (RFID) and civil works and consultancy services for its toll expansion projects. Additions also include the pre-construction costs of Segments 8.2 and the C3-R10 of the Harbor Link project, portions of Phase II. Borrowing costs capitalized amounted to ₱336.4 million for the six months ended June 30, 2018. The interest rate used to determine the amount of borrowing costs eligible for capitalization was 5.0% to 5.8% in 2018 and 2017

SCTEX

NLEX Corp. took over from BCDA the management, operation and maintenance of the SCTEX on October 27, 2015. The additions as at June 30, 2018 amounting to ₱130.1 million pertain mainly to costs of construction of the Mabiga and Sta. Ines Interchange and the construction and expansion of toll plazas in certain areas along SCTEX. While, the additions amounting to ₱783.2 million as at December 31, 2017 pertain to the cost of pavement rehabilitation in certain portion of SCTEX and other costs incurred for upgrading the toll road facilities and equipment in SCTEX.

The concession term for SCTEX is until October 30, 2043.

NLEX-SLEX Connector Road

Additions in NLEX-SLEX Connector Road pertains mainly to the accretion in the present value of periodic payments to DPWH in consideration for the basic right of way (see Note 17). Other additions include detailed engineering design and legal services rendered in connection with the project.

7. Property and Equipment

The movements in this account follow:

	Building, Building Improvements and Leasehold Improvements	Transportation Equipment	Office Equipment and Others	Total
Cost:				
At January 1, 2017	₱94,223,954	₱87,863,961	₱175,162,079	₱357,249,994
Additions	21,591,711	22,879,845	54,354,146	98,825,702
Disposals	–	(3,676,261)	(494,724)	(4,170,985)
At December 31, 2017	115,815,665	107,067,545	229,021,501	451,904,711
Additions	7,304,614	20,362,680	54,054,806	81,722,100
Disposals	–	(1,888,300)	(43,737)	(1,932,037)
At June 30, 2018	₱123,120,279	₱125,541,925	₱283,032,570	₱531,694,774
Accumulated depreciation:				
At January 1, 2017	₱40,087,596	₱49,059,865	₱133,131,173	₱222,278,634
Depreciation	4,056,291	13,528,884	34,357,393	51,942,568
Disposals	–	(2,378,657)	(494,724)	(2,873,381)
At December 31, 2017	44,143,887	60,210,092	166,993,842	271,347,821
Depreciation (see Notes 20 and 21)	3,239,444	8,589,453	17,215,910	29,044,807
Disposal	–	(1,496,992)	(43,737)	(1,540,729)
At June 30, 2018	₱47,383,331	₱67,302,553	₱184,166,015	₱298,851,899
Net book value:				
At June 30, 2018	₱75,736,948	₱58,239,372	₱98,866,555	₱232,842,875
At December 31, 2017	71,671,778	46,857,453	62,027,659	180,556,890

8. Investment Properties

The movements in this account follow:

	Land	Land Improvements	Total
At January 1, 2018	₱117,401,719	₱11,578,801	₱128,980,520
Additions	99,244	–	99,244
At June 30, 2018	₱117,500,963	₱11,578,801	₱129,079,764

9. 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:

	June 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Cost:		
Balance at beginning of year	₱109,997,788	₱106,535,415
Additions	762,847	3,917,613
Disposals	–	(455,240)
Balance at end of period	₱110,760,635	₱109,997,788
Accumulated amortization:		
Balance at beginning of year	₱99,683,474	₱88,276,923
Amortization (see Note 21)	2,997,176	11,861,791
Disposals	–	(455,240)
Balance at end of period	102,680,650	99,683,474
Net book value	₱8,079,985	₱10,314,314

10. Other Current Assets

Details of other current assets follow:

	June 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Advances to suppliers	₱58,784,508	₱60,582,642
Input VAT	293,480,853	318,515,410
Restricted cash (see Note 25)	321,000,000	321,000,000
Deferred input VAT	121,460,754	152,582,388
Prepayments	23,387,255	51,217,754
Creditable Tax	17,987,576	18,769,968
Others	2,407,426	1,068,801
	838,508,372	923,736,963
Less allowance for recoverability of creditable tax	15,380,461	15,380,461
	₱823,127,911	₱908,356,502

11. Investments in Unit Investment Trust Funds

Details of this account are shown below:

	June 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Fair Value	₱92,570,162	₱217,749,970
Principal Amount	92,221,409	217,221,409

Investments in UITFs are classified as financial assets measured at FVTPL under PFRS 9 and AFS under PAS 39 as at June 30, 2018 and December 31, 2017, respectively.

The movements in this account follow:

	June 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Balance at beginning of period	P217,749,970	P82,407,389
Additions	3,625,000,000	5,731,000,001
Sale of UITFs	(3,750,000,000)	(5,596,000,000)
Changes in fair value during the period*	(179,808)	342,580
Balance at end of period	P92,570,162	P217,749,970

* Includes gain on sale of investments in UITFs amounting to P3,191,820 and P8,369,189 in 2018 and 2017, respectively, that was deducted from borrowing costs capitalized to service concession assets.

The fair value is based on the quoted market price of the financial instruments as at June 30, 2018 and December 31, 2017. The movements in the net unrealized gain for the period ended June 30, 2018 and year ended December 31, 2017 follow:

	June 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Balance at beginning of period	P528,561	P185,981
Changes in fair value during the period (see Note 18)	-	9,332,603
Recycling to profit or loss (see Note 18)	(528,561)	(8,990,023)
Balance at end of period	P-	P528,561

12. Investments in Bonds and Treasury Notes

Details of this account are shown below:

Maturity Date	Interest Rate	June 30, 2018		December 31, 2017	
		Fair Value	Principal Amount	Fair Value	Principal Amount
ROP Retail Treasury Bonds					
April 11, 2020	4.25%	P-	P-	P100,112,000	P100,000,000
August 15, 2023	3.25%	497,796,589	565,100,000	520,796,160	565,100,000
		497,796,589	565,100,000	620,908,160	665,100,000
Fixed Rate Treasury Notes					
May 23, 2018	2.13%	-	-	49,825,000	50,000,000
July 19, 2019	4.75%	11,276,268	11,230,000	11,301,872	11,230,000
August 20, 2020	3.38%	19,467,000	20,000,000	19,495,400	20,000,000
		30,743,268	31,230,000	80,622,272	81,230,000
LTNCD					
PNB – June 12, 2020	4.13%	48,947,000	50,000,000	50,498,500	50,000,000
Metrobank – November 21, 2021	4.25%	46,230,000	50,000,000	48,499,000	50,000,000
		95,177,000	100,000,000	98,997,500	100,000,000
Corporate Bonds					
FMIC – August 10, 2019	5.75%	50,121,500	50,000,000	51,079,000	50,000,000
Meralco – December 12, 2020 (see Note 17)	4.38%	197,250,000	200,000,000	198,956,000	200,000,000
PLDT – February 6, 2021 (see Note 17)	5.23%	202,436,000	200,000,000	203,844,000	200,000,000
		449,807,500	450,000,000	453,879,000	450,000,000
		P1,073,524,357	P1,146,330,000	P1,254,406,932	P1,296,330,000

Investments in bonds and treasury notes are classified as financial assets measured at FVOCI under PFRS 9 and AFS under PAS 39 as at June 30, 2018 and December 31, 2017, respectively.

The movements in this account follow:

	June 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Balance at beginning of period	P1,254,406,932	P1,353,667,695
Additions	193,173	151,500,286
Maturity of investments in bonds and treasury notes	(50,000,000)	-
Sale of investments in bonds and treasury notes	(100,000,000)	(250,000,000)
Changes in fair value during the period (see Note 18)	(31,032,035)	(803,476)
Recycling to profit or loss (see Note 18)	(43,713)	42,427
Balance at end of period	P1,073,524,357	P1,254,406,932
Current	P-	P49,825,000
Noncurrent	1,073,524,357	1,204,581,932
	P1,073,524,357	P1,254,406,932

The fair value is based on the quoted market price of the financial instruments as at June 30, 2018 and December 31, 2017. The movements in the net unrealized loss on fair value change in FVOCI financial assets under "Other comprehensive loss reserve" account for the period ended June 30, 2018 and year ended December 31, 2017 follow:

	June 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Balance at beginning of period	(P40,141,054)	(P39,380,005)
Changes in fair value during the period (see Note 18)	(31,032,035)	(803,476)
Recycling to profit or loss (see Note 18)	(43,713)	42,427
Balance at end of period	(71,216,802)	(40,141,054)
Tax effects of items taken directly in equity (see Note 18)	199,657	(43,141)
	(P71,017,145)	(P40,184,195)

13. Accounts Payable and Other Current Liabilities

This account consists of:

	June 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Trade payables	P267,718,550	P940,321,431
Accrued expenses	1,539,099,617	1,480,488,100
Retention payable	426,737,130	558,602,632
Output value added tax	151,439,043	163,555,157
Withholding taxes payable	41,161,079	85,633,460
Interest payable	38,139,536	28,314,769
Unearned toll revenue	20,462,013	1,883,284
Due to affiliates (see Note 15)	833,430	833,430
Others	9,349,884	12,751,099
	P2,494,940,282	P3,272,383,362

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

Accrued expenses consist of:

	June 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Construction costs	P541,981,051	P749,593,043
PNCC fee	380,833,083	60,483,648
Operator's fee	111,855,156	307,065,152
Professional fees	100,794,957	112,852,747
Concession fees	95,140,705	102,864,022
Advertising and marketing expenses	70,924,742	36,567,994
Operating and maintenance cost	64,240,337	58,233,647
Outside services	56,622,169	13,261,969
Purchases payable	30,882,090	14,202,234
Taxes and licenses	29,665,935	5,644,448
Repairs and maintenance	25,906,102	8,073,559
Management fees	14,028,599	-
Salaries and employee benefits	6,679,059	1,237,466
Toll collection and medical services	6,140,191	8,268,476
Others	3,405,441	2,139,695
	P1,539,099,617	P1,480,488,100

Interest payable is settled within six months.

14. Provisions

The movements in this account follow:

	Heavy Maintenance	Others	Total
At January 1, 2017	P313,969,415	P105,739,274	P419,708,689
Additions	241,327,802	85,500,489	326,828,291
Accretion	18,045,843	-	18,045,843
Payments	(326,221,568)	(51,337,984)	(377,559,552)
At December 31, 2017	247,121,492	139,901,779	387,023,271
Additions (see Notes 20 and 21)	126,088,702	37,520,812	163,609,514
Accretion (see Note 24)	7,731,727	-	7,731,727
Payments	(64,018,901)	(41,804,231)	(105,823,132)
At June 30, 2018	P316,923,020	P135,618,360	P452,541,380
At June 30, 2018:			
Current	P146,800,001	P135,618,360	P282,418,361
Noncurrent	170,123,019	-	170,123,019
	P316,923,020	P135,618,360	P452,541,380
At December 31, 2017:			
Current	P146,800,001	P126,061,597	P272,861,598
Noncurrent	100,321,491	13,840,182	114,161,673
	P247,121,492	P139,901,779	P387,023,271

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

Other provisions include estimated liabilities for certain reimbursements of corporate expenses being claimed against the Company by a related party. 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.

15. 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.

	June 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Due from Related Parties		
Tollways Management Corp.	₱120,902	₱501,126
Cavitex Infrastructure Corp.	695,783	1,288,843
Easytrip Services Corporation	99,000	99,000
MPTC	2,231,576	410,470
MPIC	–	271,472
MPTDC	16,423	–
Cebu Cordova Link Expressway Corp.	143,442	10,194
Metro Pacific Tollways South Management Corp.	72,050	–
Metro Pacific Tollways Management Services Inc.	145,022	1,455,819
MPCALA	1,966,269	1,945,657
	₱5,490,427	₱5,982,581

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

Related Party	Relationship		Management Fees (see Note 21)	Professional Fee (see Note 21)	Operator's Fee (see Note 20)	Outside Services (see Note 20)	Repairs and Maintenance (see Note 20)	Communication, Light and Water (see Note 21)	Advertising and Marketing Expenses (see Note 21)	Representation and Travel Expenses	Income from Advertising (see Note 19)	Income from Utility Facilities (see Note 19)
MPTC	Intermediate Parent Company	2018	₱30,593,838	₱-	₱-	₱-	₱1,193,561	₱-	₱54,976,279	₱-	₱-	₱-
		2017	30,351,314	-	-	-	-	-	38,912,377	-	-	-
MPTNC	Parent Company	2018	17,603,347	-	-	-	-	-	-	-	-	-
		2017	-	-	-	-	-	-	-	-	-	-
TMC	Subsidiary of MPTNC	2018	-	-	442,232,380	-	-	-	-	-	-	-
		2017	-	-	805,068,480	2,518,278	18,244,879	175,880	-	-	-	-
Easytrip Services Corp. (ESC)	Subsidiary of MPTC	2018	-	-	-	37,534,788	-	-	257,394	-	112,000	-
		2017	-	-	-	35,818,851	-	-	207,495	-	100,000	373,855
Smart Communications Inc. (Smart)	Associate of FPC	2018	-	-	-	-	-	1,747,083	-	-	1,240,000	-
		2017	-	-	-	-	-	-	110,728	-	18,082,000	-
PLDT, Inc. (PLDT)	Associate of FPC	2018	-	-	-	-	-	865,796	-	-	235,087	-
		2017	-	-	-	-	343,247	-	-	-	-	1,812,946
Metro Pacific Tollways Management Services, Inc.	Subsidiary of MPTC	2018	26,956,024	-	-	-	-	-	-	-	-	-
		2017	-	-	-	-	-	-	-	-	-	-
Cavitex Infrastructure Corp. (CIC)	Subsidiary of MPTC	2018	-	-	-	-	-	-	-	-	-	-
		2017	-	-	-	-	-	-	-	-	-	-
MPIC	Parent Company of MPTC	2018	-	-	-	-	-	-	-	-	-	-
		2017	-	-	-	-	-	-	-	-	-	-
Manila Electric Company (Meralco)	Associate of MPIC	2018	-	-	-	-	-	5,375,223	-	-	-	-
		2017	-	-	-	-	-	2,839,350	-	-	-	360,000
Maynilad	Subsidiary of MPIC	2018	-	-	-	-	-	144,288	-	-	-	-
		2017	-	-	-	-	-	-	-	-	-	-
Egis Projects, Philippines, Inc.	Associate of FPC	2018	-	9,821,429	-	-	-	-	-	-	-	-
		2017	-	-	-	-	-	-	-	-	-	-
Indra Philippines	Associate of MPIC	2018	-	-	-	-	5,979,667	-	-	-	-	-
		2017	-	-	-	-	-	-	-	-	-	-
Total		2018	₱75,139,209	₱9,821,329	₱442,232,380	₱37,534,788	₱7,173,228	₱5,108,634	₱55,233,672	₱-	₱8,635,087	₱-
		2017	72,639,227	-	1,528,987,544	71,339,481	63,209,017	11,582,876	183,680,759	15,228	19,252,000	2,898,814

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

This account consists of:

	June 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Peso-denominated Notes and Loans:		
Series A Notes	₱930,000,000	₱4,897,616,998
Term Loan Facilities	8,550,000,000	8,650,000,000
Fixed-rate Bonds	7,000,000,000	7,000,000,000
	16,480,000,000	20,547,616,998
Less unamortized debt issue costs	92,257,764	107,020,853
	16,387,742,236	20,440,596,145
Less current portion of long-term debt - net of unamortized debt issue costs of ₱7,873,329 in 2018 and ₱13,408,160 in 2017	352,126,671	4,304,208,838
	₱16,035,615,565	₱16,136,387,307

The unamortized debt issue costs incurred in connection with the availment of long-term debt amounting to ₱92.3 million and ₱107.0 million as at June 30, 2018 and December 31, 2017, respectively, were deducted against the long-term debt. The movements in debt issue costs are as follows:

	June 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Balance at beginning of year	₱107,020,853	₱127,056,818
Amortization during the year* (see Note 24)	(14,763,089)	(34,247,435)
Debt issue costs incurred during the year	–	14,211,470
Balance at end of year	₱92,257,764	₱107,020,853

*Includes amortization of debt issue costs capitalized to service concession assets amounting to ₱6,942,911 in 2018 and ₱12,808,080 in 2017.

Short-term Notes Payable

On April 18, 2018, NLEX Corp. availed 90-day short-term loans from BDO Unibank Inc. and Metropolitan Bank & Trust Co. amounting to ₱1.4 billion each with an annual interest rate of 3.50%.

The proceeds were used to finance the payment of the ₱4.0 billion Series A Notes which matured and was settled on April 19, 2018.

17. Service Concession Fees Payable

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

	June 30, 2018 (Unaudited)	December 31, 2017 (Audited)
At January 1, 2017	₱2,521,429,127	₱2,335,916,229
Accretion (see Note 6)	89,269,946	185,512,898
Balance at end of period	₱2,610,699,073	₱2,521,429,127

18. Equity

Capital Stock

Details of shares of stock of the Company as at June 30, 2018 and December 31, 2017 follow:

	Number of Shares
Authorized - ₱100 par value	40,000,000
Issued	17,760,000

Other Comprehensive Income Reserve

	FVOCI Financial Assets	Income Tax Related to FVOCI Financial Assets	AFS Financial Assets	Income Tax Related to AFS Financial Assets	Re- measurement of Defined Benefit Plan	Income Tax Related to Defined Benefit Plan	Total
Balance at January 1, 2018	₱-	₱-	(₱39,612,493)	(₱43,141)	₱3,741,979	(₱1,122,594)	(₱37,036,249)
Changes in fair value	(31,032,035)	265,148	-	-	-	-	(30,766,887)
Recycling to profit or loss (see Notes 12 and 13)	(43,713)	-	(528,561)	-	-	-	(572,274)
Balance at June 30, 2018	(₱31,075,748)	265,148	(₱40,141,054)	(₱43,141)	₱3,741,979	(₱1,122,594)	(68,375,410)
Balance at January 1, 2017	₱-	₱-	(₱39,194,024)	₱1,464,533	₱1,167,297	(₱350,189)	(₱36,912,383)
Change in fair value of AFS (see Note 11)	-	-	829,048	(437,300)	-	-	391,748
Balance at June 30, 2017	₱-	₱-	(₱38,364,976)	₱1,027,233	₱1,167,297	(₱350,189)	(₱36,520,635)

19. Non-Toll Revenue

Details of non-toll revenue follow:

	For Six Months Ended June 30	
	2018	2017
	(Unaudited)	
Income from advertising (see Note 15)	₱59,489,843	₱44,324,093
Income from toll service facilities (see Note 15)	23,974,054	21,321,081
Income from utility facilities	2,032,000	2,621,801
Others	14,720,228	14,616,338
	₱100,216,125	₱82,883,313

20. Cost of Services

Cost of services consists of:

	Six Months Ended June 30	
	2018	2017
	(Unaudited)	
Operator's fee (see Note 15)	₱442,232,380	₱805,068,480
Concession fees	542,075,108	469,934,085
Amortization of service concession assets (see Note 6)	413,695,107	357,668,753
PNCC fee	322,960,017	281,292,060
Outside services (see Note 15)	154,704,060	41,479,599
Repairs and maintenance (see Note 15)	121,222,536	96,403,022
Provision for heavy maintenance (see Note 14)	112,579,198	52,431,732
Insurance	40,048,357	38,123,240
Advertising and Promotions	23,902,757	7,989,882
Salaries and employee benefits	19,852,059	25,093,617

	Six Months Ended June 30	
	2018	2017
	<i>(Unaudited)</i>	
Toll collection and medical services	₱11,753,790	₱11,601,151
Depreciation (see Note 7)	6,992,727	9,951,248
Fuel and Oil	5,088,556	328,498
Others	62,401,333	24,429,818
	₱2,279,507,985	₱2,221,795,365

21. General and Administrative Expenses

This account consists of:

	Six Months Ended June 30	
	2018	2017
	<i>(Unaudited)</i>	
Salaries and employee benefits	₱116,706,560	₱98,088,754
Advertising and marketing expenses (see Note 15)	85,660,020	69,116,083
Taxes and licenses	79,214,780	69,032,952
Management fees (see Note 15)	75,153,209	36,319,613
Provisions (see Note 14)	37,520,812	29,141,112
Depreciation of property and equipment (see Note 7)	22,052,080	14,559,560
Professional fees	21,510,771	29,776,149
Representation and travel	15,002,482	23,654,709
Outside services	11,454,651	7,846,443
Office supplies	6,668,803	2,724,107
Training and development costs	4,579,637	2,767,521
Amortization of other intangible assets (see Note 9)	2,995,192	5,969,053
Provisions for doubtful accounts (see Note 5)	2,929,357	1,500,575
Repairs and maintenance	2,784,963	5,391,084
Communication, light and water (see Note 15)	1,728,111	4,104,732
Rental	1,551,097	1,265,249
Directors' fees	470,000	420,000
Miscellaneous	6,422,522	5,051,669
	₱494,405,047	₱406,729,365

22. Share-based Payment Plan

Carrying value of the Executive Stock Option Plan, recognized under "Other reserve" in the unaudited interim statement of changes in equity, amounted to ₱13.0 million as at June 30, 2018 and December 31, 2017, respectively.

23. Interest Income

Sources of interest income follow:

	Six Months Ended June 30	
	2018	2017
	<i>(Unaudited)</i>	
Cash and cash equivalents	₱11,023,255	₱4,421,354
AFS financial assets	20,356,111	20,633,216
	₱31,379,366	₱25,054,570

24. Interest Expense and Other Finance Costs

Sources of interest expense and other finance costs follow:

	Six Months Ended June 30	
	2018	2017
	<i>(Unaudited)</i>	
Interest expense on:		
Long-term debt	₱219,906,083	₱201,826,287
Provision for heavy maintenance (see Note 14)	6,903,328	7,517,496
Deferred Lease Income	2,014	3,794
Finance costs:		
Amortization of debt issue costs (see Note 16)	7,820,178	10,079,507
Lenders' fees	1,365,444	1,671,736
Bank charges	66,949	122,561
	₱236,063,996	₱221,221,381

25. Significant Contracts and Commitments

Construction of Segment 10, part of Phase II

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 Value Added Tax or 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 notice to proceed 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 is recognized under "Other non-current 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.

As at June 30, 2018, the balance of the escrow account is presented as "Restricted cash" under current assets (see Note 10).

Construction of the 5.65 km fully-elevated segment is now underway. Project is estimated to be substantially completed by year-end 2018.

NLEX Widening Project

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

Unapplied advances payment to First Balfour, Inc. amounted to nil and ₱21.7 million as at June 30, 2018 and December 31, 2017 respectively.

26. Financial Assets and Financial Liabilities

Fair values

A comparison of carrying and fair values of all of the Company's financial instruments other than those with carrying amounts that is reasonable approximate of fair values by category as at June 30, 2018 and December 31, 2017 is as follows:

	June 30, 2018		December 31, 2017	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Asset				
Financial Assets at FVTPL:				
Investments in UITFs ^(a)	₱92,570,162	₱92,570,162	₱217,749,970	₱217,749,970
Financial Assets at FVOCI:				
Investments in treasury bonds and notes ^(a)	528,539,857	528,539,857	701,530,432	701,530,432
Investments in corporate bonds ^(a)	449,807,500	449,807,500	453,879,000	453,879,000
Investments in LTNCD ^(a)	95,177,000	95,177,000	98,997,500	98,997,500
	₱1,166,094,519	₱1,166,094,519	₱1,472,156,902	₱1,472,156,902
Financial Liabilities				
Other financial liabilities:				
Long-term debt	₱16,387,742,236	₱15,475,109,459	₱20,440,596,145	₱20,246,309,035
Service concession fees payable	2,610,699,073	2,149,426,045	2,521,429,127	2,448,647,138
Rental deposits	132,615	112,415	124,033	120,076
	₱18,998,573,924	₱17,624,647,919	₱22,962,149,305	₱22,695,076,249

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

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

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

Investments in UITFs

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

Investments in Treasury Bonds and Notes, Corporate Bonds and LTNCD

The fair value of investments in treasury bonds and notes, corporate bonds and LTNCD is based on the quoted market price of the financial instruments as at June 30, 2018 and December 31, 2017. When the market prices are not readily available, the Company uses adjusted quoted market prices of comparable investments or applied discounted cash flow methodologies.

Long-term Debt

For fixed rate peso-denominated notes and loans, except the fixed-rate bonds where the fair value is based on its quoted market price as at June 30, 2018 and December 31, 2017, estimated fair value is based on the discounted value of future cash flows using the prevailing peso interest rates. In 2018 and 2017, the prevailing peso interest rates ranged from 4.9% to 8.0% and 3.6% to 2.7%, respectively.

Service Concession Fee Payable

The estimated fair value of the service concession fees payable is based on the discounted value of future cash flows using the prevailing peso interest rates. In 2018 and 2017 the prevailing peso interest rates ranged from 6.9% to 8.9% and 4.5% to 7.2%, respectively.

Rental Deposits

The estimated fair value of the rental deposits is based on the discounted value of future cash flow using the prevailing peso interest rates. In 2018 and 2017, the prevailing peso interest is 7.6% and 6.7%, respectively.

Fair Value Hierarchy

The following table provides the fair value measurement hierarchy of the Company's assets and liabilities:

	June 30, 2018	Level 1	Level 2	Level 3
Assets measured at fair value:				
Financial assets at FVTPL:				
Investments in UITFs ^(a)	₱92,570,162	₱–	₱92,570,162	₱–
Financial assets at FVOCI:				
Investments in treasury bonds and notes ^(a)	528,539,857	19,467,000	509,072,857	–
Investments in corporate bonds ^(a)	449,807,500	449,807,500	–	–
Investments in LTNCD ^(a)	95,177,000	–	–	95,177,000
	₱1,166,094,519	₱469,274,500	₱601,643,019	₱95,177,000
Liabilities for which fair values are disclosed:				
Other financial liabilities:				
Long-term debt				
Fixed-rate bonds	₱6,689,292,980	₱6,689,292,980	₱–	₱–
Peso-denominated notes and loans	8,785,816,479	–	–	8,785,816,479
Service concession fees payable	2,149,426,045	–	–	2,149,426,045
Rental deposits	112,415	–	–	112,415
	₱17,624,647,919	₱6,689,292,980	₱–	₱10,935,354,939

^(a) Classified as AFS financial assets under PAS 29 as at December 31, 2017.

	December 31, 2017	Level 1	Level 2	Level 3
Assets measured at fair value:				
AFS financial assets:				
Investments in UITFs	₱217,749,970	₱–	₱217,749,970	₱–
Investments in treasury bonds and notes	701,530,432	169,432,400	532,098,032	–
Investments in corporate bonds	453,879,000	453,879,000	–	–
Investments in LTNCD	98,997,500	98,997,500	–	–
	₱1,472,156,902	₱722,308,900	₱749,848,002	₱–
Liabilities for which fair values are disclosed:				
Other financial liabilities:				
Long-term debt				
Fixed-rate bonds	₱7,008,657,340	₱7,008,657,340	₱–	₱–
Peso-denominated notes and loans	13,237,651,695	–	–	13,237,651,695
Service concession fees payable	2,448,647,138	–	–	2,448,647,138
Rental deposits	120,076	–	–	120,076
	₱22,695,076,249	₱7,008,657,340	₱–	₱15,686,418,909

27. Contingencies and Others

a. Value-Added Tax

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

- The BIR issued a Formal Letter of Demand on March 16, 2009 requesting NLEX Corp. to pay deficiency VAT plus penalties amounting to ₱1,010.5 million for taxable year 2006.
- A Final Assessment Notice was received from the BIR dated November 15, 2009 assessing NLEX Corp. deficiency VAT plus penalties amounting to ₱557.6 million for taxable year 2007.
- The BIR issued a Notice of Informal Conference dated October 5, 2009 assessing NLEX Corp. for deficiency VAT plus penalties amounting to ₱470.9 million for taxable year 2008. On May 21, 2010, the BIR issued another notice increasing the deficiency VAT for taxable year 2008 to ₱1,209.2 million (including penalties). On June 11, 2010, NLEX Corp. filed its Position Paper with the BIR reiterating its claim that it is not subject to VAT on toll fees.
- The BIR issued a Notice of Informal Conference on May 21, 2010 assessing NLEX Corp. deficiency VAT plus penalties amounting to ₱1,026.6 million for taxable year 2009. On June 11, 2010, NLEX Corp. filed its Position Paper with the BIR reiterating its claim that it is not subject to VAT on toll fees.

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

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

b. RPT

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

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

The outcome of the claims on RPT cannot be presently determined. Management believes that these claims will not have a significant impact on NLEX Corp.'s consolidated financial statements.

Management and its legal counsel also believes that the STOA also provides NLEX Corp. with legal recourse in order to protect its lawful interests in case there is a change in existing laws which makes the performance by NLEX Corp. of its obligations materially more expensive.

c. Toll Rate Adjustments

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

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

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

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

NLEX Corp. has yet to receive regulatory approval for the 2012 Petition, 2014 Petition and 2016 Petition.

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

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.

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, and suggested that the International Chamber of Commerce (ICC) be the Appointing Authority

In a letter dated May 3, 2016, the Republic, acting by and through the Office of the Solicitor General, notified MNTC of its appointment of retired Supreme Court Chief Justice Reynato S. Puno as its nominee to the arbitral tribunal, and manifested that, for reasons of economy, expediency, and convenience, it is unable to agree to MNTC's proposal to designate the ICC as the Appointing

Authority and made counter-proposals for the Appointing Authority, i.e., Philippine-based institutions.

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.

On 11 December 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.

The ROP/TRB has submitted its Jurisdictional Objections, to which NLEX Corp. responded with its Opposition. The tribunal has set the early part of February 2018 for resolution of the Respondent ROP's/TRB's Jurisdictional Objections.

As of June 30, 2018 and December 31, 2017, total amount of compensation for TRB's inaction on lawful toll rate adjustments which were due since January 1, 2013 for NLEX covering the 2012 and 2014 NLEX toll rate petition, is approximately at ₱6.2 billion and ₱5.7 billion (VAT-exclusive), respectively.

In addition, as of June 30, 2018, total foregone toll revenues covering the 2016 NLEX toll rate petition is estimated at ₱822 million (VAT-exclusive).

- d. *Garlitos, Jr. vs. Bases Conversion and Development Authority, Manila North Tollways Corporation and the Executive Secretary, SC (G.R. No. 217001)*

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

NLEX Corp. filed its comment praying that the Petition be denied. The BCDA, through the Office of the Government Corporate Counsel, and the Executive Secretary, through the OSG, also filed their respective Comment praying that the Petition be denied due course and dismissed for lack of merit. The case is pending as at July 19, 2018.

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

29. 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 financial statements.

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 afore-mentioned 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 and other information of the Company's operations for the six months ended June 30, 2018 and 2017 are as follows:

	Six Months Ended June 30	
	2018	2017
Net toll revenues	₱6,578,464,913	₱5,721,942,826
Other income	102,748,412	86,203,037
Total revenues	6,681,213,325	5,808,145,863
Operating and maintenance costs	(1,746,469,936)	(1,810,640,193)
Operating expenses	(467,015,465)	(368,043,265)
EBITDA	4,467,727,924	3,629,462,405
Financing costs	(196,131,614)	(183,509,655)
Core income before depreciation, amortization and provisions	4,271,596,310	3,445,952,750
Depreciation, amortization and provisions*	(573,039,794)	(449,462,909)
Core income before tax	3,698,556,516	2,996,489,841
Provision for income tax	(843,697,128)	(631,587,094)
Core income after tax	2,854,859,388	2,364,902,747
Nonrecurring items	(1,914,427)	(16,616,632)
Net income	₱2,852,944,961	₱2,348,286,115
EBITDA margin for the year	68%	63%
Core income margin for the year	43%	41%
Net income margin for the year	43%	41%

Other disclosures:

Capital expenditure (consists of additions to service concession asset, property and equipment, investment properties and other intangible assets)	₱1,609,250,574	₱1,976,582,520
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	June 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Total assets	₱39,145,021,599	₱40,146,020,725
Total liabilities	25,667,681,716	29,490,286,642
Total equity	13,477,339,883	10,655,734,083

**Excludes provision for current and deferred taxes.*

The following table shows the reconciliation of EBITDA to net income for the six months ended June 30, 2018 and 2017.

	Six Months Ended June 30	
	2018	2017
EBITDA	₱4,467,727,924	₱3,629,462,405
Interest expense and other finance costs (see Note 23)	(229,116,956)	(221,221,381)
Amortization of service concession assets (see Note 19)	(413,695,107)	(357,668,753)
Interest income (see Note 22)	31,379,366	25,054,570
Provision for heavy maintenance (see Note 19)	(119,482,525)	(52,431,732)
Depreciation of property and equipment	(29,046,791)	(15,796,368)
Amortization of other intangible assets (see Note 20)	(2,995,192)	(5,969,053)
Nonrecurring items:		
Provisions	(2,111,342)	(17,975,366)
Foreign exchange gain (loss) - net	196,915	1,685,612
Income before income tax	3,702,856,292	2,985,139,934
Provision for income tax:		
Current	824,190,750	661,973,698
Deferred	25,720,581	(25,119,879)
	849,911,331	636,853,819
Net income for the year	₱2,852,944,961	₱2,348,286,115

The following table shows the reconciliation of the core income to the net income for the six months ended June 30, 2018 and 2017.

	2018	2017
Core income for the year	₱2,854,859,388	₱2,364,902,747
Provisions	(2,111,342)	(17,975,366)
Foreign exchange gain (loss) - net	196,915	1,685,612
Other nonrecurring items	-	(326,878)
Net income for the year	₱2,852,944,961	₱2,348,286,115

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the accompanying unaudited interim financial statements.

This discussion may contain forward-looking statements that reflect our current views with respect to future events and our future financial performance. These statements involve risks and uncertainties, and our actual results may differ materially from those anticipated in these forward-looking statements

Financial Highlights and Key Performance Indicators:

Statement of Income Data

In Php Millions	June 2018	June 2017	Increase (Decrease)	
	(Unaudited)	(Unaudited)	Amount	%
Operating revenue	6,679	5,805	874	15
Cost of services	(2,280)	(2,222)	(58)	3
General and administrative expenses	(494)	(407)	(87)	21
Interest expense and other finance costs – net of interest income of Php31 million in 2018 and Php25 million in 2017	(205)	(196)	(9)	5
Foreign exchange gain (loss)	-	2	(2)	(100)
Other income (expenses)	3	3	-	-
Provision for income tax	(850)	(637)	(213)	33
Net income	2,853	2,348	505	22
Net income margin	43%	40%		

Statement of Financial Position

Balance Sheet Data:

In Php Millions	June 2018	December 2017	Increase (Decrease)	
	(Unaudited)	(Unaudited)	Amount	%
Cash and cash equivalents	824	2,715	(1,891)	(70)
Total assets	39,145	40,146	(1,001)	(2)
Total liabilities	25,668	29,490	(3,822)	(13)
Total equity	13,477	10,656	2,821	26

Business Overview

NLEX Corp (formerly known as Manila North Tollways Corporation) was incorporated under the laws of the Republic of the Philippines on February 4, 1997. NLEX Corp is engaged in the development, design, construction, financing, operation, and maintenance of toll roads. It was organized for the primary purpose of constructing, financing, operating and maintaining toll road projects. As of the date of this report, NLEX Corp holds the concession for the NLEX Project and the Connector Road Project, as well as the right to operate and maintain the SCTEX.

The NLEX Project

The NLEX currently spans approximately 95 km, or 527 lane-kms, and services an average of 254,791 vehicles per day. The NLEX is the main infrastructure backbone that connects Metro Manila to central and northern Luzon. NLEX Corp has operated the NLEX since February 2005 after completing the rehabilitation of the toll road under Phase I of the NLEX Concession.

Phase 1 of the NLEX Project was completed in February 2005, while Phase 2, a purely Greenfield expressway, is being constructed progressively. Certain segments will be opened to commercial traffic once completed. Segment 8.1 and Segment 9 comprise two of the completed segments of NLEX Phase 2, which opened in 2010 and 2015, respectively. Segment 10, a 5.6km all-elevated expressway is currently under construction.

SCTEX

Since October 27, 2015, NLEX Corporation also holds the concession for the management, operation and maintenance of the Subic-Clark-Tarlac Expressway (“SCTEX”) as private sector partner of the Bases Conversion Development Authority (BCDA). The SCTEX is a 94-km expressway which spans the area from Subic-Tipo in Olongapo, Zambales to La Paz, Tarlac.

In 2016, the SCTEX toll operations were fully integrated with NLEX’s toll operations. NLEX Corp re-configured the major toll barriers between NLEX and SCTEX and installed the new NLEX toll collection system in all SCTEX toll plazas to make travel between both expressways seamless.

NLEX and SCTEX First Half Highlights

The average daily traffic for NLEX during the first half of 2018 reached 254,791 daily entries, 9% higher than same period last year, while average daily traffic for SCTEX during the period reached 63,118 daily entries, 15% higher than the first half of 2017. The increase in traffic from both NLEX and SCTEX operations during the first half of 2018 and the collection of the add-on toll in the NLEX closed system helped push the Company’s toll revenues to Php6.6 billion, 15% or Php857 million higher than last year. As of June 30, 2018, net income amounted to Php2.9 billion, 22% or Php505 million higher than same period last year.

Connector Road Project

The Connector Road Project is an unsolicited proposal approved by the NEDA Board under the Build-Operate-Transfer Law and its Implementing Rules and Regulations for the design, financing, construction, operation, and maintenance of an 8-km elevated toll expressway over the right-of-way of the Philippine National Railways. The alignment starts at the junction of Segment 10 at C-3 Road/5th Avenue in Caloocan City and ends at the Polytechnic University of the Philippines in Sta. Mesa, Manila.

On September 19, 2016, MPT North and its subsidiary, NLEX Corp, formally received the Notice of Award from the DPWH as the winning proponent for the Connector Road Project.

On November 23, 2016, NLEX Corp and DPWH signed the Connector Road Concession Agreement.

As of the date of this report, pre-construction activities have commenced including the preparation for the ROW requirements for the Connector Road Project.

NLEX Ventures Corporation

On September 23, 2015, NVC was incorporated under the laws of the Republic of the Philippines for the primary purpose of developing, funding, constructing, operating, and maintaining any, and all facilities for, and to provide services relating to, the safety, comfort, and convenience of toll road users, and to undertake traffic management services. NVC is a wholly-owned subsidiary of NLEX Corp.

NVC manages the non-toll businesses of the Company including advertising, asset and traffic management, pavement marketing services, and property development along NLEX and SCTEX. In 2016, NVC started re-developing the existing Caltex toll service facility near the Valenzuela toll plaza to service the southbound motorists of NLEX.

Result of Operations

The table below shows the revenues, expenses, other income (expenses), income (loss) before income tax, and net income (loss) for the six months ended June 30, 2018 and 2017.

Statement of Income Data

In Php Millions	June 2018 (Unaudited)	June 2017 (Unaudited)	Increase (Decrease)	
			Amount	%
Operating revenue	6,679	5,805	874	15
Cost of services	(2,280)	(2,222)	(58)	3
General and administrative expenses	(494)	(407)	(87)	21
Interest expense and other finance costs – net of interest income of Php31 million in 2018 and Php25 million in 2017	(205)	(196)	(9)	5
Foreign exchange gain (loss)	-	2	(2)	(100)
Other income (expenses)	3	3	-	-
Provision for income tax	(850)	(637)	(213)	33
Net income	2,853	2,348	505	22
Net income margin	43%	40%		

June 30, 2018 Compared to June 30, 2017

Revenues

The following table shows the breakdown of revenues for the six months ended June 30, 2018 and 2017 by revenue source:

In Php Millions	June 2018 (Unaudited)		June 2017 (Unaudited)		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
Toll fees - net	6,579	98	5,722	99	857	15
Non-toll revenues	100	2	83	1	17	20
Total revenues	6,679	100	5,805	100	874	15

Total revenues for the period ending June 30, 2018 reached Php6.7 billion, 15% or Php874 million higher than same period last year due to the steady increase in traffic and toll revenue contribution from both NLEX and SCTEX operations and increase in non-toll revenues.

Non-toll revenues grew by Php17 million this period, from Php83 million to Php100 million due to the increase in royalty fees, utility facility fees and other non-toll initiatives. The NLEX Ventures Corporation, a wholly owned subsidiary of NLEX Corp., also contributed Php14.8 million mainly from the commercialization of roadway maintenance services.

Cost of Services

As of June 30, 2018, the cost of services amounted to Php2.3 billion, higher by 3% or Php57 million than the previous year. The table below explains the details of costs of services for the six months ended June 30, 2018 and 2017.

In Php Millions	June 2018 (Unaudited)		June 2017 (Unaudited)		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
Concession fee	542	24	470	21	72	15
Operator's fee	442	19	805	36	(363)	(45)

In Php Millions	June 2018 (Unaudited)		June 2017 (Unaudited)		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
Amortization of service concession asset	414	18	358	16	56	16
PNCC fee	323	14	281	13	42	15
Outside services	155	7	42	2	113	269
Repairs and maintenance	121	5	96	4	25	26
Provision for heavy maintenance	113	5	52	3	61	117
Project insurance	40	2	38	2	2	5
Advertising and promotions	24	1	8	–	16	200
Salaries and employee benefits	20	1	25	1	(5)	(20)
Toll collection and medical services	12	1	12	1	–	–
Depreciation of property and equipment	7	–	10	–	(3)	(30)
Fuel and oil	5	–	–	–	–	5
Others	62	3	25	1	37	148
Total cost of services	2,280	100	2,222	100	57	3

Operator's fee significantly decreased by 45% or Php363 million compared last year due to the re-negotiated fees with the service provider covering the operation and maintenance services.

PNCC fees increased by 15% to Php323 million from Php281 million during the same period last year due to the increase in NLEX toll revenues during the period. Concession fees paid to BCDA amounted to Php542 million during the six-month period, higher by Php72 million due to the increase in SCTEX toll revenues.

Repairs and maintenance for the first half of the year was at Php121 million, higher by Php25 million versus last year due to the continuing enhancement of several toll plaza equipment along the NLEX and SCTEX. In addition, during the first half of the year several contracts from our operator were novated to the Company.

Outside services for the first six months increased by Php113 million to Php155 million from Php42million in 2017, as several outsourced services were carved out from the O&M contract starting in January 2018.

Other costs amounting to Php118million relate to real property tax on toll road facilities, salaries related to toll operations and equipment and depreciation expense of advertising structures installed in the NLEX.

General and Administrative Expenses

In Php Millions	Jun-18 (Unaudited)		Jun-17 (Unaudited)		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
Salaries & employees benefits	117	24	98	24	19	19
Advertising and marketing expenses	86	17	69	17	17	25
Taxes and Licenses	79	16	69	17	10	14
Management fees	75	15	36	9	39	108
Professional fees	22	4	30	7	(8)	27
Representation and travel	15	3	24	6	(9)	38
Depreciation & amortization	25	5	21	5	4	19
Others	75	16	60	15	15	25
Total general & administrative expenses	494	100	407	100	87	21

For the first half of 2018, general and administrative expenses amounted to Php494 million, 21% or Php87 million higher than last year. The increase was mainly driven by taxes and licenses, advertising and marketing expenses, depreciation of office equipment, office supplies, representation, transportation and training and development costs.

Advertising and marketing expenses increased by 25% to Php86 million from Php69 million in 2017, while taxes and licenses increased by 14% at Php79 million, higher by Php10 million from last year, respectively. Meanwhile, Management fees increased by Php39 million to Php75 million from Php36 million last year.

Interest and Financing Costs

Interest expense and other financing costs (net of interest income) amounted to Php205 million for the six months ended June 30, 2018, Php9 million or 5% higher than the same period in 2017. This was a result of higher interest and finance cost for the first half of the year, up by 7% or Php15 million, offset by higher interest income, up by 24% or Php6 million from the same period last year.

Interest expense from loan facilities used for on-going expansion projects such as Segment 10 are capitalized. Total capitalized borrowing costs as of June 30, 2018 amounted to Php336 million.

The table below shows the breakdown of interest expense and other finance costs for the six months ended June 30, 2018 and 2017:

In PHP Millions	June 2018 (Unaudited)		June 2017 (Unaudited)		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
Interest and Financing Costs:						
Interest expense	227	96	209	95	18	9
Amortization of debt issue costs	8	3	10	4	(2)	(20)
Financing and other charges	1	1	2	1	(1)	(50)
Total interest and financing costs	236	100	221	100	15	7
Interest Income:						
Cash and cash equivalents	11	35	4	16	7	175
AFS financial assets and others	20	65	21	84	(1)	(5)
Total interest income	31	100	25	100	6	24
Net interest expense	205		196		9	5

Net Income

As of June 30, 2018, net income reached Php2.9 billion, 22% or Php505 million higher than the Php2.3 billion recorded during the first half of 2017 due to higher toll revenues in the NLEX and SCTEX and more efficient utilization of resources covering toll operations and maintenance costs.

Balance Sheet

In Php Millions	June 2018	December 2017	Increase (Decrease)	
	(Unaudited)	(Unaudited)	Amount	%
Cash and cash equivalents	824	2,715	(1,891)	(70)
Total assets	39,145	40,146	(1,001)	(2)
Total liabilities	25,668	29,490	(3,822)	(13)
Total equity	13,477	10,656	2,821	26

June 30, 2018 Compared to December 31, 2017

Assets

Cash and cash equivalents reached Php824.2 million as of June 30, 2018, 70% or lower by Php1,891 million compared to the Php2,715.2 million in December 31, 2017. The decrease was driven by loan maturity payments made during the period amounting to Php4.1 billion.

Receivables amounting to Php632.9 million as of June 30, 2018, was lower by nearly 11% or Php82.1 million than the Php715.0 million in December 31, 2017. The decline was attributed to collections of receivables mainly related to toll fee reimbursements from Easytrip.

Inventories reached Php104.9 million, below by 7% or Php7.7 million compared to the December 31, 2017 balance due to replacement of spare parts on several toll equipment.

Other current assets amounted to Php502.1 million, lower by 15% or Php85.3 million compared to last year mainly due to the amortization of project insurance. Other current assets are comprised mainly of unamortized portion of project insurance and deferred input value added tax.

Service concession asset increased by Php1.2 billion from Php33.7 billion to Php34.9 billion mainly due to the on-going construction activities on Segment 10, advance works for the R10 project, toll plaza expansion in Balintawak, Mindanao & Meycauayan, the additional investment in the RFID system and enhancement of SCTEX roadway and plaza equipment.

Liabilities and Stockholder's Equity

Accounts payable and other current liabilities amounted to Php2.5 billion, 24% or Php796 million lower compared to the December 31, 2017 balance, mainly due to payments of contractors to expedite completion of expansion projects and various suppliers of goods and services during the period.

Income tax payable increased to Php420.9 million from Php329.4 million last year, triggered by higher toll revenues during the six-month period.

Long-term debt reached Php16.0 billion as of June 30, 2018, lower by Php100 million compared to the Php16.1 billion in December 31, 2017. On June 19, 2018, the Company received SEC approval for Php25 billion in fixed-rate bonds under the shelf-registration program. On July 4, 2018, the company listed the initial tranche amounting to Php6 billion.

As of June 30, 2018, retained earnings amounted to Php8.0 billion, 55% or Php2.9 billion higher compared to the Php5.2 billion recorded in December 31, 2017.

Key Financial Indicators

The following table shows the relevant financial ratios for NLEX Corp.:

		June 2018	December 2017
Current ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	0.40	0.46
Debt-to-equity (DE) ratio	$\frac{\text{Interest Bearing Liabilities}}{\text{Stockholders' Equity}}$	1.42	1.92
Net profit margin	$\frac{\text{Net income}}{\text{Revenues}}$	42.72%	39.49%
Return on assets	$\frac{\text{Net income}^*}{\text{Average Total Assets}}$	14.39%	12.31%
Return on stockholders' equity	$\frac{\text{Net income}^*}{\text{Average Stockholders' Equity}}$	47.29%	45.83%

*annualized

As of June 30, 2018, the current ratio slightly decreased to 0.40x from 0.46x during the 1st half of 2018. The decline in current ratio is temporary given that the Company has available resources and committed credit lines to cover short-term obligations. On July 4, 2018, the Company has listed the initial tranche of its fixed-rate bonds amounting to Php6 billion under the Php25 billion shelf-registration program. The Company also has available-for-sale investments, classified as long-term, as of June 30, 2018, amounting to Php1.1 billion, as the Company places its excess liquidity in higher-yielding instruments.

Debt-to-Equity Ratio improved to 1.42x as of June 30, 2018, from 1.92x in December 2017 due to the periodic re-payment of long-term debt and higher stockholders' equity.

Net profit margin increased to 42.72% from 39.49% driven primarily by higher toll revenues generated during the six months ended June 30, 2018.

Estimated full-year return on assets increased to 14.39%, while the expected full year return on equity is at 47.29%.

Cash Flows

The following table shows the company's cash flows for the six months ended June 30, 2018 and year ended December 31, 2017:

Cash Flows	For first-half ended June 2018 (Unaudited)	For year ended December 2017 (Audited)
Cash, beginning balance	2,715	390
Net cash provided by operating activities	2,938	6,632
Net cash used in investing activities	(1,411)	(3,649)
Net cash used in financing activities	(3,419)	(658)
Net increase (decrease) in cash	(1,892)	2,325
Effect of exchange rate changes	1	1
Cash, ending balance	824	2,715

The company used operating cashflows to finance investing and financing activities during the 6-month period. From the beginning cash balance and operating cashflows, the company covered construction costs related to the Segment 10 project, and other capital and operating expenditures.

Other uses of funds include loan principal payment amounting to Php4.0 billion and interest on loans amounting to Php211.5 million.

Cash Flows from Operating Activities

The net cash flows from Operations during the six-month period reached Php2.9 billion due to higher toll and non-toll revenues earned for the first half of 2018, offset by payment of the Company's payables and income taxes.

Cash Flows from Investing Activities

Net cash flows used in investing activities during the six-month period amounted to Php1.4 billion. The main investments include the on-going construction of Segment 10 project, pre-construction works for the C3-R10 Project, installation of RFID equipment and readers, toll plaza expansion in NLEX and improvements in SCTEX.

Cash Flows from Financing Activities

Net cash flows used in financing activities as of June 30, 2018, amounted to Php3.4 billion. This includes payment of loan principal amounting to Php4.1 billion, proceeds from short-term loan of Php2.7 billion and interest on loans of Php211.5 million.

Other Financial Information

(i) Any known trends, demands, commitments, events or uncertainties that will have a material impact on the issuer's liquidity.

There are no known trends, demands, commitments, events or uncertainties that will have a material impact on the issuer's liquidity.

(ii) Any events that will trigger direct or contingent financial obligation that is material to the company, including any default or acceleration of an obligation.

The registrant's current concession agreement includes standard provisions relating to events of default. Any breach of the loan covenants or material adverse change may result in an event of default.

(iii) All material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the company with unconsolidated entities or other persons created during the reporting period.

The Company has no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships with unconsolidated entities or other persons created during the reporting period.

(iv) Any material commitments for capital expenditures, the general purpose of such commitments, and the expected sources of funds for such expenditures should be described.

On April 28, 2014, the Company signed a target cost construction contract with Leighton Contractors (Asia) Ltd., for the civil works of NLEX Segment 10. The target cost is approximately Php10.0 billion (inclusive of VAT).

The Company has sourced the financing for the construction of Segment 10 through loans and internally-generated cash. Segment 10 is expected to cost around Php11.5 billion. Construction has started in June 2014 and is expected to be substantially completed by the fourth quarter of 2018.

On July 4, 2018, the Company sourced financing for the partial construction of the Segment 10: C3-R-10 Ramp Project through its Series A and B fixed rate bonds.

(v) Any known trends, events or uncertainties that have had or that are reasonably expected to have a material impact on net sales or revenues or income from continuing operations.

a. Higher Fuel Prices – vehicle operating costs normally goes higher with the increase in fuel prices, thereby decreasing the demand for travel. Uncertainties in the movement of crude prices in the world market would affect the expected traffic volume growth in NLEX and SCTEX.

b. Tariff Increase – the delay in regulatory approval of periodic toll rate adjustments may cause uncertainties in the toll revenue projections of the company. This is the fifth year that the growth in toll revenues was solely driven by traffic growth, without any adjustment in toll rates.

(vi) Any significant elements of income or loss that did not arise from the registrant's continuing operations.

During the period, there were no significant elements of income or loss that arose from transactions outside the registrants' continuing operations.

PART II-- OTHER INFORMATION

List of Disclosures Not Made Under SEC Form 17-C

The Company has disclosed all reportable events under SEC Form 17-C.

SIGNATURE

Pursuant to the requirements of the Code, this Quarterly Report (SEC 17-Q) is signed on behalf of the registrant by the undersigned, thereunto duly authorized, in Caloocan City, Metro Manila on August 14, 2018.

By:



RODRIGO E. FRANCO
President and Chief Executive Officer